Clal Insurance Enterprises Holdings Ltd.

Periodic Report for 2016

March 21, 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.

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Part A

Description of the Corporation’s Business

<u>Remark Regarding the Implementation of the Provisions of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "Securities Regulations") in this Report</u>

In accordance with Regulation 8c of the Securities Regulations, the provisions of Regulations 8(b), 8a and 8b of the Securities Regulations with respect to the periodic report do not apply to information in the periodic report of a corporation which consolidated or which proportionately consolidated an insurer, or whose associate company is an insurer, insofar as such information applies to the insurer.

Clal Insurance Company Ltd. is an insurer, as defined in the Control of Financial Services (Insurance) Law, 1981, and is the primary material company in Clal Insurance Enterprises Holdings Group Ltd. (the "Group"). The group also includes Clal Credit Insurance Ltd., a subsidiary of Clal Insurance Company Ltd., which is also an insurer, as well as managing companies which operate in the pension and provident fund segment, including Clal Pension and Provident Funds Ltd. and Atudot Pension Fund for Salaried Employees and Self-Employed Workers Ltd., which also hold an insurer's license.

This report, with respect to the aforementioned insurance, pension and provident business operations, was prepared in accordance with the Control of Insurance Business Regulations (Particulars of Report), 1998, and in accordance with the circular of the Commissioner of Capital Markets, Insurance and Savings dated January 20, 2014 regarding the description of the corporation's business in the periodic reports of insurance companies (the "Commissioner's Circular"), which applied the aforementioned Securities Regulations, with certain adjustments which apply to insurance companies, including the specification of details different from those specified in the Securities Regulations.

This report was prepared in consideration of the outline and principles which were published by the Israel Securities Authority on December 12, 2012, in legal position number 105-25, regarding the shortening of reports, according to the most current version, as updated from time to time.

In cases where this chapter in the periodic report also includes forward looking information, as defined in the Securities Law, 1968, this means that the information constitutes uncertain information about the future, which is based on the information that is available to the group as of the publication date of the report, and includes estimates or intentions of the group as of the publication date of the report. Actual results may differ significantly from projected results, or from the results which are implied based on such information. In certain cases, sections containing forward looking information can be identified by the appearance of words such as "the company / the group intends" "it is expected that", etc.; however, such information may also be phrased differently. Unless noted otherwise, according to the company's estimate, each of the regulatory directives which were published in the last year and which is described in this report, in itself, is not expected to have a significant impact on the company's financial results.

This chapter includes a general and summary description of the long term savings products (pension, insurance and provident), insurance coverages and investment contracts. The full and binding conditions are the conditions specified in each policy and/or insurance contract and/or regulations, as applicable. The description is provided for the purpose of this report only, does not constitute advice, and may not be used to interpret the policies and/or insurance contracts and/or regulations, as applicable.

The periodic report, including all of its constituent parts, should be read as a single unit.

Part I - The Company's Activity and Description of the Development of its Business Affairs

Part II - Description and Information Regarding the Company's Operating Segments

Part I - The Company's Activity and Description of the Development of its Business Affairs

1. Introduction

1.1. Description of the company's business affairs for the year ended December 31, 2016

This Part A provides a description of the company's business affairs as of December 31, 2016, and of the development of its business affairs during 2016 (the "**Reporting Period**"). The report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, and in accordance with the circular of the Commissioner of Capital Markets, Insurance and Savings at the Ministry of Finance dated January 20, 2014, regarding the description of the corporation's business affairs for insurance companies. See the remark on this subject in the introduction to the report (page 4).

For details regarding the holding of shares of the companies mentioned in this report, information regarding the holdings of any company also include all of the holdings in that company through wholly-owned subsidiaries of the holding company.

The holding rates are presented in numbers rounded to the nearest whole percentage, unless specified otherwise.

The materiality of the information included in the periodic report, including the description of material transactions, was evaluated from the perspective of the company, where in some cases, the description was expanded in order to provide a comprehensive picture of the described subject.

1.2. Index

For the sake of convenience, in this periodic report, the following terms will have the significance listed alongside them:

1.2.1. General

IDB Holdings -	IDB Holdings Corporation Ltd.
IDB Development -	IDB Development Corporation Ltd.
Bank Hapoalim -	Bank Hapoalim Ltd.
Bank Discount -	Israel Discount Bank Ltd.
USD -	US Dollar
The Financial Statements -	The company's financial statements as of December 31, 2016
The Commissioner -	The Commissioner of Insurance / the Commissioner of the Capital Markets, Insurance and Savings Authority

The Corporation or the Company -	Clal Insurance Enterprises Holdings Ltd.
The Insurance Law -	The Control of Financial Services (Insurance) Law, 1981.
The Companies Law -	The Companies Law, 1999
The Pension Advice Law -	The Control of Financial Services Law (Pension Advice, Marketing and Clearing System), 2005
The Insurance Contract Law -	The Insurance Contract Law, 1981
The Securities Law -	The Securities Law, 1968
The Provident Funds Law -	The Control of Financial Services (Provident Funds) Law, 2005
Clalbit Finance -	Clalbit Finance Ltd.
Clalbit Systems -	Clalbit Systems Ltd.
Clal Insurance -	Clal Insurance Company Ltd.
Clal Credit Insurance -	Clal Credit Insurance Ltd.
Clal Health -	Clal Health Insurance Company Ltd. (formerly "Aryeh Israeli Insurance Company Ltd." ("Aryeh")) (merged into Clal Insurance)
Clal Provident -	Clal Provident Ltd. (liquidated company, merged into Meitavit Atudot)
Clal Finance -	Clal Credit and Financing Ltd.
Clal Finance -	Clal Finance Ltd.
Clal Pension and Provident Funds -	Clal Pension and Provident Funds Ltd. (formerly Meitavit Atudot - Pension Fund Management Company Ltd. ("Meitavit Atudot"))
Atudot Havatika -	Atudot Pension Fund for Workers & Self-Employed Workers Ltd. (formerly Shevach)
IDB Group -	IDB Development and companies under its control
Clal Group or the Group -	The company and companies under its direct and/or indirect control
NIS -	New Israeli Shekel

The Minimum Capital Regulations -	The Control of Financial Services Regulations (insurance) (Minimum Capital Required of Insurer), 1998
Investment Regulations -	The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Managing Companies and Insurers), 2012
The Provident Fund Regulations -	The Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964

1.2.2. Terms

Designated Bonds -	CPI-linked government bonds issued by the state to insurance companies (of the "HETZ" type) and to pension funds (of the "Meiron" and "Arad" type), at interest and for a predetermined period.
Managers Insurance -	Trade name for a life insurance plan for salaried employees which has been approved as an insurance fund (annuity paying or non annuity paying).
Individual insurance -	Insurance prepared for individual policyholders - private individuals with whom the insurance company engages on an individual basis.
Investment-Linked / Profit Sharing Insurance -	An insurance plan under which the insurance benefits to which the beneficiary is entitled are linked to the returns generated by certain investments of the insurer.
Collective Insurance -	Insurance which is prepared by a certain policyholder for a group of people with shared characteristics, such as employees of an employer, members of provident funds, or members of a corporation.
Institutional Entity -	Insurer and managing company.
Insurance Premiums / Premiums -	The amount paid by the policyholder to the insurer with respect to the insurance contract, in consideration of the insurer's undertaking to pay, upon the occurrence of the insurance event, insurance benefits to the beneficiary.
Contributions -	The amount deposited by a member in a pension fund and/or provident fund.
Fees -	The total sum of all amounts which are added to net premiums to cover the insurer's expenses.

Managing Company -	A managing company of a pension fund or provident fund.
Underwriting -	The process of evaluating the risk and reaching a decision regarding whether to accept the risk to the insurance, and if so under what conditions / cost, in accordance with the company’s instructions and experience.
Financial Margin -	The financial margin in guaranteed return policies is based on actual income from investments in the reporting year, less the guaranteed rate of return for the year times the average reserve for the year in the various insurance funds. The financial margin in investment-linked contracts is the total amount of fixed and variable management fees. The financial margin does not include additional income of the company which is collected as a proportion of the premium (such as management fees from deposits), and is calculated before deducting investment management expenses.
Surplus of Income over Expenses -	An accounting recording method which is used in “long tail claim” branches, in which the profit cannot be recognized in the years proximate to the insurance year. In these branches, a “surplus of income over expenses” is recorded, until the income is recognized, in the balance sheet item. A deficit is recorded upon its creation. (See Note 3(D)2(B)4.3 to the financial statements.)
Net Premiums -	Insurance premiums without fees.
Accrual -	The total sum of amounts accrued in a pension fund and/or provident fund and/or insurance fund which are credited to their members / policyholders.
Retention -	The part of the insurance which the direct insurer keeps, and which is not covered by reinsurance.
Insurance Benefits -	Amounts which are required for payment in accordance with the insurance contract, upon the occurrence of an insurance event.
IBNR -	(Incurred but not reported) - A reserve for claims which have been incurred but which have not yet been reported to the company.

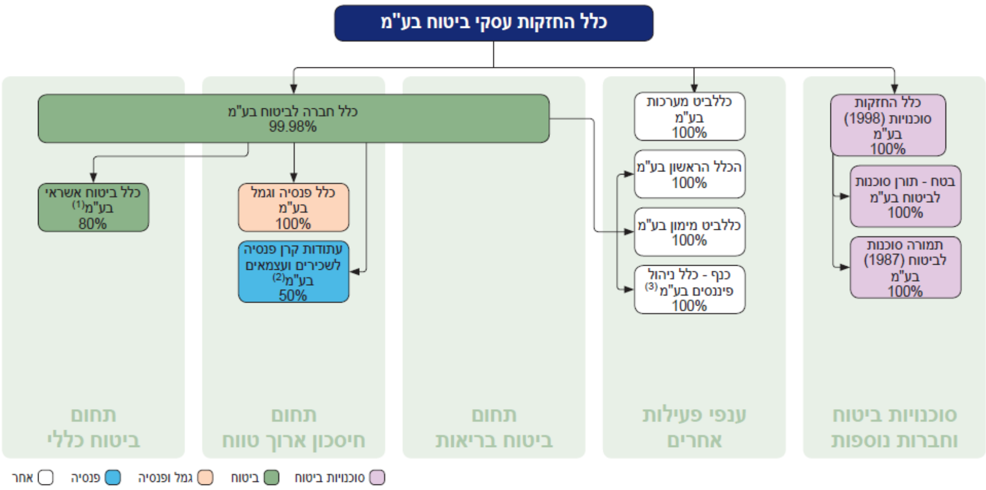
2. The company's activity and description of the development of its business affairs

2.1. Diagram of holdings

Presented below is a diagram illustrating the structure of the company's primary holdings[1] as of March 6, 2017:

Clal Holdings Insurance Enterprises Ltd.				
Clal Insurance Company Ltd. 99.98%			Clalbit Systems Ltd. 100%	Clal Agency Holdings (1998) Ltd. 100%
Clal insurance Credit Ltd. (1) 80%	Clal Pension and Provident Funds Ltd. 100%		Haclal Harishon Ltd. 100%	Betach – Thorne Insurance Agency Ltd. 100%
	Atudot Pension Fund for Workers and Self-Employed Workers Ltd. (2) 50%		Clalbit Finance Ltd. 100%	Tmurah Insurance Agency (1987) Ltd. 100%
			Canaf – Clal Financial Management Ltd. (3) 100%	
Non-life insurance segment	Long term savings segment	Health insurance segment	Other operating branches	Insurance agencies and additional companies

Purple – Insurance agencies
Green – Insurance
Pink – Pension and provident funds
Blue – Pension
Black – Other



[1] Part D of the report - Additional Details Regarding the Corporation, section 6, includes details regarding all of the material companies which are held by the company and its subsidiaries. Inactive companies were not specified.

(1) The balance of shares is held by Atradius Participation Holdings B.V., a third party which is not related to the company.

(2) The balance of shares is held by Bituach Haklai Central Cooperative Society Ltd., a third party which is not related to the company.

(3) Merged into Clal Amitim Ltd. during the reporting year.

2.2. **The company's year of incorporation and form of incorporation, the company's controlling shareholders and changes in control**

2.2.1. The company was incorporated and registered in Israel on November 12, 1987. On February 28, 1988, the company published its first prospectus, and its shares were listed for trading on the stock exchange.

The company's primary shareholders as of March 27, 2017[2] are IDB Development, which holds, to the best of the company's knowledge, primarily through a trustee, as specified below, approximately 54.92% of the company's shares (and approximately 53.44% at full dilution[3])[4] and Bank Hapoalim holds, to the best of the company's knowledge, approximately 9.50% of its shares (and approximately 9.25% at full dilution).

2.2.2. In accordance with the Commissioner's requirement, IDB Development transferred, on August 21, 2013, approximately 51% of the issued share capital and voting rights of the company which are held by IDB Development (hereinafter: the "**Means Of Control**") to Mr. Moshe Terry, who serves as the trustee for IDB Development, for the purpose of activating the authorities which are vested in him by virtue of the means of control, in accordance with the provisions of the deed of trust. In parallel, irrevocable power of attorney was given to Mr. Terry (which was updated and signed on January 6, 2015), with respect to the control shares, for the purpose of exercising the authorities which are conferred by virtue of the control shares. For additional details, see Note 1(b)(2) to the financial statements.

2.2.3. On February 20, 2017, the trustee transferred to IDB Development 556,482 shares, such that, as of the reporting date, he holds only 50% of the means of control.

2.2.4. In accordance with the Commissioner's letter dated December 30, 2014, IDB Development was required to formulate an outline for the sale of the control of the company until June 2015, where the final date for the signing of an agreement for the sale of control was by December 31, 2015, and insofar as an agreement would have been signed by the foregoing date, the period for the receipt of the required authorizations and for the completion of the transaction would have been by June 30, 2016. According to the letter, the minimum holding rate for the purpose of holding control of the company as of the present date amounts to 30% of the means of control. On January 6, 2016, after an extension of several days was received from the Commissioner for the signing of an

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2 All of the figures refer to the holding rate in capital only, and not in voting rights.

3 "**At Full Dilution**" - The holding rate, at full dilution, was calculated as of March 6, 2017 (the "**Calculation Date**") based on the theoretical assumption of the exercise of all warrants from the 2007 plan (as of the calculation date - 25,000 warrants) into an identical number of company shares, and based on a maximum theoretical assumption of the exercise of all warrants which are allocated in the name of employees from the 2013 plan, including warrants from the CEO's 2013 plan (as of the publication date of the report - 2,300,665 warrants), 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 will be implemented, and subject to the adjustments specified in the 2013 plan, in the 2015 plan, and in the agreements regarding allocation to offerees.

4 It is noted that IDB Development is working to pledge approximately 4.99% (approximately 4.86% at full dilution) of the company's shares in favor of the holders of the bonds (Series K) which were issued by IDB Development. For details regarding a motion which was filed with the Supreme Court by IDB Development on the matter, see Note 1(b)(5) to the financial statements.

agreement for the sale of the control of the company, IDB Development announced that, following the announcement of one of the groups with which it was conducting negotiations for the sale of the control of the company, stating that it was not continuing the negotiation process, it is no longer conducting any negotiations with any entity in connection with the sale of the control of the company. On January 7, 2016, IDB Development announced that the Commissioner had notified it that, in accordance with the letter dated December 30, 2014, and due to the fact that IDB Development has not met the dates specified therein, a terminating event has effectively occurred, as defined in the Commissioner's letter, and as a result, beginning on January 7, 2016, IDB Development and the trustee will be required to work towards the sale of the control shares, at a rate of no less than 5% every 4 months. As of the present date, the control shares have not yet been sold.

Following the exchange of letters between the Commissioner, the trustee and IDB Development, in connection with the implementation of the outline, as stated above, on July 13, 2016, the trustee filed with the District Court of Tel Aviv-Yafo an urgent motion to issue orders (the "**Motion**"), to order the trustee, inter alia, to sell 5% of the company's shares by September 7, 2016, in accordance with the outline. In the Commissioner's response to the motion from July 2016, she noted, inter alia, that according to her position, the Court should instruct the trustee regarding the appropriate method of working to realize the means of control on the date specified in the Commissioner's outline, and that she leaves to the Court's judgment the determination regarding the best way to sell the shares which are the subject of the motion. In August 2016, IDB Development objected to the motion. Within the framework of IDB Development's response to the motion, the Court was requested, inter alia, to dismiss the requests of the trustee in the motion, to leave the holding of the company's shares as is, and to order the trustee not to sell, at this time, the company's shares, until IDB Development has sold its holdings in the company to a potential buyer (while exhausting the competitive sale process which IDB Development is currently conducting).

As of the date of this report, a decision has not yet been reached regarding the aforementioned motion, and the control shares have not yet been sold.

For additional details the legal proceedings which are being conducted on the matter, see Note 1(b)(3) to the financial statements.

For additional details regarding the holdings of the interested parties in the company, the shareholders agreement in the company, and the agreement regarding the allocation of company shares to Bank Hapoalim Group, see Part D - Additional Details Regarding the Corporation - section 12.

2.3. <u>Description of the company's business affairs and the general development of the company's business affairs</u>

The company is a holding company which is primarily active in the insurance, pension and provident segments, and in the holding of similar assets and businesses (such as the holding of insurance agencies), and as of the reporting year, constitutes one of the largest insurance groups in Israel. During the reporting year, the group's activities were primarily focused on three operating segments (see diagram in section 2.1 above): long term savings, non-life insurance and health insurance.

- Insurance activity

The group’s activities in the insurance segment are generally performed in Israel. The insurance activities are performed by Clal Insurance, excluding credit insurance business operations, which are performed through Clal Credit Insurance.

Clal Insurance began operating in Israel in 1962, as a government insurance company under the name “Yovel Israel Insurance Company Ltd.” (hereinafter: “**Yovel**”). In 1968, the government sold Yovel to Gefen Investment Company Ltd. In 1969, Yovel acquired HaHoma Insurance Company Ltd., and changed its name to Yovel - Life Insurance Company (1962) Ltd., which was later merged with Yovel, which changed its name to Yovel Insurance Company Ltd.

In 1978, Yovel Insurance Company Ltd. was acquired by Clal (Israel) Ltd. (which was a subsidiary of IDB Development, and was subsequently merged into it), and its name was changed to Clal Insurance Company Ltd. Over the years, Clal Insurance acquired various insurance companies, including Ararat Insurance Company Ltd., Elite Insurance Company Ltd., Eitan Insurance Company Ltd., and Aryeh Israeli Insurance Company Ltd., and also acquired insurance portfolios in Israel. In 1992, Clal Insurance acquired part of the insurance portfolio of Sneh Insurance Company, and the insurance portfolio of the Tzur Shamir Insurance Company. At a later stage, acquired insurance companies were merged into Clal Insurance, including Ararat, Elite, Eitan, and Aryeh. The aforementioned acquisitions and mergers contributed to Clal Insurance becoming one of the largest insurance groups in Israel.

In 1998, Clal Insurance acquired Israeli Credit Insurance Company Ltd., whose name was changed to Clal Credit Insurance Ltd. For additional details regarding the shareholders agreement in Clal Credit Insurance, see section 7.1.1.5 below.

Beginning in 2006, the group’s health insurance and long term care insurance activity was concentrated in Clal Health.In March 2013, the merger of Clal Health with and into Clal Insurance was completed, in a manner whereby all of the assets and liabilities of Clal Health were transferred to Clal Insurance, and Clal Health was dissolved without liquidation.

- **Pension and provident funds**

In the long term savings segment, in the pension and provident branches, the group operates through Clal Pension and Provident Funds. The development of Clal Pension and Provident Funds is described below:

In 2004, Clal Insurance acquired Meitavit Pension Fund Management Company Ltd. (hereinafter: “**Meitavit**”), a company specializing in the management of new pension funds.

In 2006, after the acquisition of the minority shares in Atudot Pension Fund (1996) Ltd. was completed, the group merged the new pension funds which it owned (Meitavit and Atudot) into Meitavit, whose name was changed after the merger to Meitavit Atudot.

In 2005, third party acquired, from a third party, its shares (50%) in S.B.H. Pension Fund Management Ltd. (hereinafter: “**SBH**”), which served, on the same date, as a managing company of Atudot Havatika, which is an old, actuarially balanced pension fund. In 2007, a structural change was completed in which the management of Atudot Havatika was transferred from SBH to Atudot Havatika. Atudot Havatika is held by Clal Insurance and Bituach Haklai Central Cooperative Society Ltd., in equal parts. Atudot Havatika received, during the reporting year, investment management services from Canaf.

In 2007, the group’s activities increased with respect to capital-based and non-annuity paying provident funds, which had been managed at Clal Provident Fund since 1986, expanded, when transactions in which the provident funds of Discount Bank and Bank Hapoalim, which were partly held jointly with KGM Central Provident Fund of the Histadrut Employees Ltd., were acquired.

In 2010, the activity of Clal Provident Funds was merged into Meitavit Atudot, whose name was changed, following the merger, to Clal Pension and Provident Funds. Following the merger, Clal Pension and Provident Funds became a managing company of annuity paying provident funds and provident funds for savings, as well as capital based provident funds, with respect to amounts which were deposited in them until 2008, study funds, central funds for severance pay and sick pay, provident funds for investment, and a central provident fund for participation in budgetary pension.

2.4. **Material changes in the company’s macro-economic environment during the reporting year**

For details regarding material changes in the company’s macro-economic environment during the reporting year, see Part B - board of directors’ report, section 2.1.

2.5. **Material changes in the company’s business affairs during the reporting year and until the publication date of the report**

Presented below is a description of the material changes which occurred in the company’s business affairs during the reporting year and until the publication date of the report, by operating segments:

2.5.1. General

2.5.1.1. Expected changes in the control of the company

For details regarding expected changes in the control of the company, see section 2.2 above and Note 1 to the financial statements.

2.5.1.2. **Rating**

For details regarding the rating of Clal Insurance and Clalbit Finance, see Note 27(f) to the financial statements. For details regarding the implications of the aforementioned rating on the company, see section 10.16.1(c)(6) below.

2.5.1.3. **Low interest rate environment**

For details regarding the strengthening of the insurance reserves in a low interest rate environment, and its impact of the discount rate in life insurance, see Note 40(e1)(d) to the financial statements.

2.5.1.4. **Capital regime**

For details regarding the Solvency II-based solvency regime which will replace the current instructions with respect to the capital requirements under the current regime, see Note 16(e)(3) to the financial statements.

2.5.1.5. **Strengthening of capital**

(A) Issuance of bonds and exchange of bonds in Clalbit Finance -

- In April and December 2016, Clalbit Finance acquired, in accordance with the shelf offering reports which were published by virtue of the shelf prospectus dated May 29, 2014, which also constitute specifications regarding exchange offers, from the bonds of Clalbit Finance, bonds which were held by them, in consideration of the issuance of bonds of Clalbit Finance, as specified below:
    - NIS 600,000,000 par value of bonds (Series F), in consideration of the issuance of NIS 628,092,000 par value of bonds (Series J), by way of a series extension;
    - NIS 114,104,494 par value of bonds (Series F), in consideration of the issuance of NIS 115,267,219 par value of bonds (Series H), by way of a series extension;
    - NIS 88,830,624 par value of bonds (Series A), in consideration of the issuance of NIS 117,242,211 par value of bonds (Series I), by way of a series extension;
    - NIS 41,670,688 par value of bonds (Series B), in consideration of the issuance of NIS 49,216,000 par value of bonds (Series I), by way of a series extension;

The terms of the aforementioned liability certificates which were issued, as stated above, are identical to the terms of the outstanding liability certificates.

2.5.1.6. In December 2016, Clalbit Finance raised a total of approximately NIS 200 million, within the framework of an issuance of bonds (Series G), by way of a series extension, in accordance with a shelf offering report of Clalbit Finance from December 2016 which was published by virtue of a shelf prospectus dated May 29, 2014. The issuance consideration was deposited in Clal Insurance and recognized as Tier 2 hybrid capital of Clal Insurance.

For additional details regarding the terms of the issuance of bonds and the exchange of bonds, see Note 25 to the financial statements.

For additional details regarding the group's liabilities, see Note 27 to the financial statements.

(A) Extension of shelf prospectus of Clalbit Finance

On May 22, 2016, approval was received from the Israel Securities Authority for an extension of the shelf prospectus of Clalbit Finance by 12 months, until May 28, 2017.

2.5.2. Human capital and organizational structure

2.5.2.1. Collective agreement

The period of the group's current collective agreement is until December 31, 2016, and industrial peace has been agreed upon until March 31, 2017. The parties are conducting negotiations towards the renewal of the collective agreement, against the background of significant and ongoing business and regulatory changes which occurred during the period of the collective agreement, and which have a significant impact on the company's operating environment, on the competitive conditions and on profitability.

On December 13, 2016, Clal Insurance notified Clal Insurance and additional member companies in the group regarding a labor dispute. The announcement included, inter alia, assertions by the employee committee regarding actions performed by management without negotiating with the employee committee, as well as assertions in connection with the conducting of negotiations towards a new collective agreement between the Histadrut, Clal Insurance and the employee committee. During the period proximate to the publication of the report, the employees of the group who are party to the collective agreement initiated organizational steps, including disruption of work proceedings and partial strikes in specific units of the organization, in light of gaps between the positions of the parties to the negotiations.

For additional details, see section 10.7.3 below and Note 24(d) to the financial statements.

2.5.2.2. **Changes in company management**

For details regarding changes in company management, see Part B - board of directors' report, section 6.5.

2.5.2.3. Changes to the organizational structure

In June 2016, an organizational change was implemented to the monetary division. The division was split into two divisions: the monetary division and the comptrollership division, and their organizational subordination was changed from the headquarters division to the investments, finance and financial services division.

Subsequent to the reporting date, on January 1, 2017, the long term savings division was split into two divisions: the life insurance division and the pension, provident and financial products division.

2.5.2.4. Mergers

- During the reporting year, the merger process of Clal Amitim with and into Canaf was completed.

- During the reporting year, Clal Management Services was merged into Clal Pension and Provident Funds.

2.5.3. Regulatory reforms

In recent years in general, and in the reporting year in particular, significant regulatory reforms have been promoted in the various insurance segments, which pertain, inter alia, to capital requirements for insurers, increasing competition, reducing tariffs, reducing management fees, lifting barriers to transfer and barriers to entry in the market, consolidating products, increasing transparency for customers, separating possible links and conflicts of interest in relationships between institutional entities, employers, agents and policyholders, digital progress and structural changes in the compensation structure for license holders. Some of the reforms were applied during the reporting period, while others are expected to be applied in the future and/or are currently in various stages of the formalization process. These reforms are currently having an impact, and will continue having an impact in the coming years, on the insurance market in Israel, and on the profitability thereof, including, inter alia, on the value of new business which will be sold, on the embedded value with respect to the company's business, and on its market value. For additional details, see section 1.2.3 of the board of directors' report.

2.5.4. Long term savings segment

2.5.4.1. **Reforms in the segment**

In recent years, the Commissioner has promoted reforms in regulation in the long term savings segment. For details regarding the aforementioned reforms, see section 6.2.1 below. As part of the foregoing, the company continued or began or prepared for the implementation, during the reporting year, of significant reforms, including, inter alia, with respect to the adjustment of the savings tracks according to the member's age (in accordance with the provisions of the circular regarding investment tracks in provident funds); the members and policyholders data cleansing project, in accordance with the provisions of the circular regarding the cleansing of members' data in institutional entities); The clearing house activity and the operational interface between employers and institutional entities on all matters associated with all matters pertaining to in provident funds (in accordance with the provisions of the Control of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014); Estimates regarding increased deposits to pension products, following regulatory changes; Consolidation of inactive accounts in pension funds; The creation of default pension funds and preparation for the process of choosing the pension fund which will serve as the default pension fund by the employer; and adjustment of loss of working capacity policies to the circular regarding "guidelines with respect to loss of working capacity insurance plans". Additionally, during the reporting year, the Commissioner advanced reforms pertaining to regulation of the relationship between institutional entities, agents and employers, such as the employer's obligations to pay for the operating services which are provided to it by the license holder; the formalization of the employee's right to choose the pension product and the insurance agent, and the amendment to the law regarding the calculation of the distribution commission. For details, see sections 6.2.1.1 to 6.2.1.6 below, and section 10.8.3.1 below.

2.5.4.2. **Upgrade of automation systems in long term savings**

Following the conversion of the automation system which is used to manage members' rights in the pension fund to the Nissan system, during the reporting year, adjustments and additional improvements were made to the Nissan system, in continuation of the adjustments to the needs of the group, which were performed therein before the reporting year (including the creation of interfaces to other core systems in the organization). For additional details, see Note 44(c) to the financial statements.

In parallel, during the reporting year, the company continued implementing the formulated which was formulated, upgrading and handling the core systems in the life insurance segment of Clal Insurance - the “road map”. The company is currently in advanced stages of the “road map” project, and intends to complete the entire project in the coming months. The “road map” project has improved the system’s performance, and accordingly, the operational capability of the user entities. For additional details, including regarding the engagement with an external supplier in connection with the implementation of part of the action outline, as part of the “road map”, see section 10.10.3.2 below and Note 44(d) to the financial statements.

2.5.4.3. **Replacement of provident funds operator**

During the reporting year, Clal Pension and Provident Funds engaged in an agreement with Bank Leumi Le-Israel Ltd. and Leumi Capital Market Services Ltd. regarding the operation of the provident funds which are managed by Clal Pension and Provident Funds. Following the aforementioned engagement, subsequent to the reporting date, in early 2017, the provident funds and study funds which were operated by Bank Hapoalim and Dov Sinai (excluding the Bar Gemulim provident fund) were transferred to the operation of Bank Leumi. For additional details, and for the provisions of the law which regulate the services which are provided by the banks, see section 6.2.1.4(g) below, and Note 44(b)(3) to the financial statements.

2.5.5. Non-life insurance segment

2.5.5.1. Reforms in the motor insurance segment

During the reporting year, the Commissioner advanced several significant reforms in the non-life insurance segment. In the compulsory motor insurance branch, a reform was advanced with respect to an update to compulsory motor insurance tariffs, whose impact began in 2016, and will continue in 2017 as well. Along with the above, regulatory changes were implemented regarding the discount interest rate for National Insurance pensions, which have not yet entered into effect, and which are expected to affect the insurance amounts which the insurance companies are required to pay to National Insurance within the framework of subrogation claims submitted by the National Insurance Institute to insurers, within the framework of the compulsory and liabilities branches, and to increase them. For details regarding the possible impact of these changes on the insurance segments, see sections 7.1.1.1(c)(1) and 7.1.1.1(d)(2) below.

Additionally, during the reporting year, an amendment was published to the method regarding the settlement and handling of water damage claims, in the apartment insurance sub-branch, which will enter into effect on June 1, 2017.For additional details, see section 7.1.1.4(a) below.

2.5.6. Health insurance segment

2.5.6.1. Reforms in the segment

During the reporting year, significant regulatory reforms entered into effect in the health and long-term care insurance segment, which affect the structure of insurance products in the segment and service letters, as well as the tariffs collected in health insurance policies and engagements with health funds in collective long term care insurance policies. Additionally, further regulatory changes are expected which, as of the reporting date, have not yet been formulated, which primarily involve collective long-term care insurance and long-term care insurance for the senior population. For additional details, see section 8.1.2 below.

2.5.7. Additional regulatory changes in the company's operating segments

For additional material regulatory changes that affected the company's business in the reporting year see operating segments and section 10.2 below.

3. Operating segments

The group has three main operating segments, as specified below:

3.1. Long term savings segment

This segment includes the group's activities in the life insurance branch, the pension funds branch and the provident funds and study funds branch.

The issue of pension security in Israel is comprised of three main layers: **Compulsory layer managed by the state -** National Insurance; **Compulsory layer managed by the institutional entities -** Beginning in 2008, within the framework of the compulsory pension for salaried employees with respect to compensation and severance pay, which are deposited with institutional entities; **And the optional layer -** Pension savings beyond the compulsory later, which is managed by institutional entities, as well as individual savings channels.

The products in the segment primarily provide savings solutions for the retirement period (the "**Savings**"). Furthermore, insurance covers for various risks such as insurance in the event of death, disability, loss of work capacity and critical illness (the "**Risk**") have been incorporated, or can be incorporated, in most of the products in this segment. (See section 6 below).

The activities in the life insurance branch were performed during the reporting year through Clal Insurance. The activities in the pension and provident branches were performed during the reporting year through the holdings of Clal Insurance in the following companies:

Clal Pension and Provident Funds - a wholly owned subsidiary (100%) of Clal Insurance which operates, inter alia, as a managing company of annuity paying provident funds (formerly annuity paying provident funds) - new pension funds (comprehensive and general) and provident funds for savings (formerly non annuity paying provident funds), and capital based provident funds, with respect to amounts which were deposited in them until 2008, study funds, central funds for severance pay and sick pay, and a central provident fund for participation in budgetary pension.

Atudot Havatika - A subsidiary of Clal Insurance, which is owned 50%, which manages an old balanced pension fund (Atudot pension fund).

3.2. Non-life insurance segment

This segment includes the company's activities in the non-life insurance branches and in the personal accidents insurance branch (up to one year), which are recorded under non-life insurance business operations. (See section 7 below).

Non-life insurance is divided into the property insurance branches, the liabilities insurance branches, accident, illness and disability insurance, and other branches, which include insurance policies of various types.

Property insurance - Including coverage with respect to loss or physical damage which was caused to the policyholder's property, as a result of the materialization of the risks specified in the policy, within the framework of the "specific risks" specified in the policy, or within the framework of "all risks" (coverage against any sudden accidental and unexpected loss or damage, excluding damage or loss which has been expressly excluded).

Liability insurance - Including coverage with respect to the policyholder's legal financial liability towards a third party which is not the policyholder, up to the liability limit specified in the policy.

Accident, illness and disability insurance - In which compensation is given to the policyholder with respect to injury caused to a person - death or permanent, full or partial disability, as a result of an accident and/or injury involving temporary loss of working capacity as a result of an accident or illness, as well as reimbursement of medical expenses due to the foregoing. The insurance activities in this branch include short term personal accidents insurance.

The company's activities in this segment include the compulsory motor insurance segment, the motor property insurance branch, liabilities insurance branches and other property and others insurance branches.

The activities in the credit and foreign trade risks insurance branch, which constitute a part of "other property and others insurance branches", were performed during the reporting year through Clal Credit Insurance, a subsidiary controlled 80% by Clal Insurance.

3.3. **<u>Health insurance segment</u>**

This segment includes the group's activities in health insurance, in the illness and hospitalization branch (which includes illness and hospitalization and international travel), and the long term care branch (see section 8 below). This segment includes insurance plans designed for individual policyholders, and insurance plans designed for collectives.

Most of the group's activities in this segment are concentrated in the health division of Clal Insurance. Additional health coverages (riders) were sold during the reporting year within the framework of the life insurance division, and were included under the long term savings segment - see section 6 below, and as short term personal accidents policies under the non-life insurance segment - see section 7.

It is hereby clarified that the report includes additional information with respect to certain sub-branches and/or certain products within the operating segments, in accordance with the Commissioner's requirement.

The group also has other activities which are not included in the operating segments, and do not constitute a material business component on the level of the group. For details regarding these activities, see section 9 below.

The description of operating segments presented below is provided separately, excluding on matters pertaining to all of the group's operating segments, which will be described together under Part IV below.

4. Investments in the company's capital and shares

4.1. Investments in the company's capital which were performed during the last two years and until the publication date of the report

In the last two years, until the publication date of the report, no investments were made in the company's capital.

4.2. Details of material over the counter transactions which were performed by interested parties in the company with the company's shares[5], during the last two years:

To the best of the company's knowledge, no such transactions were performed.

For details regarding the status of the process involving the sale of the company's shares by IDB Development, see Note 1(b)(4) to the financial statements.

For details regarding the transfer of the company's control shares to a trustee, the Commissioner's demand to formulate an outline for the sale of the control of the company until June 30, 2015, the completion of the transaction until June 30, 2016, and a provision from January 2016 regarding the fulfillment of a terminating condition which requires the sale of the company's shares in accordance with the Commissioner's directives, see Notes 1(b)(2) and 1(b)(3) to the financial statements.

5. Dividend distribution

In the last two years, until the publication date of the company's report, the company did not distribute any dividends.

For details regarding the balance of profit, as defined in section 302 of the Companies Law, which are distributable as of the date of the financial statements, see Note 16(c) to the financial statements. It is noted that the balance of distributable profits is subject to additional restrictions, as specified in Notes 16(e) and 16(f) to the financial statements.

For details regarding external restrictions on the company's ability to distribute dividends and capital requirements, as well as the company's policy on the matter, and for details regarding restrictions by virtue of a control permit regarding the holding of the means of control and regarding the control of the group's insurers and a managing company through the company, and for details regarding the status of the permit for control of the company as of the reporting date, see Note 16 to the financial statements.

[5] For details regarding sales and acquisitions on the stock exchange which involved the company's shares by interested parties, see the company's current reports on the matter.

For details regarding restrictions on dividend distributions by virtue of the regulatory capital requirements which apply to member companies in the group, and by virtue of the Commissioner's directives and the company's fulfillment thereof, see Note 16(d) to 16(f) to the financial statements.

Part II - Description and Information Regarding the Company's Operating Segments

6. Long term savings

6.1. Products and services

6.1.1. Description of the operating segments and insurance coverages

_______The segment's products provide, mainly, solutions for the retirement period to salaried employees and the self-employed, private investment solutions and coverages in case of death, and in case of loss of working capacity.

Life insurance products

Life insurance products constitute contractual commitments between the insurer and the policyholder, and include insurance plans which allow the accrual of savings, for different time periods, and insurance plans and/or combinations in insurance plans which allow insurance coverages for death, loss of working capacity and disability.

A policyholder who has reached the end of the insurance period is entitled to insurance benefits (the amounts which have accrued in the savings component of the policy), in accordance with the policy terms. The policyholder can receive these sums, subject to the provisions of the legislative arrangement, as a one-time sum ("**capital payment**"), payments in installments throughout their lifetime ("**annuity**"), or a combination of the two. In some annuity products, the policyholder benefits from an annuity factor which is protected against extended life expectancy, and which is determined on the acquisition date of the policy, or on the commencement date of the payment of the annuity to the policyholder, or which can be acquired once the policyholder reaches at least age 60.

Pension funds

Pension funds constitute a mutual insurance fund, and operate in accordance with regulations which may change from time to time. A pension fund member is entitled on retirement to payment of an annuity for the rest of his life, based on annuity factors that are not guaranteed with respect to life expectancy and which could change from time to time according to the fund's actuarial balance.

Old pension funds were closed in 1995 for new members, and these may join the new pension funds which were established in that year. There are two types of new pension funds: (a) comprehensive pension funds, which allow pension savings for annuity purposes and death and disability insurance coverages, and which partially benefit from designated bonds, and into which deposits can be made up to the maximum limit set forth in law (see details in section 6.1.1.1 below) and (b) general (supplementary) pension funds, which do not benefit from designated bonds, and which allow pension savings for annuity purposes, and to which deposits can be made beyond the limit set forth in law. Some of the general funds, include other insurance coverages in addition to the old age annuity.

Provident funds

Provident funds provide both long-term savings solutions (provident funds for benefits and severance pay) as well as medium-term (study funds), without insurance coverages which are purchased directly from the managing company. A member is entitled to withdraw the amounts which have accrued in their favor in the provident funds, excluding study funds, in a one-time amount or as an annuity, in accordance with the period during which they deposited them. Monies which have accrued in favor of a member in study funds are withdrawn in a one-time payment. For additional details, see section 6.2.1.1 below. In accordance with the Control of Financial Services Law (Provident Funds) (Amendment No. 15), 2015 (hereinafter: "**Amendment 15 to the Provident Funds Law**"), beginning in November 2016, provident funds for investment were created, which are intended to allow a capital-based savings channel for individual funds, which will include an incentive for the withdrawal of the funds which have accrued therein as an annuity during the retirement period. For additional details regarding provident funds and provident funds for investment, see section 6.2.1.2 below.

The provident fund branch also includes central provident funds, in which the member is the employer, where the deposited funds are intended to ensure the rights of its eligible employees. [6] Beginning in 2012, it is no longer possible to deposit funds into central provident funds for severance pay, however, it is possible to transfer amounts from one central fund for severance pay to another central fund for severance pay, or to withdraw funds, subject to the provisions of the law.

Presented below are the main distinctions between the current main products:[7]

	Life insurance	**New comprehensive pension funds**	**Provident funds**
Engagement type	A **contractual commitment** between the insurer and the policyholder. The undertaking cannot be changed other than in accordance with the provisions the policy.	The member is a member of a fund, which are operated and managed by the managing companies, in accordance with the provisions of **their regulations**. The regulations may change from time to time, and in general, the member's rights and obligations are determined according to the fund regulations, which are in effect as of the eligibility date.	
Insurance coverage	The insurance coverage can be adjusted in accordance with the customer's needs.	The insurance coverage is included in the provisions of the regulations, and can be adjusted as part of the	The basic version does not include insurance coverage; however, the acquisition of insurance

[6] The central provident funds were primarily central provident funds for severance pay.

[7] In provident funds and pension funds, a complete separation is applied between the assets of the managing company and its liabilities, and the assets of members which have accrued in the provident funds and pension funds, and the assets of members which are not included in the financial statements of the managing company.

	Life insurance	**New comprehensive pension funds**	**Provident funds**
		options set forth therein, and additionally, supplementary insurance coverage can be acquired from the insurer.	coverage from the insurer is possible.[8]
Annuity factor[9]	In all annuity-based policies which include an annuity factor, the annuity factor is protected against changes in life expectancy. Beginning in 2013, it is no longer possible sell policies with guaranteed annuity factors, except to policyholders aged 60 or older. [10]	The annuity factor is not protected against changes in life expectancy. The annuity may change from time to time in accordance with the actuarial balance of the principal.	No underlying factor. [11]
Mutual insurance	None	Mutual insurance fund. The members' rights are affected, inter alia, by demographic data of all	None

8 Under the Control of Financial Services Regulations (Provident Funds) (insurance coverages in provident funds), 2012, it is currently possible to acquire from an insurer, within the framework of and out of the pension provisions, insurance coverage to cover risks of death, longevity for those over 60, risks of disability, and insurance coverage for release from the payment of premiums in case of disability, to members of pension funds, provident funds and insurance. A managing company is entitled to market, to active members of the provident fund which it manages, insurance policies, after having been given an insurance corporation agent license. As of the reporting date, Clal Pension and Provident Funds does not hold an insurance corporation agent license, and does not market to active members of provident funds which are managed by it, the aforementioned insurance coverages.

9 In new pension funds and annuity-based policies in life insurance, upon the withdrawal of funds by the member through an annuity, the savings amount is converted into a monthly annuity through division by a factor reflecting life expectancy (hereinafter: the "**Annuity Factor**").

10 In general, beginning in 2013, annuity-based policies with annuity factors which include a life expectancy guarantee can be purchased only from age 60 (see section 6.2.1.5A below). Beginning in December 2015, investment-linked annuity-based policies which combine savings with annuity factors which include a life expectancy guarantee can be marketed to policyholders under age 60, who wish to transfer the aforementioned policies, provided that they purchased, from 1991 until December 31, 2013, policies with annuity factors which include a life expectancy guarantee. For details regarding the circular on the subject of the marketing of life insurance policies which include annuity factors that embody a life expectancy guarantee, see section 6.2.1.5(a) below.

11 For details regarding the provisions of Amendment 13 to the Provident Fund Law, regarding the cancellation of the distinction between an annuity paying provident fund and a non annuity paying provident fund, and regarding the possibility of performing an annuity withdrawal also from a provident fund for savings, through a combination of a periodic withdrawal (annuity) and acquisition of longevity insurance coverage, see details in section 6.2.1.2 below.

	Life insurance	New comprehensive pension funds	Provident funds
		members in the fund, such as health condition and life expectancy. The actuarial assumptions are evaluated from time to time and affect the rights of all members in the pension fund, which may change accordingly.	
Designated bonds[12]	For details regarding guaranteed return policies which were issued by the end of 1990 only, see section 6.1.1.1 below.	Designated bonds, up to a rate of 30% of the total assets. See details in section 6.1.1.1 below.	None[13]
Management fees	Rate of accrual and of deposits[14][15], see details in Note 31 to the financial statements.	Rate of accrual and of deposits, see details in section 6.1.2.2 below.	Rate of accrual and of deposits, see details in section 6.1.2.2 below.
Beneficiaries	Beneficiaries who are defined by the policyholder, in his discretion.	As specified in the regulations - mostly survivors.	Beneficiaries who are defined by the member, in his discretion.
Regulatory restriction regarding the deposit amount[16]	No restriction.	Up to 20.5% of twice the average salary in the economy.	No restriction.

[12] For details regarding the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Fund), 2016, in connection with the scope of allocation of designated bonds for pension fund members of various ages, and regarding petitions which were filed in connection with the entitlement of provident fund members and life insurance policyholders for the allocation of designated bonds, see section 6.1.1.1.

[13] Excluding a limited number of guaranteed return provident funds backed by Accountant General deposits.

[14] In traditional policies and in policies of the "Preferred" (Meitav) type, there were no management fees as a rate of the deposits.

[15] The foregoing does not include management fees and expenses of various kinds which are collected in some of the life insurance policies, for example, including with respect to the management of investment portfolios, the policy factor or collection factor, etc.

[16] Does not include reference to restrictions according to the terms of the products.Additionally, all of the products include a tax benefit up to the maximum limit set forth in the Income Tax Ordinance. For details regarding the amendment to regulation 19 to the Income Tax Regulations (rules for the approval and management of provident funds), 1964, regarding the restriction of the maximum limit to two and a half times the average salary in the market, and regarding the determination of a maximum limit for

For a description of the products in the segment, see section 6.1.2 below.

6.1.1.1. **The pension savings products differ from one another also in the way the saved funds are invested**

Some of the saved funds are invested in the free market, while others are backed by designated bonds, in accordance with legislation, as specified below:

- **Life insurance**

In policies which were sold until the end of 1990, returns for policyholders in life insurance policies with a savings component were determined as a guaranteed rate ("**Guaranteed Return Policies**"). The guaranteed rate was changed according to the policy type and issuance date. The undertaking regarding the guaranteed rate of return is mostly backed by designated bonds. The balance of assets is invested in accordance with the restrictions specified in the Investment Regulations (the "**Free Assets**").

As of December 31, 2016, the holding of designated bonds constitutes approximately 75% of total assets held against liabilities with respect to guaranteed return policies. Over the years, the group redeemed, in accordance with the approval of the Ministry of Finance, some of the designated bonds, with the aim of realizing surplus returns. These funds were transferred to other investments. The group cannot re-acquire designated bonds with respect to the part of the reserves which was redeemed by it, and as a result, the group's exposure within the framework of the free investments increased. In accordance with the mechanism for settling of accounts which was determined vis-à-vis the Ministry of Finance, the holding of designated bonds will gradually be decreased to a rate of 50% of total assets held against liabilities with respect to guaranteed return policies.

Policies which were issued since the early 1990's primarily include investment-linked policies in which the savings funds are invested by the insurance companies in free investments, primarily in the capital market, wherein returns less expenses are applied in favor of the policyholder, in accordance with the results of the investment portfolio, and less management fees, as specified below.

For details regarding the balance of insurance reserves with respect to insurance plans of the profit sharing and guaranteed return types, see Note 20 to the financial statements.

- **Pension funds**

At present, the old and new comprehensive pension funds enjoy guaranteed returns on some of the assets of the fund which are backed by designated bonds, up to a maximum rate of 30% of the total assets. At any time when the rate of designated bonds decreases below 30% of total assets in the fund, the funds will be entitled to acquire designated bonds which bear real interest at an annual rate of 4.86%. However, 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, will amount to 70% of total assets. For details regarding the Control of Financial Services Regulations (Provident Funds)

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employer deposits with respect to the severance pay component, up to three times the amount of the average salary in the market, see section 6.2.1.3 below.

(Crediting of Returns in New Comprehensive Pension Fund), 2016, in connection with the scope of the allocation of designated bonds which are intended for pension fund members of various ages, see this section 6.1.1.1 below.

Additionally, the State of Israel provides "compensation" to the old balanced pension funds, with respect to the reduction of the issuance of designated bonds, which was performed over the years, by guaranteeing the difference between the interest on the old bonds (5.57%) and 4% (1.57%) with respect to the assets which are not designated bonds, and are invested in the free market, and by guaranteeing the difference between the interest on the old bonds of the "Meiron" type (5.57%) and the interest on the new bonds of the "Arad" type (4.86%), with respect to the part of the assets which are invested in new designated bonds.[17]

_______Additionally, in May 2003, the Ministry of Finance announced that a safety buffer would be provided for the old funds in the arrangement, in order to protect the members and retirees of the funds in the arrangement against volatility in returns. In July 2012, the Ministry of Finance approved the application of the safety buffer also to the old funds which are not included in the arrangement. Accordingly, and as a condition for the inclusion of Atudot Havatika in the aforementioned safety buffer, in 2013, an amendment to the regulations of Atudot Havatika entered into effect. In January 2017, the Insurance Law was amended in a manner which formalized the provision of the aforementioned safety cushion.

- **Provident funds**

Since the mid-1980's, designated bonds[18] have not been issued for the provident funds, and the assets are invested in investments in accordance with the restrictions specified in the Investment Regulations.

For details regarding the method for investment of free assets, see section 10.5 below.

- **Task force to increase certainty in pension savings and the regulations regarding the crediting of returns in a new comprehensive pension fund**

_______In December 2015, the task force to increase certainty in pension savings, led by the Director General of the Ministry of Finance, published a report which includes, inter alia, recommendations to change the allocation of designated bonds to pension funds, in a manner which increased the scope of allocation of designated bonds to retirees, due to the high level of certainty which they require upon receipt of the annuity, and for senior savers who are approaching retirement age. In parallel, it was proposed to gradually decrease the scope of the allocation of designated bonds intended for young savers, due to the lengthy investment horizon which they are expected to have. It is noted that the recommendation given by the task to force is not to increase the total designated bonds out of total funds managed in the pension funds.

17 This is true regarding the population of old fund members who joined the fund until December 31, 1994. Members of Dor Habenayim, who joined the old fund between January 1, 1995 and March 29, 1995, were given compensation at a reduced rate, through a similar mechanism.

18 Excluding a limited number of guaranteed return provident funds.

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

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

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

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

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

It is noted that the Designated Bond Return Regulations do not change the rate of bonds which a managing company of a new comprehensive pension fund is entitled to acquire, which wil remain as 30% of the total fund assets. [19]

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 petitioners, the issuance of designated bonds for the new pension funds only constitutes unlawful discrimination of the provident fund members relative to the savers in new pension funds. In the new member application, it was

[19] 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.

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 entry into effect of the Designated Bond Return Regulations, and the allocation of designated bonds in accordance with age groups, 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 create preference for the pension products over other pension products, beginning from the stage near retirement age, 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.

Additionally, changes in the allocation of designated bonds in accordance with the above, and insofar as corresponding changes are not also made to the other products, may result in a competitive advantage over the funds designated for payment of annuities shortly before retirement age and thereafter, in the pension product. It may also result in a competitive advantage for certain pension funds over others.

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

6.1.1.2. **Changes to pension savings products - Amendment No. 13**

- Changes in terms - the Control of Financial Services Law (Provident Funds) (Amendment No. 13), 2015 (hereinafter: "**Amendment 13 to the Provident Funds Law**"), included changes, inter alia, to the terms which are used to describe the various pension savings products, in a manner whereby the definitions of "annuity paying provident fund" and "non annuity paying provident fund" were changed, and it was determined that the foregoing will henceforth be called "annuity paying provident fund" and "provident fund for savings", respectively.

Due to the foregoing, the pension savings products changed their names as follows:

	Until the end of 2007	From the beginning of 2008	From the beginning of 2016
Pension	Pension fund	Pension fund (which is a type of annuity paying provident fund)	Pension fund (which is a type of annuity paying provident fund)
Provident	Provident fund for compensation	**Funds deposited before 2008 -** Provident fund for compensation	**Funds deposited before 2008 -** Provident fund for compensation
		Funds deposited after 2008 - Non annuity paying provident fund	**Funds deposited after 2008 -** Provident fund for savings

Capital based insurance policy	Capital based insurance policy	**Funds deposited before 2008 -** Capital based insurance fund	**Funds deposited before 2008 -** Capital based insurance fund
		Funds deposited after 2008 - Non annuity paying insurance fund	**Funds deposited after 2008 -** Annuity paying insurance fund (A type of annuity paying provident fund)
Annuity paying insurance policy	Annuity paying insurance policy	Annuity paying insurance fund (A type of annuity paying provident fund)	Annuity paying insurance fund (A type of annuity paying provident fund)

- Withdrawal of funds directly from provident fund for savings -

In Amendment No. 13 and the supplementary draft circular which was published in April 2016 (hereinafter: "**Provisions Regarding Withdrawal From Provident Fund For Savings**"), a possibility was established for direct withdrawal of funds from a provident fund for savings, through a combination of an annuity (withdrawal of the accrued amount in payments from age 60), plus longevity insurance coverage which will be acquired from an insurance company, as opposed to the prior situation, according to which, in order to withdraw funds designated for annuity from a provident fund for savings (which was a "non-annuity paying provident fund"), the funds should be transferred to an annuity paying provident fund (which was "annuity paying").

The entry into effect of the provisions regarding withdrawal from a provident fund for savings will allow the retention of funds in the provident funds for savings for longer periods, and may expand the mix of pension products in the market, and may result in an increase in sales. On the other hand, the possibility for payment of an annuity, as stated above, is expected to increase the number of active players in the field, and to result in increased competition and mobility, particularly with respect to the relationships with competing entities such as some of the investment houses, which, in contrast to the group, did not manage supplementary products which allow the withdrawal of an annuity (pension funds and insurance funds).

The information presented on all matters associated with the possible future implications of the directives regarding withdrawal from provident fund for savings constitutes forward looking information, which is based on the group's estimates and assumptions as of the publication date of the report. Actual implementation may differ from the forecast, inter alia, in light of the final version of the supplementary draft circular, the conduct of competing institutional entities, the regulatory changes which will affect the tax benefits in the coming years, and the preferences and conduct of members and policyholders.

6.1.2. Details regarding the primary details included in the operating segment

Presented below is a description of the products and services which were managed by the company during the reporting year.

6.1.2.1. Life insurance branch

(A) General

The group markets insurance to the self-employed and managers, as well as individual insurance and collective insurance, as specified below.

- **Individual policies and policies for salaried employees and the self-employed**

The policies generally combine savings and insurance coverage such as risk and loss of working capacity. Some of the insurance policies are intended for salaried employees and the self-employed, are approved as provident funds, receive tax benefits and constitute a part of social security for salaried employees and the self-employed, whereas individual policies which include savings, are not approved as a provident fund, and receive tax benefits with respect to insurance coverage in case of death and/or loss of working capacity, which is purchased within the framework of the policies, and in certain conditions also with respect to the interest component which accrued with respect to the savings.

- **Collective insurance**

A collective insurance agreement is intended to provide insurance coverage in case of death or loss of working capacity, without a savings component, to groups which include over 50 policyholders among whom a shared connection exists. The agreement is subject to the Control of Insurance Business Regulations (Collective Life Insurance), 1993 ("**Collective Life Insurance Regulations**"), the Control of Finance Services Regulations (Insurance) (Loss Of Working Capacity Insurance), 2006 (the "**Loss Of Working Capacity Regulations**"), and the Commissioner's circulars. A collective life insurance agreement is intended to provide insurance coverage in case of death, to which can be added insurance against accident, illness and disability risks, and which does not include a savings component, whereas the collective loss of working capacity insurance agreement is intended to provide insurance coverage in case of illness or accident, due to which the policyholder has lost the capacity to work.

The insurance amount in collective life insurance is generally equal for all of the group members, or is determined according to age, salary or another objective criterion, or a combination of the above. The insurance amount in collective loss of working capacity insurance is determined, inter alia, according to the policyholders' salaries.

In accordance with the legislative arrangement and/or in accordance with the terms of the collective policy, a policyholder regarding whom the collective policy has expired, is entitled, under certain predetermined conditions, to acquire a personal policy under his name, with no need for an advance medical underwriting process, according to the premiums which applied at the time of the transition to all policyholders at an insurer, with a similar policy. Collective life insurance policies and collective loss of working capacity policies are primarily marketed to groups of employees.

The company manages collective policies over many years. The company was also active, during the reporting year in continuing the process of cleansing data with respect to collectives, both for the purpose of substantiating the data and to comply with the changing provisions of the legislative arrangement, and due to profitability considerations. For additional details, see Note 43(a4)(2) to the annual financial statements.

(B) Details of the main insurance plans in the life insurance segment

The group's insurance portfolio includes several different insurance plans, in accordance with the types of products which were sold over the years. Presented below are details regarding the main products:

- **Insurance of the traditional type**

  - **Policy of the traditional combined type** - A policy which includes two components, savings and risk. The premium is derived from the insurance amount, the policyholder's age, the insurance period, etc., and cannot be separated and attributed to the policy components. The insurance sum is paid as a one time sum at the end of insurance period (generally at the age of 65) or in the event of death, prior to the termination of the insurance period, excluding amounts which were deposited after January 2008, which are paid as an annuity.

  - **A traditional pension type policy** is a policy in which most of the premium is intended to pay annuity at the date of retirement from work. The pension amount to be paid, and the premium amounts, are determined on the policy issuance date.

  - **Policy of the traditional savings type -** A policy in which all accrued premiums are paid as savings. The redemption value is derived from the premiums, and the interest rate is determined on the policy issuance date.

    In policies of the traditional type, the redemption value is calculated in accordance with conventional actuarial rules (hereinafter: "**Ordinary Redemption Value**"). In case of discontinuation of the insurance for reasons other than termination of employment, the ordinary redemption value is paid, whereas in case of discontinuation of the insurance due to termination of employment, a special redemption value is paid, which is the ordinary redemption value or a rate of the premiums which were paid for the basic insurance, whichever is higher.

    In policies of the traditional type, it is not possible to increase the amount of deposits in the policy, including with respect to salary increase beyond the rate of the CPI's increase in managers' insurance policies, and in these cases, an additional policy should be prepared which reflects the increase in the deposit amount, or in the salary, as applicable.

    Policies of the traditional type were the only products sold until 1982 as individual insurance, compensation for the self-employed and managers. Policies of the mixed and pension types continued being marketed as managers insurance until June 2001, and as individual insurance and as compensation for the self-employed until the end of 2003, in addition to other products which were sold in parallel. During their last years of marketing, their share of total sales gradually decreased.

- **Insurance of the preferred type (Meitav, Meitavit)**

  The policy was marketed in the life insurance branch from 1983 until the end of 2003.

  The main characteristics of this product include:

- o The policy is divided into two components - after deducting expenses in a fixed amount, a certain percentage of the premiums is accrued as savings, and the balance of premiums is designated for the acquisition of insurance coverage in case of death, and as operating and marketing expenses (the “**Risk Component**”). Until the end of the 1990’s, the premium rate which was designated to savings in these policies was mostly 72%. From the beginning of 2000’s, the rate designated to savings was 80% and higher.

- o In policies marketed until 2000, the accrued savings were convertible to a pension payment proximate to the annuity receipt date, according to an annuity factor which was determined in the policy on the policy acquisition date.

- o In policies marketed until 2000, policyholders who reached retirement age have the option to choose among several possible annuity receipt tracks. In all of the tracks, an annuity is paid based on a guaranteed annuity factor.

- o Commencing in 2000, in general, two types of policies were marketed: a capital policy in which the accrued savings component could be designated to accumulate in a capital track with no possibility of conversion into an annuity; and a fixed-payment policy, under which the accrued savings could be converted into an annuity payment based on an annuity factor with guaranteed life expectancy, which was determined on the policy acquisition date. Beginning in 2000, the choice between a capital policy and a fixed-payment policy was done upon the acquisition of the policy.

- o Beginning in 2001, the policyholder is entitled to payment in only one track - a monthly annuity with a guaranteed life expectancy annuity factor, throughout his entire lifetime, and in case of death, before payment to the policyholder of a minimum number of 240 monthly annuity payments, the balance of annuities will be paid to the beneficiaries; Additionally, the policyholder has the option to choose additional tracks, under different conditions, for which the guaranteed annuity factor is determined on the annuity receipt date, in accordance with the policy terms.

The policy was marketed as individual insurance, as compensation insurance for the self-employed and as managers insurance.

- **<u>Insurance of the profile type</u>**

  - o Since 1999, the group has marketed a line of products under the trade name “profile”, including various types, which differed from the products that were marketed before that time, inter alia: (a) by separating between the components of savings, risk and expenses / management fees; (b) by allowing the possibility to adjust the insurance coverages in accordance with the policyholder’s choice; (c) by allowing the possibility to manage the savings through several investment tracks with daily (instead of monthly) returns; (c) in the structure of management fees, which do not change depending on returns; (e) by allowing the option to designate the accrued savings to a capital track and/or to an annuity paying track in the same policy (since 2008, the savings can only be designated to an annuity paying track).

    With respect to the “profile” tracks which were sold between the years 2004 and 2008 in individual policies, and between the years 2004 and 2009 in managers’ and compensation insurance for the self-employed, it was possible to acquired a CPI-linked guaranteed return track for a period of 10 years after the date of joining the investment track, according to the interest rate which was determined when the policyholder joined the track. Against these policies, the insurer is required to hold additional capital at a rate of 2%, in accordance with the rate of the risk inherent in assets held against liabilities in the policies (for details regarding the balance of liabilities with respect to these policies, see Note 20 to the financial statements). Currently, Clal Insurance no longer markets policies which include guaranteed return tracks to new members.

Since 2004, Clal Insurance has marketed several types of profile policies. These policies are differentiated from one another, inter alia, in the structure and rate of management fees, and in the annuity factors.

- In 2013, Clal Insurance adjusted the managers' insurance policy and the self-employed insurance policy of the "profile" type, which were marketed by it, to changes in the management fees, in accordance with the Management Fees Regulations, as specified in section 6.1.2.3(1) below. Additionally, in light of the annuity factor reform, beginning in January 2013, the option to sell new life insurance plans which include annuity factors which include a life expectancy guarantee was restricted to policyholders who have not yet reached age 60, as specified in section 6.2.1.5(a) below. [20]In the circular regarding the mobility of guaranteed annuity factors, provisions were determined which allow the marketing, mobility and retention of investment-linked life insurance policies which combine savings, with guaranteed annuity factors, as specified in section 6.2.1.5(a) below.

For details regarding new products, see section 6.1.3 below.

Within the framework of the aforementioned profile policies, the default track for the payment of the annuity is a monthly lifetime annuity for the policyholder, and in case of the policyholder's death, before a minimum number of guaranteed monthly annuities have been paid to the policyholder (240 payments), the balance of the annuities will be paid to the beneficiaries. Additionally, alternative tracks to receipt an annuity were determined for the policyholder's choice. The annuity tracks and the annuity factors in those policies were determined on the retirement date, except with respect to policyholders who purchased the policy after age 60, and who chose an insurance plan with annuity factors which include a life expectancy guarantee.

- Over the years, profile policies of the managers, self-employed and individual types were marketed, some with insurance coverages and others without insurance coverages, some with annuity factors which include a life expectancy guarantee, and others without annuity factors which include a life expectancy guarantee. In general, beginning in 2009, the option in individual profile policies to convert the accrued savings into an annuity was canceled, and the savings amount is paid as a one-time amount only.

[20] With respect to 2013, the Commissioner published a marketing permit, in which he permitted the marketing of life insurance contracts which include annuity factors which include a life expectancy guarantee, also from certain policyholders, for one year, in accordance with the conditions which were determined by him.

Traditional policies and preferred policies which included a savings component and which were sold until the end of 1990, are guaranteed return policies, where some of the company's liabilities to holders of such policies are backed by designated bonds. Policies which include a savings component, which were sold from 1991, are generally investment-linked policies.

For details regarding the management fees which are collected in the main life insurance policies, see Note 31 to the financial statements.

- **Products including "risk" insurance coverage**

  The risk products (insurance in case of death and/or disability and/or loss of working capacity and/or critical illness) are sold, or were sold in the past, as independent policies and/or as riders / additions to "traditional", "preferred", or "profile", policies of various types.

  The main risk coverages include:

  - **Pure risk insurance - individual** - Life insurance in case of death, without a savings component. The plan guarantees to beneficiaries a predetermined insurance amount if the policyholder passes away during the insurance period. The insurance benefits are paid to beneficiaries as one-time compensation, or as a monthly amount for the period determined in the policy. In case of a risk plan which is intended to cover the balance of debt on a mortgage loan, the insurance amount is updated and the insurance benefits are paid to the irrevocable beneficiary, while the remainder, if any, is paid to the beneficiaries. Some types of risk insurance allow the policyholder to acquire life insurance in case of death, with no need for an advance medical underwriting process, where in such case, the insurance coverage in the first three years of the insurance period is with respect to death due to accident only, and in the subsequent period, with respect to death for any reason.

  - **Loss of working capacity insurance -** An insurance plan which combines monthly compensation, at a rate of which generally does not exceed 75% of the policyholder's salary, subject to certain underwriting restrictions in case of a salary increase. The insurance benefits are paid in monthly payments, commencing from the end of the waiting period, and for as long as the policyholder is incapable of working, but no later than the end of the insurance period. In addition to the monthly payments paid to the policyholder, the policyholder is released from premium payments and they are paid by the insurance company for as long as the policyholder is incapable of working, but no later than the end of the insurance period ("**Release**"). For details regarding the circular regarding "guidelines regarding loss of working capacity insurance plan", which determines a standard and modular structure for a loss of working capacity insurance plan, see section 6.2.1.4(f)(2) below.

  - **Extension for the self-employed in loss of working capacity insurance -** A plan which extends the monthly payment for the self-employed, beyond the monthly compensation to which he is entitled within the framework of the standard loss of working capacity insurance plans, by way of compensation for expenses which he incurred during the period of his loss of working capacity for a period of no longer than 6 or 12 months, as selected by the policyholder when purchasing the plan.

- **Critical illness insurance -** For details regarding the sale of critical illness insurance, see section 8.1.2 below.

- **Accidental death insurance -** An insurance plan which guarantees the payment of a one-time amount in case of death due to an accident.

- **Accidental disability insurance -** An insurance plan which guarantees payment of a one-time amount in case of disability due to an accident.

- **Supplementary disability pension insurance -** Loss of working capacity insurance for a pension fund member which is intended to expand the insurance coverage which is given according to the pension fund regulations, in cases where there is no eligibility for payment of a disability annuity according to the pension fund regulations, such as in case of loss of working capacity, or with respect to the qualification period specified in the pension fund regulations.

6.1.2.2. **Pension funds and provident funds branches**

Pension funds and provident funds are managed by managing companies, in accordance with the provisions of the regulations. The regulations are dynamic and may change from time to time, with the Commissioner's approval. Notice regarding significant changes is sent to the members. In general, members' rights are determined according to the fund regulations which are in effect as of the date of eligibility.

During the reporting year, no mergers of provident funds and investment tracks in provident funds were performed, except for the merger of the foreign currency track into the bonds track in the Tamar provident fund in January 2016, and changes to the track names as part of the implementation of the investment tracks circular in provident funds (for details regarding reforms in investment tracks, see section 6.2.1.6 below). As of the reporting date, the provident funds and investment tracks which are managed by Clal Pension and Provident Funds include the following:

Fund name	Investment track		Income tax authorization number	Fund type
Clal Tamar	Age-dependent investment model[21]	Track for persons aged 50 or less	9651	Personal provident fund for compensation and severance pay and provident fund for savings
		Track for persons aged 50 to 60	9652	
		Track for persons aged 60 or older	9653	
	General		253	
	CPI-linked bonds		124	

21 New investment tracks which were opened on January 1, 2016, in accordance with the circular "investment tracks in provident funds".

Fund name	**Investment track**	**Income tax authorization number**	**Fund type**
	NIS	592	
	Stocks	127	
	Short term NIS	128	
	Bonds[22]	117	
	Halacha	1533	
Bar Gemulim fund	Bar A - guaranteed return	539	Guaranteed return provident fund
	Bar C	263	Personal provident fund for compensation and severance pay
Clal Study Fund	General	456	Study fund
	Short term NIS	1351	
	CPI-linked bonds	1348	
	Stocks	1350	
	Bonds	2115	
	Halacha	1534	
General fund for severance pay		239	Central severance pay fund
Hadas		684	Central severance pay fund
Clal - employer compensation		241	Central severance pay fund
Clal Barzel - central fund for severance pay		152	Central severance pay fund
Clal Provident central fund for severance pay		443	Central severance pay fund
Almog severance pay		219	Central severance pay fund
Clal Provident central track-based fund		614	Central severance pay fund
Central provident fund for sick pay		892	Central fund for sick pay
Clal budgetary		1284	Central fund for participation in budgetary pension

[22] On January 1, 2016, the name of the "Clal Tamar Bonds Dagesh Eitan" track was changed to "Clal Tamar Bonds".

Presented below are details regarding managed assets, contributions, net accrual, ratio of management fees from assets and ratio of management fees from deposits of the pension funds and provident fund which were marketed by the group’s member companies in 2016:

***Net accrual - deposits plus incoming transfers less redemptions and outgoing transfers.**

	Pension Fund Atudot Havatika	New pension funds		Provident funds for compensation and severance pay	Study funds	Other[23]	Total
		Clal Pension	Clal Pension supplementary				
Managed assets as of December 31, 2016 (NIS in thousands)	9,330,327	43,423,171	1,194,678	23,642,290	7,226,954	3,263,660	88,081,080
Contributions in 2016 (NIS in thousands)	241,656	5,162,497	232,721	513,214	1,099,972	3,670	7,253,730
Net accrual in 2016 (NIS in thousands)	316,912	5,250,109	220,978	(1,099,799)	298,978	(405,723)	4,581,455
Average rate of management fees from assets in 2016	0.29%	0.26%	0.44%	0.57%	0.75%	0.58%	
Average rate of management fees from deposits in 2016	3.57%	2.79%	-	0.3%	-	-	

23 Includes central provident fund for severance pay, central provident fund for participation in budgetary pension and provident fund for sick pay.

Presented below are details regarding managed assets, contributions, net accrual, ratio of management fees from assets and ratio of management fees from deposits of the pension funds and provident fund which were marketed by the group's member companies in 2015:

	Pension Fund Atudot Havatika	New pension funds		Provident funds for compensation and severance pay	Study funds	Other[24]	Total
		Clal Pension	Clal Pension supplementary				
Managed assets as of December 31, 2015 (NIS in thousands)	9,013,415	38,173,062	973,700	24,342,699	6,863,053	3,638,658	83,004,587
Contributions in 2015 (NIS in thousands)	248,442	4,684,120	188,376	389,080	1,090,700	3,709	6,604,427
Net accrual in 2015 (NIS in thousands)	910,153	4,807,980	182,009	(1,509,017)	355,758	(726,265)	4,020,618
Average rate of management fees from assets in 2015	0.31%	0.26%	0.54%	0.64%	0.83%	0.65%	-
Average rate of management fees from deposits in 2015	3.58%	3.22%	-	0.31%	-	-	-

***Net accrual - deposits plus incoming transfers less redemptions and outgoing transfers.**

24 See footnote 23 above.

Presented below are details regarding managed assets, contributions, net accrual, ratio of management fees from assets and ratio of management fees from deposits of the pension funds and provident fund which were marketed by the group's member companies in 2014:

	Pension Fund Atudot Havatika	New pension funds		Provident funds for compensation and severance pay	Study funds	Other[25]	Total
		Clal Pension	Clal Pension supplementary				
Managed assets as of December 31, 2014 (NIS in thousands)	8,103,262	33,365,082	791,691	25,358,420	6,411,554	4,300,841	78,330,850
Contributions in 2014 (NIS in thousands)	246,982	4,263,907	149,718	356,744	989,906	4,231	6,011,488
Net accrual in 2014 (NIS in thousands)	(3,546)	3,620,832	146,376	(1,209,792)	272,334	(454,876)	2,371,328
Average rate of management fees from assets in 2014	0.32%	0.27%	0.59%	0.68%	0.87%	0.65%	-
Average rate of management fees from deposits in 2014	3.59%	3.44%	0.00%	0.34%	-	-	-

***Net accrual - deposits plus incoming transfers less redemptions and outgoing transfers.**

6.1.2.3. **Management fees and expenses**

1) Presented below are tables describing the rate of maximum management fees in the different products[26], in accordance with the legislative arrangement, including the Control of Finance Services Regulations (Provident Funds) (Management Fees), 2012 (hereinafter: the "**Management Fees Regulations**"):

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25 See footnote 23 above.

26 The foregoing does not include management fees and expenses of various kinds which are collected in some of the life insurance policies, for example, including with respect to the management of investment portfolios, the policy factor or collection factor, etc.

Life insurance

Pension product	Maximum annual management fees
Investment-linked life insurance plans which were marketed until the end of 2003, of the "traditional" and "preferred" types[27]	Fixed management fees up to 0.6% of the accrual + variable management fees up to 15% of the real returns which were achieved, less fixed management fees. In case of loss, the insurance company is not entitled to the variable management fees, until the cumulative loss specified in the policies has been recouped.[28]
Investment-linked life insurance plans which were marketed from January 1, 2004 until the end of 2012, in funds recognized as insurance funds	2% of the accrual + 0% of the deposits, or a lower rate of the accrual and a higher rate of the deposits (according to an approved mix - where the management fees from deposits are between 0% and 13%)
Investment-linked life insurance plans which are marketed beginning in August 2007, and which are not recognized as insurance funds	
Investment-linked life insurance plans marketed since January 2013	Up to 1.05% of the accrual (plans which were marketed in 2013 - up to 1.1% of the accrual) + up to 4% of the deposits
Annuity recipients	Up to 0.6% of the accrual

The company's income in guaranteed-return policies is due to the financial margin, insofar as is created between the guaranteed returns in designated bonds and the profits from the investments on the free assets and the liabilities towards policyholders

Pension funds

Pension product	Annual management fees beginning in 2014
Balanced old fund	According to specific permits which were given by the Commissioner
Comprehensive new pension fund	Up to 0.5% of the accrual + up to 6% of the deposits
General new pension fund (Supplementary)	Up to 1.05% of the accrual + up to 4% of the deposits
Annuity recipients in comprehensive pension fund	0.5% of total assets held against the fund's liabilities to all annuity recipients[29]

27 "profile" policies which were sold until 2003 included a different pricing mechanism.

28 See Note 3(n)3(a) to the financial statements.

29 Excluding assets held against liabilities of the fund, to those who were entitled to an annuity or disability annuity before January 1, 2004.

Annuity recipients in general pension fund	0.6% of total assets held against the fund's liabilities for all annuity recipients[30]

Provident funds[31]

Pension product	Annual management fees beginning in 2014
Provident fund	Up to 1.05% of the accrual + up to 4% of the deposits
Study funds	Up to 2% of the accrual (without management fees from deposits)

Additional supplementary arrangements were also established, including as specified below:

- With respect to policyholders and members with whom contact has been lost - the institutional entities are entitled to collect management fees at a rate of up to 0.3% of the accrual, or the rate which is collected in the policy or in the member's account, as applicable, on the date when contact was lost, whichever is lower.[32]

- The minimum annual management fees in provident fund accounts, which are not insurance funds, to which deposits were made before the 2008 tax year, amount to the higher of either: (A) The rate of the accrued balance in the member's account, as specified in the above tables, or (B) An amount which will not exceed NIS 6 per month (CPI-linked), in all of the member's accounts.

Effectively, in some cases, the institutional entities in the group collect lower management fees than the maximum limits specified above, in accordance with specific agreements. In recent years, directives were published which regulated the provision of discounts, including directives regarding the minimum period for the provision of discounts, and directives a total of which discounts to annuity recipients will apply throughout the entire annuity payment period (including with respect to their survivors).

For details regarding the management fees which were collected by the group's member companies in the various products in the years 2014-2016, see section 6.1.2.2 above, and Note 31 to the financial statements.

For details regarding class actions which are being conducted against Clal Pension and Provident Funds and additional managing companies of pension funds, in connection with changes to management fees, and in connection with the management fees which are collected from recipients

30 With respect to assets held against liabilities in the fund for all annuity recipients who began receiving annuities before January 1, 2013 - at a rate which will not exceed 2% per year.

31 Excluding guaranteed return provident funds, in which the management fees are determined in accordance with the provisions of the regulations.

32 With respect to a member who has been found - the institutional entity is entitled to collect, retroactively, additional management fees, in a manner whereby the management fees which will be collected with respect to the period beginning from one year after the date when contact was lost, until the date when the member was found, will be at a rate of up to 0.5% of the accrued balance in the member's account (instead of 0.3%).

of old age, disability and survivor annuities in pension funds, see Notes 43(a2)(5), 43(a)(8) and 43(a2)(20) to the financial statements.

2) Expenses in connection with investment management

The Amendment to the Control of Finance Services Regulations (Provident Funds) (Direct Expenses Due To Performance Of Transactions), 2008 determine the types of expenses which can be charged to members, and apply a cumulative quantitative annual restriction of 0.25% of the assets on the amount of expenses which can be charged to the members, with respect to some of the expense items which are included in the Expense Regulations.

For details regarding class actions which are being conducted against Clal Insurance, Clal Pension and Provident Funds and additional institutional entities, in connection with the collection of investment management expenses from the pension products, see Note 43(a2)(24) to the financial statements.

6.1.3. New products

- **General:**

During the reporting year, the group's member companies did not market any significant new products in this segment, save as specified below:

As part of the circular regarding investment tracks in provident funds from February 2015, and in its amendment from September 2015 and August 2016, provisions were determined regarding default age-adjusted investment tracks (for details, see section 6.2.1.6 below). Following the circular and the amendment thereto, institutional entities in the group changed their products in a manner which complied with the provisions of the circular.

As part of the adjustments to the circular regarding investment tracks in provident funds, the institutional entities in the group created age-dependent investment tracks in each of the life insurance, pension and provident products (these tracks are the default tracks when new policyholders and members join): Clal Insurance created an annuity recipient track (a track of this kind already existed for the pension fund which is pension fund managed by Clal Pension and Provident Funds); converted some of the investment tracks which were managed by it into specialized tracks (which a new customer or existing customer can choose to join, instead of the default track); closed two general investment tracks in insurance to new policyholders; and converted all of the investment tracks in study funds, except for the general track, into specialized tracks. In parallel, the names of the investment tracks and investment policy in investment tracks in managers, self-employed and individual insurance were updated.

- **Changes in insurance policies during the reporting year:**

As part of the adjustments to the aforementioned circular regarding investment tracks, during the reporting year, changes were made to profit sharing policies of the traditional and preferred types. The changes entered into effect in January 2017. Additionally, during the reporting year, investment tracks of individual savings policies were merged into investment tracks of profile policies.

Following the circular regarding provisions for the phrasing of insurance plans, and following the Commissioner's position - principles regarding the phrasing of insurance plans, the company worked, including during the reporting year, to correct and adjust its products according to the circular, and the provisions of the aforementioned position paper. The company's activities towards adjusting the aforementioned products concluded in 2016; however, they are expected to continue in light of the amendment to the circular regarding provisions for the phrasing of insurance plans from March 2017. For details, see section 10.2.8 below.

- **Changes in the regulations of pension funds during the reporting year:**

(A) Comprehensive pension fund - "Clal Pension"

Clal Pension and Provident Funds works, from time to time, subject to the Commissioner's approval, to amend the regulations of the comprehensive pension fund, due, inter alia, to the regulatory changes and the need to perform operational adjustments.

During the reporting year, amendments were made to the comprehensive pension fund by-laws, in order to implement adjustments due to changes in the provisions of the law.

In January 2016, an amendment to the regulations entered into effect, in which the provisions of the regulations were adjusted according to the provisions of the circular regarding investment tracks in provident funds, including the addition of age-adjusted default investment tracks, and the addition of two specialized investment tracks - a bond track and a stock track.

(B) General pension fund - "Clal Pension Supplementary" and an old pension fund - Atudot Pension Fund for Workers & Self-Employed Workers ("Atudot Havatika")

The following amendments were implemented to the Clal supplementary pension regulations during the reporting year:

In July 2016, an amendment to the regulations was approved, which involved converting the fund from a supplementary pension fund into a supplementary - comprehensive pension fund, including tracks which include insurance coverages for cases of disability and death, in order to provide a solution for the needs of savers, together with deposits to the comprehensive fund and to the supplementary fund, while acquiring insurance coverages also for the salary layer, beyond the maximum monthly deposit limit, as part of the supplementary fund, similarly to the regulations of competing managing companies.

After the reporting year, in February 2017, an amendment to the supplementary fund regulations was approved, in which women were given the option, within the framework of each of the insurance tracks in the fund, to choose the age of eligibility for the old age pension - 64 or 67.

During the reporting year, no amendments were made to the regulations of Atudot Havatika.

- **Changes to provident fund regulations during the reporting year:**

Further to amendment 12 to the Provident Fund Law, and to the circular including provisions regarding the rights and obligations of members of provident funds, and the phrasing thereof (for details, see section 6.2.1.4(f)(1) below), in January 2016, the new version of the regulations of the provident fund "Clal Tamar" entered into effect, in accordance with the Commissioner's directives on the subject of "standardized regulations of non annuity paying provident funds", which formalized the standard provisions regarding regulations of provident funds for compensation. These regulations also include the required adjustments to the provisions of the circular regarding investment tracks in provident funds, including the addition of default age-adjusted investment tracks, and changed to the names of the tracks and to their investment policy. For details regarding the implications of the standard regulations and the circular regarding investment tracks, see section 6.2.1.4(g) and 6.2.1.6 below.

In January 2016, an amendment to the regulations of the study fund ("Clal Study Fund") entered into effect, in which adjustments were implemented to the provisions of the regulations, in accordance with the relevant provisions of the circular regarding investment tracks in provident funds.

In November 2016, the Commissioner approved the regulations of the provident fund for investment ("Clal Provident for the Future", which is managed by Clal Pension and Provident Funds, and in accordance with the standard wording which was published by the Commissioner. In December 2017, the Commissioner approved an updated version of the regulations of the provident fund for investment "Clal Provident for the Future", according to the wording which was published by the Commissioner, which includes the possibility of receiving, in the fund, deposits originating from apartment sales, as specified in section 6.2.1.2 below. "Clal Provident for the Future" began operating after the reporting year, in January 2017.

6.1.4. <u>Main markets, trends, and changes in supply and demand</u>

Social security in Israel is comprised of a compulsory layer, which is managed by the state, and beginning in 2008, an additional compulsory later which is managed by institutional entities, within the framework of the Compulsory Pension Ordinance, which pertains to all salaried employees in the market, and requires employers to deposit, on behalf of their employees, funds with respect to the compensation and severance pay component, according to the rates specified in the Compulsory Pension Ordinance, within the framework of the comprehensive pension arrangement which was determined as the default arrangement, or within the framework of an annuity paying insurance fund, which includes coverage in case of death and disability. There are also deposits in the optional layer, which are due to employees' and employers' provisions which constitute a beneficial arrangement as compared with the compulsory pension arrangement, and deposits of self-employed members. The aforementioned optional layer includes deposits at a rate or in an amount which exceed those required under the Compulsory Pension Ordinance, as well as deposits to savings channels, some of which do not receive tax benefits, or receive reduced tax benefits.

During the reporting year, no material changes occurred in the mix of customers in the operating branches. For details regarding trends in supply and demand during the reporting year, see section 6.1.4 below.

For details regarding the determination of compulsory pension for the self-employed in the market, in which an obligation was imposed on the self-employed to effect payments to an annuity paying provident fund, according to their income amount, see section 6.2.1.3 below.

6.1.4.1. **Life insurance branch**

Trends in supply and demand: During the reporting year, pension was the main pension product which was marketed by the institutional entities to the general public, further to the ongoing trend in recent years, of regulatory encouragement of deposits to pension products, such as the partial backing of designated bonds to secure returns up to a rate of 30%[33], the determination of pension as a default product within the framework of the Compulsory Pension Ordinance and additional regulatory reforms, including the factor reform, which reduced the differences between pension products and insurance products with respect to the annuity factors, despite the advantages which remain for insurance products in this respect, and in additional respects as well. For additional details, see sections 6.2.1.3 and 6.2.1.5 below.

Following the annuity factor reform, in 2013, the option to acquire insurance policies with annuity factors which include a life expectancy guarantee was canceled, except for customers aged 60 or higher.

As a result, during the current reporting year as well, the scope of new sales of life insurance policies was low relative to scope of acquisitions of pension products, as compared with the period before the factor reform. However, during the reporting year, and primarily towards the end of the reporting year, an increase in the scope of additions to life insurance products combined with savings was apparent. Additionally, during the reporting year, an increase occurred in the demand for risk products, primarily with respect to risk products which are sold through pension savings.

Subsequently, in December 2015, a circular was published regarding the marketing of life insurance policies with annuity factors which include a life expectancy guarantee, in which provisions were determined which allow the marketing, transfer and maintenance of investment-linked life insurance policies combined with savings with guaranteed annuity factors which were acquired from 1991 to December 31, 2013 (for additional details, see section 6.2.1.5(a) below).

- **Scope of activities**: In accordance with the Commissioner's publications, assets in the life insurance branch in the Israeli insurance market as of December 31, 2016, amounted to approximately NIS 332.7 billion, of which NIS 263.1 billion were assets in the new life insurance portfolio (investment-linked policies), as compared with NIS 309.3 billion as of December 31, 2015, of which NIS 241.5 billion were assets in the new life insurance portfolio, i.e., an increase of approximately 7.6% in total assets, and an increase of approximately 8.9% in the assets of the investment-linked policies.

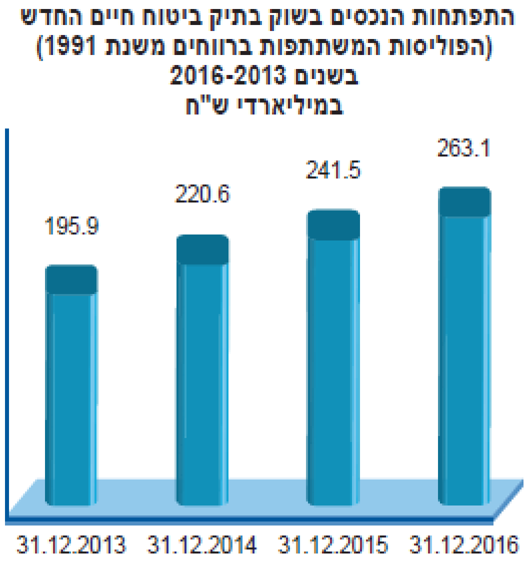
  As of December 31, 2016, assets in the new life insurance portfolio which are managed by Clal Insurance amounted to approximately NIS 73.8 billion, of which approximately NIS 54.1 billion of assets in the new life insurance portfolio (investment-linked policies), as compared with approximately NIS 70.1 billion as of December 31, 2015, of which approximately NIS 50.9 billion of assets in the new life insurance portfolio. In other words, an increase of

[33] For details regarding the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Fund), 2016, in connection with the scope of allocations of designated bonds to pension fund members of various ages, see section 6.1.1.1 above.

approximately 5.3% in total assets, and an increase of approximately 6.3% in assets of the new life insurance portfolio.

The increase in assets in the new life insurance portfolio is a result, inter alia, of the returns on managed assets and of the deposits of policyholders to policies which were marketed primarily before the reporting year.

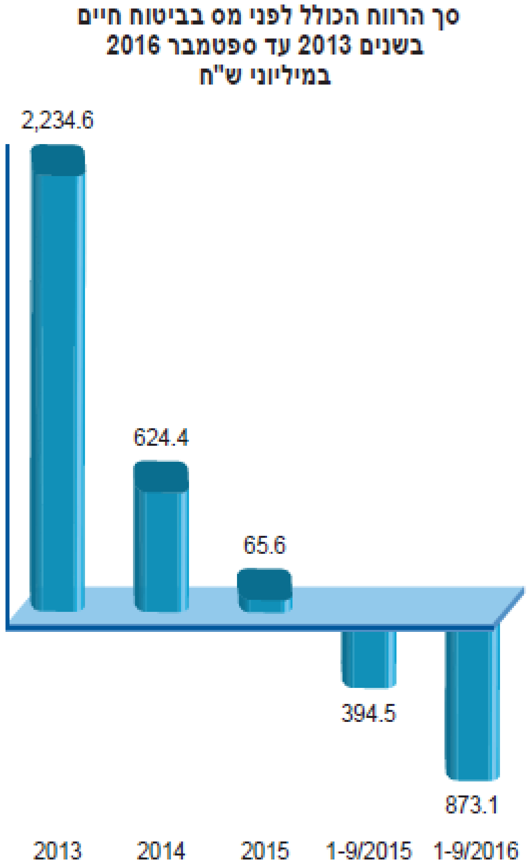
Development of assets in the market in the new life insurance portfolio (profit sharing policies since 1991)
In the years 2013-2016
NIS in Billions



- **Profitability**: In accordance with the Commissioner's publications, total comprehensive loss before tax from insurance business operations in the life insurance market in the first nine months of the reporting year amounted to approximately NIS 873.1 million, as compared with loss of approximately NIS 394.5 million in the corresponding period last year.

  The profitability in life insurance is based, inter alia, on the aggregate result of the following components, component the policy: The financial margin in the guaranteed return life insurance portfolio, the management fees collected from accrual and/or from the investment profits and/or from the deposits in investment-linked policies, the difference between premiums collected to cover insurance risks and expenses, and their actual cost, redemption fines, policy lifetime, investment income, changes in the risk-free interest rate curve, commissions and other expenses, including as a result of regulation.

Total comprehensive income before tax in life insurance
2013 to September 2016
NIS in millions



* The data for 2013 were restated based on the data presentation method applied in the financial statements of the relevant companies, according to the periodic reports for 2014.

The cumulative results of the insurance companies in the Israeli insurance market in the life insurance branch in the first nine months of 2016 were primarily influenced by the decrease in investment income, due to decreased returns in most capital market investment channels, and due to the effect of the low interest rate environment on liabilities to policyholders, in some of the life insurance policies. Following the capital market returns and the impact of the consumer price index, during the reporting year, variable management fees were collected in investment-linked policies of the preferred type and in traditional policies, however, in a lower amount relative to the variable management fees which were collected in these policies in the previous year. Total management fees (variable and fixed) which were collected in the market in the first nine months of 2016 amounted to approximately NIS 1,784 million, as compared with a total of approximately NIS 1,513 million in the corresponding period last year.

Significant changes in the interest rate environment which occurred in the fourth quarter of the reporting year significantly affected the cumulative results of the insurance companies in the Israeli insurance market in the life insurance branch during this period, relative to the first nine months of 2016. For additional details regarding the profitability of the life insurance branch in the fourth quarter of 2016, see Part B - board of directors' report, section 3.1.

The life insurance market during the first nine months of the reporting year was characterized by a certain increase in the redemption rate.For details regarding the redemption rate of life insurance policies in the group during the reporting year, see section 3.1.1.1 of the board of directors’ report.

The structure of policies marketed beginning in 2004 resulted in a situation whereby the margin in those products was lower than the products which were marketed in previous years. For details regarding the management fees in new policy which were sold since 2013, and the cancellation of the annuity factors, see section 6.2.1.5(a) below.

The liabilities in respect of lifetime payout annuities in respect of valid policies in respect of which no annuities have yet been withdrawn are calculated, inter alia, according to the anticipated life expectancy and the probability of withdrawing an annuity in valid policies. In recent years, the company has identified a rise in the realization rate of annuity receipts over withdrawal of savings monies in a capital sum, in addition to and in parallel with the existing rise in life expectancy in recent years. However, during the reporting year, the rate of increase of the annuity realization rate has been moderated to a certain degree. For details regarding the management fees in the different products, see section 6.1.2.3(1) above.

For the company’s financial information in the life insurance branch, see also Note 20 to the financial statements.

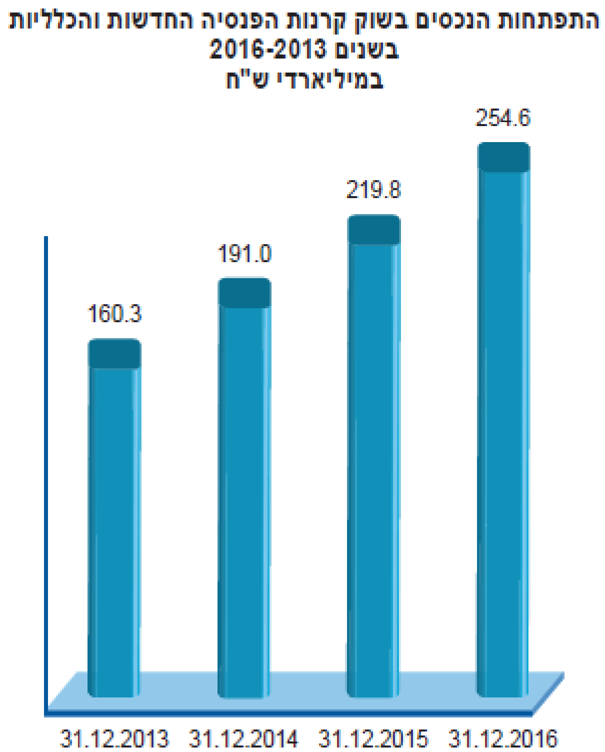
- **Customers**: During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.1 below.

6.1.4.2. **Pension funds branch**

- **Trends in supply and demand**: As stated above, over the years, the state has encouraged pension savings in the annuity paying channel. In recent years, this has been reflected in the products reform, which canceled the possibility of depositing to the capital track. The fact that some of the investments in pension funds are backed by designated bonds, and the Compulsory Pension Ordinance, in which it was determined that the default option, so long as the policyholder has not chosen otherwise, is to join the pension fund, as well as the annuity factor reform, in which the option of policyholders to sell new life insurance plans with annuity factors which include a life expectancy guarantee was restricted, created a preference, in recent years, for the annuity paying product which is purchased within the framework of the pension fund, despite certain advantages offered by insurance products over the pension products. During the reporting year, the trend of preference for pension products over insurance and provident products continued, and pension products continued being the leading pension product marketed in the market. However, as stated above, during the reporting year, and primarily towards the end of the reporting year, a significant increase was apparent in the scope of additions to life insurance products combined with savings.

- **Scope of activities**: In accordance with publications issued by the Commissioner, the scope of accrued assets in the new and general pension funds in the pension market as of December 31, 2016 amounted to approximately NIS 254.6 billion, as compared with approximately NIS 219.8 billion om the corresponding period; i.e., an increase of approximately 15.9%. The increase in the scope of accrued assets was primarily due to the returns on managed assets, the increase in the number of members and the increase in deposits as a result of the agreement regarding the increase in deposits (for details, see section 6.2.1.3 below), and the increased sales of pension products. The share of the comprehensive and general pension funds in the group out of the total market for comprehensive and general pension funds, as of December 31, 2016, amounted to approximately 17.5%, similarly to 17.8% in the corresponding period. The net accrual in the market for comprehensive and general pension funds with respect to deposits during the reporting year amounted to approximately NIS 26.8 billion, as compared with NIS 24.2 billion in the corresponding period.

Development of assets in the new and general pension funds market
In the years 2013-2016
NIS in billions



- **Profitability**: Profitability in pension funds is based, inter alia, on the difference between the management fees charged by managing companies, and the actual rate of expenses. The management fees and expenses are affected by the number of members, the scope of accrued assets, and the amounts of deposits and management fees are also affected by the capital market returns.

The intense competition in the pension market, which increased by due to regulation, is reflected in discounts on management fees to members. For details regarding provisions in connection with the increased competition in the pension savings market, and the implications thereof, see section 6.2.1.4 below. For details regarding the scope of assets, accrual and average management fees, see section 6.1.2.2 above.

For the company's financial information in the pension fund branch, see Note 20 to the financial statements.

The regulatory amendments which were approved during 2015, including the amendments to the Provident Funds Law, with respect to the consolidation of inactive accounts, in the Pension Advice Law on the subject of rules for the provision of operating services to the employer and operating services to its employees (see sections 6.2.1.4(d) and (e)(3) below), and the default fund circular (see section 6.2.1.4(a) below), resulted in a significant reduction in the profitability of the pension branch, may result in an additional subtraction in 2017.

- **Customers**: During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.3 below.

- In the old pension funds branch, no change occurred in supply and demand, in light of the fact that these funds are closed to the joining of new members.

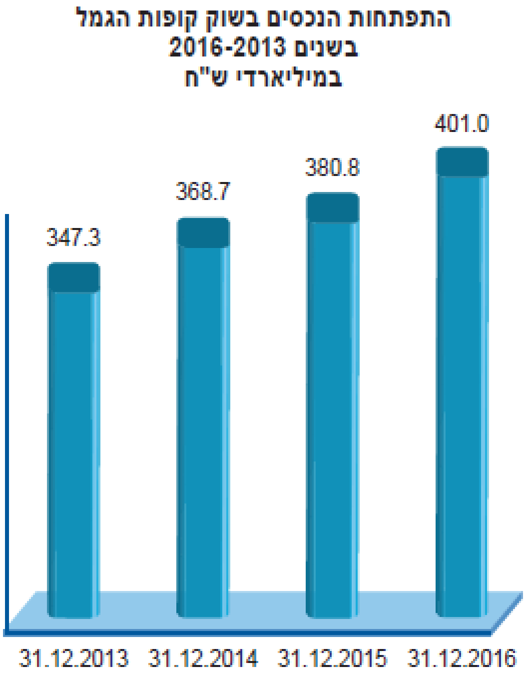
6.1.4.3. **Provident funds branch**

- **Trends in supply and demand**: The demand for provident products, which are primarily savings products only, focused primarily on the transfer of existing accruals between the various institutional entities, through competition over management fees and returns. However, the creation of the provident funds for investment at the end of 2016 and in the beginning on 2017 resulted in the entry of new funds into the branch. For additional details, see section 6.2.1.2 below.

- **Scope of activities**: In accordance with publications issued by the Commissioner, the total assets in provident funds in the provident fund market amounted as of December 31, 2016 to approximately NIS 401 billion, as compared with approximately NIS 380.8 billion as of December 31, 2015, an increase of approximately 5.3%. This increase was due to the capital market increases during the reporting year, plus net positive accrual of approximately NIS 10.7 billion, which resulted in an increase of approximately NIS 20.2 billion in the funds of provident funds in the market.

As of December 31, 2016, the scope of provident fund assets managed in the group constitute approximately 8.5% of total assets in the provident fund market, as compared with approximately 9.2% as of December 31, 2015.

Development of assets in the provident fund market
In the years 2013-2016
NIS in billions



- During the reporting year, the trend involving the transition of members and accrual between the provident funds continued. According to the group's estimate, this trend us due to the competition between the funds over returns, the competition over management fees, and the increased transparency in the branch.

  For the company's financial information in the provident fund branch, see section 6.1.2.2 above.

- **Profitability**: Profitability in the provident funds is based, inter alia, on the difference between the management fees charged by the managing companies, and the actual rate of expenses. The management fees are affected by the competition on the market, the scope of accrued assets and returns in the managed assets, as well as regulatory changes.

- **Customers**: During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.4 below.

6.1.5. Material expected changes in the company's share in the main markets, with respect to the main products and services and the mix thereof, in consideration of, inter alia, the demand and seniority of current products

According to the group's estimate, life insurance policies, pension funds and provident funds may serve as alternative products to one another, in light of the fact that they are long term savings products, which confer entitlement to tax benefits, and in which insurance coverages can be combined. Following the regulatory changes which have taken place in recent years, the uniformity between the various products has increased, as reflected, inter alia, in the structure of management fees, in the ability to sell insurance coverages to members[34] and in the absence of guaranteed annuity factors. According to the group's estimate, the pension product will continue being the leading product in the market, inter alia, in light of the Compulsory Pension Ordinance, the compulsory pension for the self-employed Law, the factor reform and the existence of designated bonds. **On the other hand**, the impact of various regulatory changes whose regulation has not yet been completed, or is in the initial stages, preferences of customers and distributing entities, may result in the strengthening of all or some of the alternative products.

During the reporting year, the group was the second largest group in the pension market, and had a relative advantage, in light of the fact that it markets the entire variety of products in the segment.

The company is not aware of any expected material changes in its overall share of the markets beyond that stated above and below; however, in light of the regulatory changes which have not yet been applied, as stated above, or which are in the beginning stages, and in light of the intense competition in the segment, which is reflected, inter alia, in the competition over management fees and returns, which affect the scopes of retention and new sales of the various pension products, there is uncertainty which may also affect the company's share in the market, particularly with respect to the pension funds.

6.1.5.1. Life insurance branch -

In accordance with the Commissioner's publications, during the reporting year, the group was the second largest group in the life insurance branch, in accordance with the scope of managed assets, as defined by the Commissioner. From 2013 up to and including the reporting year, it was not possible to transfer insurance policies with annuity factors which include a life expectancy guarantee and investment-linked policies which were sold before June 2001, as well as insurance policies with annuity factors which include a life expectancy guarantee which were sold from June 2001 to 2013, and whose policyholders are under age 60, while maintaning the factors which were represented therein. Following the publication of the circular regarding the mobility of guaranteed annuity factors, beginning from the end of 2015, it is possible to transfer these policies while maintaining the factors represented therein, and therefore, according to the company's estimate, the provisions of the circular may result in increased competition with respect to these policies, and a trend of increased mobility in the policies, along with a decrease in income from management fees; however, during the reporting year, these provisions had no impact on the group's institutional entities. In light of the aforementioned changes in the provisions with respect to the mobility of life insurance policies, and with respect to other life insurance policies, it is not possible to predict the scope of retention of life insurance policies, which is dependent, inter alia, on changes in life expectancy, the management fee rate which will be collected, returns, service, capital requirements of insurers, the conduct of competing institutional entities, preferences of policyholders and members, the conduct of distributing entities, and the regulatory directives which will be in effect on the relevant date.

[34] For additional details, see footnote 8 above.

Additionally, the fact that the annuity-paying insurance policies which were sold in the past and which include annuity factors which include a life expectancy guarantee have a relative advantage over the pension funds with respect to the period after retirement age, due to the fact that they are not subject to regulatory provisions and do not include a mechanism for actuarial balance, and to changes in the allocation of designated bonds, if any, may affect the share of the insurance branch in the pension savings market. Additionally, the creation of an additional savings product, “provident funds for investment”, as specified in section 6.2.1.2 below, may affect the market share of Clal Insurance in the individual savings products.

The amendment to the Transfer of Funds Regulations, in a manner which results in the cancellation of the current restriction on the transfer of funds by those who began receiving an old age annuity, insofar as it will be approved (for details, see section 6.2.1.4(b) below), may also result in competition over life insurance policies during the period after the receipt of the annuity. At this stage, it is not possible to predict the scope of the effect that the aforementioned amendment wil have, if and insofar as it will be approved.

6.1.5.2. **Pension funds branch -**

During the reporting year, the group was the third largest group in the pension funds branch, in accordance with the scope of managed assets, as defined by the Commissioner. According to the company’s estimate, in the coming years, the pension products will continue being leading products in the pension savings market. According to the company’s estimate, the share of Clal Pension and Provident Funds in the pension branch will be affected, inter alia, by the rate of management fees which will be collected, by returns, by service, and by the competition between institutional entities, the conduct of distributing entities, the preferences of policyholders and members, and the relevant regulatory directives.

The company’s share in the pension branch is expected to be significantly affected by the creation of a default fund, by the transfer of funds from inactive funds to active accounts, in accordance with the provisions amendment 13 to the provident fund law, and by changes in the allocation of designated bonds[35], insofar as they will be performed. For details, see sections 6.2.1.4(a) and (d) and 6.2.1.1 below.

6.1.5.3. **Provident branch -**

During the reporting year, the group was the fourth largest group in the provident fund branch, in accordance with the scope of managed assets, as defined by the Commissioner. The company’s share in the provident fund branch will be affected, inter alia by the competition between the institutional entities, which will be affected the returns of the provident funds, the amount of management fees, and the service which will be given to members.

The study funds differ from the other pension savings products due to the fact that they provide the possibility for medium term savings, which grants eligibility for tax benefits. The company’s share in the study fund branch will be affected, inter alia, by the competition between the institutional

[35] For details regarding the recommendations of the task force to increase certainty in pension savings, in connection with the scope of the allocation of designated bonds intended for pension fund members of various ages, see section 6.1.1.1 above.

entities, which will be affected by the returns of the study funds, the variety of investment tracks, management fees, and the service which will be given to members.

The company's share in the provident fund branch may be positively affected by the creation of a capital savings instrument, "provident fund for investment" (for details, see section 6.2.1.2 below); and with respect to the study funds and the annuity-paying provident funds, also by the provisions of the default fund circular. For details, see section 6.2.1.4(a) below.

The information presented on all matters associated with the future changes in the company's share in the markets, in the various pension products, constitutes forward looking information, which is based on the group's estimates and assumptions as of the publication date of the report. The changes, and the effective implications thereof, may differ from those which were predicted, in light of the many regulatory changes which are at the initial stages of implementation and/or which have not yet been implemented; future regulatory changes, if any, which could affect the company's share in the different markets; competition in the market; the conduct of the competing institutional entities and distributing entities; and the preferences of customers.

6.2. Restrictions, legislation, standardization and special constraints which apply to the operating segment

6.2.1. General

The operations in this segment are subject to the legal provisions that apply to insurers, to pension funds, and to provident funds that operate in the segment – including The Insurance Law, the Provident Funds Law, the Pension Consultancy Law and the Provident Funds Regulations – and subject to the Commissioner's directives, as published from time to time. Prior to the enactment of the Provident Funds Law, provident funds and pension funds were approved and managed in accordance with the Provident Fund Regulations, which still regulate certain matters which were not regulated in the Provident Fund Law.

Provident funds and pension funds are managed by managing companies; insurance funds are managed by insurance companies.

Operations in this segment require a license pursuant to the Insurance Law and the Provident Fund Law, and are overseen by the Capital Market, Insurance and Savings Division. Insurers and managing companies of pension funds and provident funds in the group are required to receive a license from the Commissioner. A managing company of provident funds which manages a pension fund is required to receive an insurer license in accordance with the Insurance Law, and the aforementioned insurer license will be considered as a managing company with respect to each provident fund which is managed by it. A managing company that has received an insurer's license, as stated above, is currently entitled to manage all types of provident funds, except for insurance funds. One managing company can manage one new comprehensive pension fund (which is entitled to designated bonds), a new general pension fund (which is not entitled to designated bonds), also an "old" pension fund, as well as provident funds.

In the Concentration Law, it was determined that any entity which has a permit for the control of a managing company which is entitled to manage a pension fund or provident funds and study funds, will not be given an additional permit to control a managing company other than in accordance with the rules determined by the Commissioner. In January 2016, a draft circular was published which specifies the rules for the provision of a permit for control of a managing company of a pension fund, or a managing company of a provident fund, to an entity which already holds a permit for control of a managing company of this kind. In accordance with the circular, any entity which has a permit for control of a managing company, is entitled to receive a permit for control of an additional managing company, without a requirement to merger the two companies, if one of the managing companies is a managing company of an old fund or of branch-based provident funds only. Accordingly, Clal Insurance is not required to merge the managing companies which it holds.

A managing company is also entitled to engage in another segment which pertains to a pension product that was approved by the Commissioner, subject to the approved terms, provided that the engagement is regulated in accordance with the provisions of the Provident Funds Law, the Insurance Law or the Pension Advice Law. Additionally, any provident fund which is managed by a managing company requires approval for the management of a provident fund, which must be renewed annually.

In accordance with the Provident Funds Law, the control of a managing company and the holding of the means of control therein is conditional upon the receipt of a permit. Additionally, it was determined in the Insurance Law that a person may not hold more than 5% of a certain type of the means of control of an insurer, other than in accordance with a permit issued by the Commissioner. It was further determined that a permit for control of an insurer will not be given to any person if, after the issuance of the permit, that person will have a holding exceeding 15% of the total long term savings assets, as defined in the Insurance Law. The Insurance Law permits a material holding in the long term savings segment if that material holding originates from changes which are due to operating activities.

To the best of the company's knowledge, in accordance with the weighing of the information which is published on the Commissioner's website, the scope of holdings of the IDB Group[36] in the long term savings segment as of December 31, 2016 is approximately 14.16%.

Clal Insurance has an insurer's license. For details regarding the permit for control of the group's institutional entities, see Notes 1(b)(3) and 16(e)(5) to the financial statements. Clal Pension and Provident and Atudot Havatika have an insurer's license in the pension insurance branch in accordance with the Insurance Law, and Clal Pension and Provident Funds has authorizations for the management of the provident funds which it manages.

For the minimum equity requirements applicable to the institutional entities in the company, see Note 16(e) to the financial statements. For the undertaking of shareholders in the company and shareholders in Clal Pension and Provident Funds in connection with the equity requirements, the completion thereof, and the validity thereof, see Notes 16(e)(5) and 16(e)(7) to the financial statements.

[36] For the sake of caution, the group's holdings are counted together with the holdings of Tadiran Provident Fund Ltd., a subsidiary of the IDB Group, which holds a branch-based provident fund.

The operating segment is characterized by significant, extensive, and frequent regulation, both with respect to products which were sold in the past and are still effective today, and with respect to products which will be sold in the future, which is intended, inter alia, to increase transparency, competition and quality in the market.

Over the years, significant reforms have been implemented in the segment, which have affected the structure of the operating segment.

Presented below are details regarding significant reforms and changes which have been made to the regulatory provisions in the operating segment in recent years:

6.2.1.1. **Products reform - transition to annuity paying capital products and provision of the possibility to withdraw funds from provident funds for savings (the "products reform")**

Until 2008, the long-term savings segment consisted of two possible savings tracks: The capital track in which the saving sums could be withdrawn as a one time sum and the annuity track, in which the payment was implemented commencing from the age of entitlement in fixed monthly payments.

These pension funds included annuity paying tracks of savings and insurance. Provident funds included capital savings tracks, while in life insurance, policyholders had the right to select between the capital and the annuity tracks, or a combination thereof.

Over the years, the state encouraged long-term savings in the annuity track and stiffened the limitations imposed on long-term savings in the capital track, until its abolition in 2008 (apart from within the framework of the study funds).

Following the "products reform", the capital-based provident funds became annuity-paying, in a manner whereby each deposit to a provident fund, beginning on January 1, 2008, is effectively annuity-paying. Additionally, following the products reform, it is no longer possible create central provident funds for severance pay[37], and it is not possible to deposit amounts in such funds, however, it is possible to transfer amounts from one central fund for severance pay to another central fund for severance pay, or to withdraw funds, subject to the provisions of the law.

The products reform resulted in a significant reduction of the deposits to provident products, and conferred, at the outset, an advantage upon the institutional entities, such as the group, which manage annuity-paying provident funds (which were annuity-paying provident funds), relative to institutional entities which manage provident funds for savings (which were non-annuity paying provident funds), in connection with funds which accrued beginning on January 1, 2008. However, the provisions regarding the Insurance Coverage Regulations, Amendment No. 13 to the Provident Funds Law, regarding direct withdrawal of funds from a non-annuity paying provident fund, and the creation of a provident fund for investment, were intended to moderate the aforementioned

[37] The central provident funds were funds in which the member was the employer, while the amounts which were deposited therein were intended for the payment of severance pay to the employer's eligible employees.

effects. The creation of a provident fund for investment resulted in deposits of monies to those funds, beginning from the reporting year.

For details regarding the scope of assets managed by the group’s institutional entities in the life insurance branch, see Note 20 to the financial statements. For details regarding the scope of assets managed by the institutional entities in the group in the pension funds and provident funds branches, see section 6.1.2.2 above.

In May 2012, the Law in Amendment of the Income Tax Ordinance (No. 190 and Transitional Provision) (“**Amendment 190**”) was published, which include an expansion, inter alia, of the tax benefits which are given upon the withdrawal of funds in the annuity savings channel. Provisions were also determined in connection with the eligibility of members to severance pay funds and of beneficiaries to funds of the deceased.

Amendment 190 resulted, during the reporting year, in a certain increase in the retention of severance pay funds and funds of the deceased in provident funds for savings (“non annuity paying”). On the other hand, according to the company’s estimate, the increase of the tax benefits on the annuity resulted, in the past, in an increased rate of annuity takers. For details regarding the provision in supplementation of the annuity reserve, see Note 40(e1)(a)(4) to the financial statements.

6.2.1.2. **Provident funds for investment**

In June 2016, Amendment No. 15 to the Provident Funds Law was published, on the subject of the creation of an additional savings product - “provident fund for investment”, which is intended to allow a capital savings channel for individual funds, which included an incentive for the withdrawal of the funds which have accrued therein as an annuity during the retirement period. A provident fund for investment allows the depositor to withdraw funds which will be deposited therein at any time, without tax benefits on the deposit, while paying capital gains tax only. Amounts which will be deposited in a provident fund for investment (whether as a routine deposit or as a one-time deposit) and withdrawn as an annuity during the retirement period (in accordance with the recognized annuity rules) will be exempt from capital gains tax and from income tax. The member is not required to reach the decision regarding the manner and time of withdrawal of funds when joining the provident fund for investment. It was further determined that the total of all payments which a member will be entitled to deposit in all of their accounts in a provident fund for investment will not exceed NIS 70,000 per year. In October 2016, the standard (uniform) regulations for provident funds for investment were published. Additionally, within the framework of the Economic Efficiency Law (Legislative Amendments to Achieve Budgetary Goals for Budget Years 2017 and 2018), 2016 (hereinafter: the “Economic Efficiency Law”), which was approved in December 2016, it was determined that a member will be entitled to deposit payments to a provident fund for investment until December 31, 2017, in an amount which will not exceed two million five hundreds thousand NIS, or the total consideration which was received with respect to apartment sales, whichever is lower, subject to the terms specified in this law, including the presentation of approval from the Israel Tax Authority. In January 2017, Clal Pension and Provident Funds launched a provident fund for investment named “Clal Provident for the Future”.

Long term savings for children

In November 2015, an amendment was published to the National Insurance Law (Consolidated Version), 1995, in which it was determined that the National Insurance Institute will transfer, with respect to each child for whom a child stipend is paid, a total of NIS 50 per month, in favor of long-term savings for the child, where the parent will be entitled to instruct the Institute to transfer an additional amount out of the child's stipend in favor of such savings. In September 2016, the National Insurance Ordinance (Additional Savings Amount), was published, according to which the additional savings amount which a parent is entitled to instruct the Institute to transfer, out of the child stipend, in favor of the aforementioned savings, will amount to NIS 50.

Further to this amendment, in September 2016, the **National Insurance Regulations (Long-Term Savings for Children), 2016**, were published, in which it was determined that the National Insurance Institute will deposit the aforementioned amount of long-term savings for the child, in a provident fund for investment under the name of the child (hereinafter: "**Savings Fund for Each Child**"), or in a trust account in a bank, out of a list of funds and banks with which the State will engage. It was further determined that if the parent has not chosen a provident fund or bank for the purpose of depositing the monthly savings amount of their child, the monthly savings amount will be deposited, by default, in a provident fund which will be chosen by way of a permanent round among all of the provident funds which are included on the aforementioned list. With respect to children whose age on January 1, 2017 is 15 years or older, the default for the purpose of depositing the monthly savings amount will be in the bank to which the child stipend for that child is paid. In accordance with the Regulations, it will be possible to transfer the funds which have been deposited in the funds of "savings for each child" to other provident funds with whom the state will engage. In November 2016, a circular was published on the subject of the creation of a provident fund for investment for long-term savings for the child, which includes supplementary provisions. In November 2016, standard (uniform) regulations of provident fund for investments were published, with respect to long-term savings for children.

In November 2016, the Ministry of Finance conducted a process of choosing managing companies to manage the provident funds for savings for each child, or banks to manage trust accounts, which defined inter alia, the obligations of the managing entities towards the National Insurance Institute, in which the primary condition was consent to the rate of management fees which will be paid in the aforementioned plans, which will not exceed 0.23% of the accrual. Clal Pension and Provident Funds did not submit a proposal om the aforementioned process.

According to the company's estimate, the provident funds for investment are expected to constitute an alternative for alternative investment channels (such as bank deposits, management of securities portfolio and individual savings policies which are managed by insurance companies, including by Clal Insurance), and the creation thereof is expected increase the deposits to provident funds of this kind. During the reporting year, and for the purpose of launching the provident funds for investment, the depositing of new funds to provident funds for investment on the market began. Additionally, the provident funds for investment are expected to constitute an alternative for high wage earners, instead of the deposit to a pension plan with respect to salary exceeding the recognized deposit limit. Additionally, Amendment No. 15 to the Provident Funds Law (as well as the entry into effect of the National Insurance Regulations, long-term savings for children), are expected to encourage the entry of additional entities into the provident funds market, and as a result, to increase the competition in the market, and to affect the amount of management fees collected in alternative products. The determination of standard regulations is expected to lead to increased focus in the competition between provident funds for investment, on the level of management fees and returns.

The information presented on all matters associated with the possible future implications of the creation of provident funds for investment 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 from the forecast, and is largely dependent upon variables such as changes in the capital market and interest rates, changes in interest in long-term savings products, the conduct of competing entities, including institutional entities which are held by investment houses and banks, the conduct of distributing entities, and the preferences and choices of members.

6.2.1.3. **Changes in pension deposits**

Compulsory pension - General collective agreement (framework agreement) for comprehensive pension insurance in the market, and the extension order (the "Compulsory Pension Ordinance")

Since 2008, by virtue of the Compulsory Pension Ordinance, an obligation applies to prepare comprehensive pension insurance with respect to all salaried employees in the economy.

According to the Compulsory Pension Ordinance, the insured salary is the actual salary, but not exceeding the average salary in the economy. The rates of salary which are required to be insured increased gradually each year, up to a total maximum rate of 17.5%, in 2014.

<u>Compulsory pension for the self-employed</u>

In December 2016 the Knesset approved, within the framework of the Economic Efficiency Law, provisions which primarily include the imposition of an obligation on the self-employed to make payments to an annuity paying provident fund, according to the determined rates, in accordance with their income (hereinafter: the "**Compulsory Pension For The Self-Employed Law**"). According to the law, beginning in 2017, the deposit obligation will apply to self-employed persons whose income exceeds half of the average salary in the economy, and will not apply to income beyond the average market salary. The law also involves provisions pertaining to the provision of the possibility to withdraw one third of the amount accrued for the self employed person, or the amount specified in the Income Tax Ordinance, whichever is lower, if unemployed.

<u>Extension Order to Increase the Rate of Pension Deposits and Amendment to Regulation 19 of the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964</u>

As part of Amendment No. 12 to the Provident Funds Law, which entered into effect beginning with salaries for February 2016, provisions were set forth, inter alia, which prohibited employers from making the deposit rates out of the salary of an employee, which it is required to deposit to the provident fund (including the rate of the salary which is paid to acquire loss of working capacity insurance out of the employer's funds) conditional upon a deposit to a certain fund or to a fund of a certain type.

Further to the foregoing, in February 2016, a general collective agreement was signed (and was later amended in April 2016) between the Representation of Business Organizations and the Histadrut New General Federation of Labor, in which it was agreed to increase gradually the rate of minimum deposits to all employees and employers in the economy, in a manner whereby, beginning on January 1, 2017, these will amount to a rate of 6% for the employee's compensation component, 6.5% for the employer's compensation component, and 6% for the severance pay component (hereinafter: the "**Increased Deposits Agreement**"). It was further determined that the employer's payment, as stated above, will include the employer's payment to acquire loss of working capacity coverage for the employee l however, in any case, the employer's provisions to the compensation part will be no less than - 5% of the effective salary, and the employer's total costs with respect to the compensation part and the loss of working capacity coverage will not exceed 7.5% of the effective salary. "Effective salary" means the salary from which the provisions will be made, in accordance with the employee's agreement, and no less than the guaranteed salary in accordance with the extension order for compulsory pension. In May 2016, Minister of the Economy signed an extension order which imposed most of provisions of the increased deposits agreement on all employees and employers in the market.

In June 2016, Amendment No. 16 to the Provident Funds Law was published, which primarily involved a determination, in law or agreement, according to which the employee will be entitled to a rate of deposit to the employer's payments component which will not fall below 6.5% beginning on January 1, 2017, will not be considered an employer's stipulation regarding the rate of deposit for an employee to a certain fund or to a fund of a certain type (which was prohibited in Amendment No. 12 to the Provident Funds Law, in accordance with the conditions which were determined in the law.

Further to the foregoing, in July 2016, the Draft Amendment to the Income Tax Regulations (rules for approval and management of provident funds), 1964, was published (hereinafter: the "**Draft Amendment to the Income Tax Regulations**"), in which it was proposed to amend Regulation 19, in a manner which regulates the restriction which requires transfer of all deposits with respect to the compensation component beyond 5% to the same insurer, in order to allow the member to choose another provident fund to transfer the increase in deposits. This amendment enters into effect on the publication date of the regulations, insofar as they will be approved.

It was further proposed to determine that the deposit to the severance pay component will become possible without having a corresponding deposit to the compensation component in the same account in the fund, in cases where it is not possible to perform the additional deposit to severance pay in the provident fund to which the employer makes the deposits for compensation and severance pay, or if monies have been deposited therein during the period between January 1, 2015 and November 4, 2015 (before the entry into effect of amendment 13 to the Provident Fund Law). These amendments entered into effect on November 5, 2015.

Amendment to the Income Tax Ordinance

In November 2015, an amendment to the Income Tax Ordinance (the "**Amendment to the Income Tax Ordinance**") was approved, according to which: (1) the tax limit from which the employers' provisions to pension savings for employees are tax exempt was reduced, from four times the average salary in the economy, to two and a half times the average salary in the economy; and (2) the allowable deduction with respect to expenses for the acquisition of loss of working capacity insurance was also reduced, in a manner which will apply only to the acquisition of insurance for income in the amount of two and a half times the average salary in the economy, instead of four times the average salary in the economy, as was the practice prior to the amendment.

<u>Changes with respect to severance pay funds</u>

The state budget proposal for the years 2017-2018, which was approved in November 2016, included a proposal regarding the definition of severance pay funds as the employee's funds, and a correction of tax distortions (hereinafter: the "**Proposal**").

The proposal included an amendment to the Severance Pay Law, 1963 (hereinafter: the "**Severance Pay Law**"), in accordance with the following principles: (A) Payment to an annuity paying provident fund will come in place of severance pay, and the employer will not be required to make any additional payment beyond what they deposited, save in the event that it has been determined otherwise in a personal labor agreement / collective labor agreement, or in a collective arrangement; (B) An employer will not be entitled to withdraw, seize or pledge the severance pay funds which were deposited in the annuity paying provident fund except in extraordinary circumstances, as specified in the law, and during the period which was determined for this purpose in the law. The proposal also includes provisions which entitle employees to the severance pay funds which were provided prior to the entry into effect of the amendment to the law, and will not be required by the employer, which was determined for this purpose in the proposal.

The proposal included an amendment to the Income Tax Ordinance, in a manner whereby only the employer's deposits with respect to the severance pay component, up to a maximum limit in the amount of three times the average salary in the market, will not be recognized as taxable income at the time of the deposit (hereinafter: the "**Maximum Limit**"); The employer's deposits with respect to the severance pay component above the maximum limit will be subject to the withdrawal rules which apply to severance pay funds, in other words, if they are withdrawn by means other than annuities - they will be subject to capital gains tax only, and if they are withdrawn as an annuity - they will be tax exempt; A capital bonus due to retirement will not be taxed on the date of retirement if it remains in the annuity paying provident fund.

The Economic Efficiency Law includes the aforementioned amendment to the Income Tax Ordinance, whereas the amendment to the Severance Pay Law remains, at this stage, as a proposal.

The Compulsory Pension Ordinance resulted in an increase in deposits of members to the pension funds, and the Compulsory Pension for the Self-Employed Law, is expected to result in increased provisions of the self-employed into pension funds, including as a result of the increase in the number of members, and as a result, in an increase in the management fees collected by the managing company. On the other hand, the scope of salary for which the social provision is required is relatively low (up to the average salary in the economy), and the aforementioned deposits are accompanied, in parallel, by an increase in operating expenses. Additionally, the positive impact of the Compulsory Pension Ordinance, together with the Compulsory Pension for the Self-Employed Law, is expected to be moderated due to the provisions of regarding the consolidation of inactive accounts in pension funds and the creation of the default fund. The provisions of provisions of the law may result in a decrease in deposits for the severance pay component, with respect to the part of the salary which exceeds the maximum limit, with respect to employees to whom section 14 of the Severance Pay Law does not apply (and whose employers are not obligated to make deposits out of the full salary). Even the reduction of the maximum limits regarding the tax exemption, in accordance with the amendment to the Income Tax Ordinance, may result in a decrease in the deposits to pension savings by those earning a salary higher than the limit, however, during the reporting year, there was no significant decrease in such deposits. The entry into effect of the extension order with respect to the increased deposits agreement, and amendment 16 to the Provident Funds Law, resulted in an increase in deposits for pension products in the market, including for products managed by the company, and as a result, in an accelerated increase in the scope of managed assets, which is expected to increase the company’s income from management fees on the one hand, and on the other hand to increase the operating costs with respect to new policies which between opened for the increased part of the deposits, and will be at low premiums.

The information presented on all matters associated with the possible implications of the Compulsory Pension for the Self-Employed Law, the agreement to increase deposits, and the Economic Efficiency Law, 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 largely dependent upon, inter alia, on the following factors: the conduct of distributing entities, the conduct of competing institutional entities, the preferences of members and policyholders, the provisions regarding increased competition, the implications of the amendments to the Draft Income Tax Regulations, and the reciprocal effects with the provisions regarding default funds and the provisions regarding the consolidation of inactive accounts in pension funds.

6.2.1.4. **Increased competition in the pension savings market and prevention of conflicts of interest**

Further to the previous reforms, including the mobility reform, which expanded the possibility of transferring the savings funds between the various pension products (the “**Mobility Reform**”) (for details, see section 6.3.1 below), and 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 decision, in recent years, provisions and regulations were published, as follows:

A. Default pension fund

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 is proposed to determine 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 of 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) The 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.

In August 2016, the results of the select default funds selection process were published, in which two competing pension funds were selected to serve as select default funds, and additionally, the management fees which will be collected in those funds were published. The management fees which will be collected by the default funds are at a rate of 1.31% of the deposits and 0.01% of the accrual in one fund, and at a rate of 1.49% of the deposits and 0.001% of the accrual in the other fund.

In February 2017, a draft amendment to the circular regarding default funds was published, in which it was determined that the default agreement which was in effect until 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, 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 Circular Regarding Default Funds**").

B. Reduction of restrictions on transfers and withdrawals of funds between provident funds

In July 2016, a circular was published on the subject of "transfer of funds between provident funds - amendment", which amended the current circular on the matter, with the aim of simplifying the process of transferring funds between provident funds, and shortening the timetable for its completion. The circular enters into effect on January 1, 2017.

In August 2016, the Draft Control of Finance Services Regulations (Provident Funds) (Transfer of Funds Between Provident Funds) (Amendment), 2016 (hereinafter: the "**Draft Amendment to the Transfer of Funds Regulations**"), in which it was proposed to amend the Control of Financial Services Regulations (Provident Funds) (Transfer Of Funds Between Provident Funds), 2008. The main proposed amendments include cancellation of the currently existing 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; provision of the possibility to transfer funds from one provident fund for investment to another provident fund for investment; Shortening of the periods for the transfer of funds between provident funds; prohibition of the currently existing option to cancel a transfer of funds, after a details, signed and completed request has been submitted to the receiving fund.

In March 2017, a draft circular was published on the subject of the withdrawal of funds from provident funds (hereinafter: the "**Draft Fund Withdrawal Circular**"), which includes provisions which are intended to create uniformity between the various provident funds with respect to the process of withdrawing funds by ways other than annuities. The draft determines provisions regarding the process of handling the request, including with respect to the forms and documents which can be required of the member within the framework of a request withdraw funds, methods for submitting the request, methods for identifying and authenticating the member's details, and information which an institutional entity is required to display on its website for this purpose. The draft also includes a significant shortening of the deadlines for the handling of such withdrawal requests.

C. Lifting of operational barriers

Over the years, the Commissioner adopted a series of measures which were intended to lift operational barriers and facilitate the receipt of information, the creation of transparency and the lifting of barriers to transition between different products.

(1) **Transfer of information in the pension savings segment and the pension clearing house**

With the aim of improving the pension savings market, increasing transparency and regulating the transfer of information between the active entities in the pension savings market, a central pension clearing house was created (hereinafter: the "**Pension Clearing House**").

Beginning in December 2013, all license holders are obligated to contact the pension clearing house before consulting in order to receive information regarding policyholders and members with respect to the pension products which are owned by them. Additionally, the obligation to submit a power of attorney for the receipt of general information (information regarding an insurer from all entities, as distinct from a specific request for information) must be done through the pension clearing house only (instead of directly to the institutional entity), and in parallel the option was created to transfer to a license holder data regarding the customers and pension products which are owned by them, from the institutional entities, through a holdings interface. [38]Beginning in June 2014, private savers can performs actions through the pension clearing house. Beginning in January 2016, license holders are required to work to obtain information through the pension clearing house only, and not directly vis-à-vis the institutional entity. Beginning in April 2017, the license holders will be obligated to transfer requests for the performance of actions (which were defined) through the pension clearing house, unless they work through a designated system of the institutional entity, which allows the receipt of information and the performance of actions.For the sake of implementing the aforementioned provisions, a circular gradually entered into effect which determined a uniform structure for the transfer of information and data in the pension savings market, which will be used by the various entities in the pension savings market. Additionally, within the framework of the uniform structure circular, which determines a structure for uniform records which is intended for use by the institutional entities, license holders and additional information consumers in the pension savings segment, within the framework of the various business actions which are performed between them (hereinafter: the “**Uniform Structure Circular**”), changes are expected to apply with respect to the employers interface, the holdings interface, the events interface[39] and the severance pay balance interface. During 2018, the mobility interface is also expected to enter into effect.[40]

The institutional entities in the group prepared, and are continuing to prepare, from an operational perspective, for the fulfillment of the arrangements which were determined in the circular, and appropriate preparations will be required from the license holders engaged in the segment.

(2) **Employers Interface and Payment Regulations**

Further to the standard structure circular, in August 2014, the **Control of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014** (hereinafter: the “**Payment Regulations**”) were published, which are intended to regulate the operational interface between employers and institutional entities, on all matters pertaining to deposits in provident funds (hereinafter: the “**Fund Intake and Collection Interface**”). The regulations define rules with respect to the method and date of performance of employers’ payments to pension products for their employees. The institutional entity is required to send feedback to the employer regarding the deposits to the fund on dates which were determined in the regulations. In May 2015, an update to the collection and intake interface was published, in which it was determined, inter alia, that payments to a pension fund or provident fund will be paid directly to the managing company, and

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38 The holdings interface determines the data regarding the customer and the pension products owned by it which the institutional entity is required to transfer to the license holder.

39 The events interface is an interface which reflects all of the requests received by the company from the clearing house, regardless of whether they are requests of the policyholder himself, or requests submitted through a license holder. The interface includes all information which the license holder is required to transfer to the institutional entities, with the aim of allowing in the future the intake and production of pension products in a computerized manner, as well as the information which will be transferred for the purpose of implementing to changes to pension products owned by customers, or the data which are relevant to the management of pension products for customers.

40 The draft mobility interface from January 2017 intends to regulate the process of transferring funds between the institutional entities and the different products. The draft determines the items of information which are required and which will be transferred upon performance of the transfer process, and is expected to enter into effect in June 2018.

not through the insurance company (the parent company of the managing company) (hereinafter: the "**Separation of the Combined Policy**"). The provisions regarding the interface for the intake and collection of funds entered into effect in January 2016 (except for employers of up to 100 employees, regarding whom it was determined that the payment regulations will enter into effect gradually on later dates). In December 2015, it was determined that the payment regulations will not apply with respect to employers who employ up to 5 employees.

(3) **Power of attorney to license holder**

For details regarding the provisions of the agents and consultants circular on the subject of power of attorney for license holders, see section 10.8.3.1(a) below.

D. Consolidation of inactive accounts in pension funds

Amendment 13 to the Provident Funds Law included, inter alia, a provision stipulating that, when a new member joins a new pension fund, and so long as the member has not requested otherwise, the savings funds which are 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, and with the aim of creating savings in management fees and improving the member's control of the management of their savings funds. The amendment also stipulates a mechanism for the consolidation of such funds, also with respect to the existing inventory of funds currently managed in inactive accounts.

Further to the above, supplementary arrangements were published within the framework of a circular from September 2016, regarding the addition to a pension fund or provident fund, which regulate, inter alia, the consolidation of accounts with respect to who join in the future, and within the framework of a circular from June 2016, on the subject of "consolidation of existing accounts in new pension funds - transitional provision", which determines provisions with respect to the method for consolidation of pension savings funds which are currently managed in inactive accounts, and the transfer thereof to active accounts, in several stages, which are to be performed by the end of 2017.

E. Loss of contact between distributors, employers and customers, and prevention of conflicts of interest

The Commissioner is working to reduce the information gaps between the distributors and customers (employees and employers), and with the aim of improving the operational level in a manner which will assist in the lifting of operational barriers to identify products and transition between products, and increasing transparency. Additionally, the Commissioner is working to reduce the conflicts of interest between the employers and its employees, on all matters associated with the selection of the pension arrangement and the selection of the agent, and for this purpose, the following provisions were established:

(1) **Provision of the customer's right to choose an agent:**

In November 2015, an amendment to the Pension Advice Law (hereinafter: the "**Amendment To The Pension Advice Law**") was approved, in which inter alia, provisions were determined with respect to an employee's right to choose, at any time, a license holder for the receipt of services involving pension marketing, pension advice or performance of actions regarding pension products, and regarding the possibility which was provided to employees to choose not to receive pension advice or pension marketing services in connection with the performance of such actions. For additional details regarding the amendment to the Pension Advice Law and the implications thereof, see section 6.2.1.4(e)(3) below.

(2) **Prevention of conflicts of interest between employers and their employees:**

In November 2014, a circular was published on the subject of stipulations regarding pension arrangements which include insurance coverages, in which restrictions were determined, inter alia, regarding the stipulation on the acquisition of coverage for loss of working capacity insurance or death (hereinafter: "**Insurance Coverage**") under the management of a pension savings product at an institutional entity, and a prohibition was added forbidding the stipulation of the provision of a discount in management fees from a pension product when purchasing insurance coverage.

Additionally, as part of Amendment No. 12 to the Provident Funds Law, which was published in August 2015, and which entered into effect beginning with the salary for February 2016, provisions were established, inter alia, regarding a prohibition forbidding employers from making the deposit rates out of the salary of an employee, which it is required to deposit to the provident fund (including the rate of the salary which is paid to acquire loss of working capacity insurance out of the employer's funds) conditional upon a deposit to a certain fund or to a fund of a certain type. For details regarding provisions which change the implementation of the provisions of Amendment No. 12 to the Provident Funds Law, as stated above, see section 6.2.1.3 above.

(3) **Provision by a license holder of operating services to an employer and marketing services to its employees:**

In November 2015, an amendment to the Pension Advice Law was approved, in which were determined, inter alia, provisions stipulating that the possibility of a pension marketer to provide, in parallel, operating services to an employer, and marketing services to its employees, was made conditional upon monthly collection from the employer of clearing fees with respect to the operating services, with respect to each employee, which will be no less than the determined amount or rate (the "**Clearing Fees**"), and on the condition that the distribution commission which will be paid to the license holder will be reduced in the amount of the clearing fees, and the management fees paid by the member will also be reduced accordingly. The aforementioned option to provide services is also subject, beginning in December 2016, to the stipulation that the employer will choose a default fund for employees who have not actively chosen a fund. Further to the aforementioned amendment, in August 2016, a circular was published regarding "rules for the operation of pension products", which includes provisions with respect to the reporting method for institutional entities regarding the clearing fees which were paid to pension insurance agents, the implementation of reductions in management fees by the institutional entity, and the presentation of information to employees. In January 2017, the entry into effect of the circular was deferred to July 2017, and for this purpose, supplementary provisions were published regarding reporting of a license holder to an institutional entity regarding the which will be paid to it.

For details regarding draft position papers of the Commissioner regarding the obligations of a license holder, from February 2017, see Note 43(d)(4) to the financial statements.

(4) **Commission arrangements with respect to insurance products and pension savings products**

The Amendment to the Pension Advice Law from November 2015 determines, inter alia, that a pension insurance agent or another person in his name or on his behalf may not receive any benefit, either directly or indirectly, in connection with pension marketing, or in connection with the performance of the transaction on behalf of a customer, save for payment from the customer or a distribution commission from the institutional entity, and the institutional entity will not pay to the agent any amounts other than the aforementioned distribution commission, as well as provisions regarding the Commissioner's authority to establish provisions on the matter.

For details regarding the **Control of Financial Services Regulations (Provident Funds) (Distribution Commissions), 2016** (hereinafter: the "**Draft Distribution Commission Regulations**"), in connection with an amendment to the **Control of Financial Services Regulations (Provident Funds) (Distribution Commissions), 2006**, regarding the amended **Draft Control of Financial Services Regulations (Insurance) (Brokerage Fees), 2014**, regarding the **Commissioner's position - payment by an license holder insurance company**, and regarding a petition which was filed by the Israel Insurance Association regarding the Commissioner's aforementioned position, and regarding a proposed law pertaining to the separation of commissions from management fees, and regarding a draft industry-wide position paper of the Commissioner with respect to obligations of license holders, see section 10.8.3.1 below.

F. Unification of products and transparency

Over the years, the Commissioner has implemented a series of actions with the aim of encouraging and focusing on management fees, returns and service.

(1) **Standard pension and provident fund regulations**

As part of amendment no. 12 to the Provident Funds Law, authorities were vested in the Commissioner to issue provisions with respect to the rights and obligations of provident fund members, which will be set forth in the regulations for all provident funds in the market. In this regard, in July 2015, the wording was published of the standard regulations for non-annuity paying provident funds, provident funds for compensation and personal provident funds for severance pay, and in September 2016, the wording of the standard regulations of provident funds for investment was published (and amended in December 2016), and in September 2016, a circular was published regarding provisions with respect to the rights and obligations of members in the regulations of new comprehensive pension funds, in which it was determined that the managing company will determine the wording of the regulations of the comprehensive pension fund which are managed by it, in accordance with a standard wording which was attached as an annex to the circular and to the draft circulars, unless it has received the Commissioner's approval for a deviation from that wording.

In November 2016, the Commissioner approved the wording of regulations of the provident fund for investment "Clal Provident for the Future", and in January 2016, the new version of the regulations of the provident fund "Clal Tamar", entered into effect, in accordance with the wording of the aforementioned standard regulations.

(2) **Guidelines regarding loss of working capacity**

Further to the Commissioner's intention to increase competition and transparency, and to cause the consolidation of insurance plans, thereby facilitating, for potential policyholders, the performance of comparisons between various insurance plans for the purpose of reaching an informed decision regarding the best plan for them, relative to the price offered in the plans, and also further to the circular regarding the phrasing of insurance plans and to the Commissioner's position on the subject of "Principles regarding the phrasing of insurance plans", in September 2016, a circular was published on the subject of "Guidelines regarding loss of working capacity insurance plans" (hereinafter: the "**Guidelines Circular**"), which established 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 determines that only a plan which complies the provisions of the circular will be defined as loss of working capacity insurance which is recognized as preferred insurance in accordance with the Income Tax Ordinance (for the purpose of permitting the deduction of the expense to purchase the insurance from taxable income).

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 beginning in May 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, and its correspondence to the sold coverages.

(3) **Management fees calculator and tariff calculator in life insurance**

In June 2015 and March 2016, a management fees calculator and tariff calculator in life insurance, respectively, began operating. The purpose of the creation of the calculators, which are on the website of the Capital Market Authority, is to allow policyholders to compare among the management fee rates which are offered to new members in the various pension savings products and the offered products to those joining life insurance in case of death.

(4) **Circular regarding the collection of statistical information with respect to claim settlement and the handling method of requests for the withdrawal and transfer of funds**

In March 2011, a circular was published on the subject of the collection of statistical information with respect to claim settlement and the handling method of requests to withdraw and transfer funds, which is intended, inter alia, to publish indicators with respect to various actions which are performed by the institutional entities, in order to provide potential policyholders and members with an additional tool to facilitate the selection of the institutional entity with whom they will engage. For additional details, see section 10.2.11 below.

G. Competitive process for the performance of brokerage activity

In March 2017, a draft amendment to the Control of Financial Services Regulations (Provident Funds) (Purchase, Sale And Holding Of Securities) (hereinafter: the "**Draft Regulations Regarding the Purchase, Sale And Holding Of Securities**") was published. The draft includes several amendments with respect to the principles and the methods used to conduct the competitive process which is required for implementation once every three years, between the brokers used by the institutional entities to purchase and sell securities on behalf of members' funds (hereinafter: the "**Competitive Process**"). In this regard, the draft amendment determines that an institutional investor, or a group of investors, one of which has a contractual agreement with an operator, will be entitled to acquire or to sell securities through that operator, provided that the rate of the acquisition or sale commission to that operator does not exceed 20% of the total annual acquisition or sale commissions of the institutional entity. Additionally, it was determined in the draft that it is necessary to conduct competitive process, once every three years, among at least five participants, for the receipt of securities holding services (except through a global custodian), and additionally, a prohibition was established against the determination of a custodian commission for a single action involving clearing securities as a rate of the scope of the action.

The entry into effect of the arrangements within the framework of the regulatory changes pertaining to increased competition in the pension savings segment affect, and may in the future affect, the group's activities in several areas, as specified below:

- **Changes in profitability -** During the reporting year, the various reforms involving increased competition had an impact on the scope of managed assets and on the company's income from management fees with respect to all of the group's group long term savings products. For additional details, see Part B, board of directors' report, sections 3.1.1 and 3.3.1.

  The future income from management fees in long term savings products are dependent, inter alia, on the conduct of policyholders and members, on the conduct of the capital market, and on the possible effects of changes in regulatory provisions. Thus, for example, the implementation of the changes specified below may result in a reduction of the company's income from management fees: creation of default funds, in accordance with the provisions of the default fund circular; consolidation of inactive accounts in pension funds, including regarding the transfer of inactive balances; provisions of the circular regarding mobility of guaranteed annuity factors; the circular regarding the prohibition against stipulations in pension arrangements; the draft amendment to the Transfer of Funds Regulations with respect to annuity recipients; the amendment to the law regarding the calculation of the distribution commission (for details, see section 10.8.3.1 below); the creation of a management fees calculator and a tariff calculator in life insurance; and provisions in connection with regulations and standard insurance products. on the other hand, the implementation of the following provisions may have an effect which moderates, to a certain degree, the trend described above: the increase in deposits due to the provisions of the increased deposits agreement and Amendment No.' 16 to the Provident Funds Law; the creation of provident funds for investment; the consolidation of inactive accounts in pension funds, insofar as it will result in an increase in accruals, in a manner which whereby the possible reductions in management fees will be offset relative to the transferred funds; and the

Compulsory Pension for the Self-Employed Law. For details regarding the average rate of management fees from premiums and from accrual which were collected during the reporting year, and the scope of managed assets with respect to provident and pension products, see section 6.1.2.2 above.

The entry into effect of the extension order with respect to the increased deposits agreement and amendment 16 to the Provident Funds Law resulted in an increase in the deposits to pension products in the market, including products managed by the company, and an accelerated increase in the scope of managed assets, which is expected to increase the company’s income from management fees on the one hand, while on the other hand, to increase operating costs in policies with low premiums, and to increase competition, particularly insofar as amendment 19 to the Provident Fund Regulations is published as a binding document.

The draft distribution commission regulations, insofar as it will be accepted, in its current version, is expected to result in the payment of distribution commission with respect to products for which the company does not currently pay distribution commissions, primarily to the banking system, and thereby to result in an increase in the company’s expenses. For details regarding the possible implications of the draft distribution commission regulations, see section 10.8.3.1 below.

- **Competition** - Increasing transparency, removing operational barriers which delay money transfer processes between institutional entities, such as the creation of the pension clearing house, as well as the continued trend of consolidating long term savings products, which is reflected in the establishment of standard regulations for pension funds and provident funds, in the creation of comparative calculators, in the unification of the method for collection of management fees in the different products, in the cancellation of the guaranteed factors (except in case of older policyholders or the transfer or retention of existing policies, in accordance with the provisions of circular regarding the mobility of guaranteed annuity factors) in the provision of the option to sell insurance coverages and to withdraw a stipend and annuity for provident fund members, resulted in increased competition in the segment, while focusing the competition on management fees, returns, service and operation, and accordingly m may affect the scope of mobility between the various pension products, the scope of new sales, the retention and profitability of the current portfolio, including on all matters associated with the calculation of its embedded value.

    - 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. For details regarding the average management fees collected by Clal Pension and Provident Funds, see section 6.1.2.2 above. 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 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 become binding, are expected to result in a significant decrease in the amount of default arrangements of employers which exist in Clal Pension and Provident Funds, and accordingly, to promote and accelerate the aforementioned implications, on all matters associated with employers who engaged in default arrangements, before the entry into effect of the default fund circular.

- **The circular regarding the management fees calculator and the circular regarding tariff reporting** led to increase transparency, and may result, in the future, in increased competition between the institutional entities in the segment.

- **The regulations and the circular regarding insurance coverages, and the provision of the opportunity to acquire supplementary insurance coverages through the managing company**, create standardization, and increase the interchangeability between the terms of insurance coverage which can be acquired in the various pension products, and the as a result, allow the performance of a more precise comparison between the various pension products which are offered by institutional entities. During the reporting year, Clal Insurance did not sell insurance coverages to provident fund and pension fund members based on the regulations and the circular regarding insurance coverages.

- As of the reporting date, the process of transferring funds in inactive accounts to active accounts in pension fund has commenced. The aforementioned mobility has resulted, and is expected to continue to result, in a reduction of the scope of managed assets in inactive accounts which are managed by the pension funds of Clal Pension and Provident Funds, and on the other hand, has resulted, and is expected to continue to result, in an increase in the funds managed in the active accounts which are managed by it. Additionally, the performance such transfers has resulted in an increase in operating expenses in the short term, which is expected to continue in 2017, while on the other hand, it is expected to result in a decrease in operating expenses with respect to inactive accounts over the long term. The consolidation of accounts is also expected to result in a decrease in the rate of management fees collected in the pension funds.

  Based on the partial implementation of the directive in connection with mobility in currently existing inactive accounts in the managing companies increased, it appears that the scope of assets which were transferred to Clal Pension and Provident Funds, within the framework of the aforementioned consolidation of accounts, was greater, in an immaterial scope, than the scope of assets which were transferred from Clal Pension and Provident Funds to other managing companies, along with a significant decrease in the rate of management fees which are collected with respect to assets which were received. It is noted that the company does not have information regarding whether the aforementioned data constitute an indication regarding the scope and ratio of transfers relative to the balance of inactive accounts with respect to the mobility of inactive accounts.

The combination of the provisions with respect to the **consolidation of inactive accounts in pension funds,** together with the **provisions regarding the creation of a 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 the rate of management fees which are collected.

- **The provisions of the circular regarding the provision of a discount in management fees with respect to the stage after the receipt of the old age annuity** may affect the competitive conditions in the pension funds market, also with respect to the stage after the receipt of the old age annuity. Additionally, insofar as discounts on the management fee rate are given in the future to pension fund annuity recipients, combined with an undertaking to provide discounts throughout the entire lifetime of the member and his survivors, may have a significant impact on the amount of management fees collected by Clal Pension and Provident Funds from annuity recipient members, and on profitability. As of the publication date of the report, Clal Pension and Provident Funds does not allow the provision of discounts to old age annuity recipients.

- According to the company's estimate, the entry into effect of the amendment to the circular regarding the transfer of funds between provident funds, and of the draft amendment to the Transfer of Funds Regulations, will result in 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 the current handling expenses and changes to the demographic composition of annuity recipients, and accordingly, may affect the reserves which are managed with respect to these policies, the returns which are obtained, increase the capital requirements and result in a significant decrease in profitability. However, at this stage, and before the method used to perform the aforementioned trasnfre with respect to annuity recipients is known, and in light of the precedence and precedent nature of the proposed arrangement, the company is unable to estimate all of its implications, which could be material.

  Additionally, the entry into effect of the aforementioned arrangements imposes difficulties on the institutional entities in performing retention activities, and may have an effect on the amount of management fees, on the average period of time during which members or policyholders are customers of the company, and on increased costs, including operating costs, the rate of commissions which are paid to agents, and the company's retention ability. Accordingly, the aforementioned amendments, insofar as they will be accepted may have a significant impact on the activities of the group in the segment and/or on its results in the future, and is expected to add to the pension funds which are transferable between the institutional entities, and increase the competition in the segment.

- **The draft circular regarding the withdrawal of funds**, insofar as it will become binding, is expected to simplify, increase efficiency and shorten the fund withdrawal process for members, in a manner which could impose difficulties on institutional entities in performing retention activities, and the company is unable to estimate, at this preliminary stage, the full operational implications of the implementation of the draft circular, insofar as it will become binding.

- **The circular regarding the mobility of guaranteed annuity factors** (for details, see section 6.2.1.5(a) above) may increase the competition with respect to investment-linked policies which can be transferred in accordance with the circular, and particularly, with respect to the policies which were sold beginning in June 2001. However, as of the date of this report, the aforementioned circular had no effect on the activity of Clal Insurance.

- **The option to withdraw funds directly from provident funds for savings** (formerly: "non annuity paying provident funds") and also by way of a stipend may provide the possibility to maintain funds in provident funds for savings which are managed by Clal Pension and Provident Funds, for lengthy periods, and may result in expansion of the mix of pension products in the market, and may result in an increase in sales of the pension savings products which are marketed by Clal Pension and Provident Funds. On the other hand, the aforementioned option is expected to increase the number of active players in the annuity payment segment, and increase the mobility and competition in the segment, including with respect to other products which are marketed by the group.

- The creation of **provident funds for investment** constitutes an opportunity to increase the accrual of funds in pension and provident funds; however, also at the expense of the individual products which are marketed by Clal Insurance.

- **Strengthening the status of employees and reducing dependence on agents -**

  - **Providing employees with right to choose their insurance agent**, as well as the **provisions of the circular regarding the prohibition against conditions in pension arrangements**, which prohibits making conditions with respect to the provision of a discount in management fees in a pension product upon the acquisition of insurance coverage, strengthened the employee's status and affect the employer's status, and its connection with the institutional entity.

  - **Providing the aforementioned right to choose**, and **determining the conditions in which a pension marketer may give, in parallel, operating services to the employer and marketing services to its employees**, are expected to affect the engagements and activities of agents, and particularly of arrangement agencies, including arrangement agencies owned by the group, where a large part of their activities is based on engagement through the employer, with respect to its employees, while boosting the status of pension advisors, small and medium agents, and operating entities. The preconditions which were determined in order to allow the agents to provide services, both to employees and to employers, will create significant operational difficulties for the institutional entities in the group, and may result in the reduction of the company's income from management fees, and may also have implications on the amount of commissions paid by the company to agents. Additionally, the provision requiring the collection of payment from the employer with respect to the operating services which will be paid by it, may result in increased competition over the provision of services to employers among the agents, and between the agents and other operating entities. The condition for the provision of services in parallel to an employer and its employees, according to which an employer will add employees who have not chosen a pension product to a default fund, in combination with the provisions of the default fund circular (see section 6.2.1.4(a) above), is expected to result in an additional increase in competition with respect to the management fees which will be offered to employees in the default products.

- **The draft distribution commission regulations**, insofar as they will be accepted in their current version, will increase competition in the segment, including with respect to insurance products, and the provision of the possibility to pension advisors to advise also in connection with the insurance products, will increase the competition between license holders.

- **Operational preparations, transfer of information in the pension savings segment and the clearing house -**

  - During the reporting year, and in light of the entry into effect of the Payment Regulations, the clearing house continued growing its operations with respect to the transfer of information. The clearing house assists and increases the efficiency of fund clearing, lifts operational barriers and facilitates the transfer of funds between competing institutional entities, and the identification of those funds, and is expected to facilitate the joining of members and collection, and therefore, is expected to result, over the long term, in increased efficiency and increased competition. The institutional entities in the group prepared, in operational terms, and worked to implement the arrangements which were determined for the purpose of operating the clearing house, including in connection with the Payment Regulations.

  - During the reporting year, the company operated the employers interface, which is intended to accept information regarding the depositing of payments for pension products, and to provide feedback from the institutional entity to the employer. The need for the transfer of information and data regarding members and policyholders and regarding the pension products which are owned by them, through the holdings interface, and the need for regarding severance pay data for employers, through the severance pay balances interface, while guaranteeing the reliability and completeness of the data, before completing the preparation of all license holders for the intake of the data through the holdings interface, may result in harm to service and to the reliability of the information which will be given by the license holders and the institutional entities to members and policyholders.

  - The process of applying the payment regulations, which includes interfacing with many entities, including employers, payroll bureaus, operating entities, agents, institutional entities, the pension clearing house, and others, is highly complex, and involves significant operational difficulties in the entire branch, both in light of the need for preparation by employers, and in light of the differences of information between the parties. According to the company’s estimate, over the long term, the use of the payment interface and the regulation of the fund handling process will have positive consequences. However, in the short term, as reflected in the market during the reporting year, it may result in a delay in the distribution of deposits, due to inconsistencies between the reports of employers and the policy data, and may bring up inconsistencies which will require specific handling and investigation, where at this stage, it is not possible to predict their cumulative implications, with respect to the relevant periods. The implementation of the Payment Regulations during the reporting year, the separation of the combined portfolio and the process of implementing the handling of the matter in the company's systems resulted in a significant increase in the scope of pension funds which were received in the company from employers, and were not associated with members and policyholders in the systems, inter alia, in light of the scope of reports which were received from employers, even before the entry into effect of the binding provisions by virtue of the Payment Regulations, with respect to them, and in light of the increase in the rate of provisions, following Amendment No. 16 to the Provident Funds Law, and accordingly, also resulted in delays in the payment of commissions to agents with respect to new sales, and in possible temporary gaps in reports to members. The company is working to reduce the aforementioned gaps, including through improvements to the automation systems.

- According to the company's estimate, **the restrictions regarding the expenses in connection with investment management will not** have a significant effect on the group's institutional entities. However, the amendment to the provisions on the matter contain an additional component for comparison between the competing entities, and as a result, may affect the competition in the branch.

- According to the group's estimate, the provisions of the draft regulations regarding the acquisition, sale and possession of securities is not expected to have a significant impact. For details regarding an agreement with a banking corporation for the provision of operating services to provident funds which are managed by Clal Pension and Provident Funds, see Note 44(b)(3) to the financial statements.

For details regarding the implications of the provisions of the law regarding increasing competition in the long term savings segment, relative to the agents fees, see section 10.8.3.1 below, and Note 43(a2)(15) to the financial statements.

The information presented on all matters associated with the possible implications of the provisions of the law regarding the increase of competition in the pension savings segment, including in connection with the company's profitability, constitutes forward looking information which is based on assessments and assumptions of the group, as of the publication date of the 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 member companies in the group, 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 group's institutional entities; Their relationships with the distributing entities, the agents and the banks which have not yet begun advising regarding insurance products; 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 impact together with the provisions regarding increased competition.

6.2.1.5. **Annuity factor reform**

The life insurance plans that were marketed by the insurance companies until the end of 2012[41], included annuity conversion factors entailing a life expectancy guarantee, which are determined in advance when purchasing the insurance and cannot be altered, even if life expectancy increases more than was foreseen on the purchase date (herein: "**Longevity Insurance Coverage**" or the "**Guaranteed Annuity Factors**"). Research carried out by the Commissioner shows that it is not possible to forecast life expectancy, its future improvement, and other factors that impair the ability of the insurance companies in handling the risk entailed in Longevity Insurance Coverage and could affect the ability of the insurance companies to meet their annuity payment obligations (herein: the **Study)**. Due to the findings of the study, the Commissioner adopted the following measures:

A. <u>Cancellation of the annuity factors in life insurance policies beginning in 2013</u>

In November 2012, the Commissioner published a circular regarding annuity factors which embody a life expectancy guarantee (the "**Annuity Factors Circular**"), in which the Commissioner determined provisions which restrict the insurance companies in the sale of new life insurance plans, beginning on January 1, 2013. In accordance with the aforementioned restrictions, new life insurance plans which include guaranteed annuity factors can only be sold to policyholders who are 60 years old or older on the sale date, subject to the restrictions specified in the circular regarding annuity factors.

During the reporting year, life insurance policies with annuity factors were marketed to persons aged 60 or older in a negligible scope.

Further to the circular regarding annuity factors, in December 2015, a circular was published regarding the marketing of life insurance policies with annuity factors which include a life expectancy guarantee (the "**Circular Regarding the Mobility of Guaranteed Annuity Factors**"), in which provisions were determined which allow the marketing, transfer and maintenance of investment-linked life insurance policies combined with savings with guaranteed annuity factors ("**Guaranteed Annuity Factor Policies**") which were acquired from 1991 to December 31, 2013. In accordance with the provisions of the aforementioned circular, policies with guaranteed annuity factors can be marketed to persons under age 60 who wish to transfer all of the funds from an existing policy or from a policy to which funds were transferred from an existing policy. In general, the amounts of deposits and the guaranteed annuity factors in the new policy will be identical to the amounts of the deposits and the annuity factors in the default track for the existing policy, subject to adjustments which were specified in the circular regarding the mobility of policies with guaranteed annuity factors.

In accordance with the provisions of the circular regarding guaranteed annuity factors, the guaranteed annuity factors will be added to the new policy through a longevity insurance coverage annex, which will be priced separately from the other terms of the new policy, and

[41] For details regarding the marketing permit which the Commissioner published in 2013, see footnote 20 above.

the premium rate which will be paid for it may be adjusted to changed in the risk of increased life expectancy, in accordance with the formulas which were determined in the annex to the circular, and provided that the premium rate with respect to longevity insurance coverage, plus the management fees in the new policy, does not exceed the total sum of management fees which were paid in the existing policy.

The annuity factors circular initially resulted in a change in the mix of the mix of pension products sold by the group’s institutional entities, in a manner which significantly reduced the marketing of insurance products, at the expense of growth in the marketing of pension products. With respect to the insurance policies which were sold following the entry into effect of the annuity factors circular, the annuity factor reform resulted in moderation of the increase in exposure to increased life expectancy, which is inherent in the terms of policies with annuity factors which include a life expectancy guarantee, with respect to policyholders who, on the policy acquisition date, were younger than 60. During the reporting year, an improvement occurred in the retention of life insurance policies which were sold in the past, and which have annuity factors which include a life expectancy guarantee, and where the scope of withdrawals from insurance policies with guaranteed annuity factors, decreased relative to last year.

The circular regarding the mobility of guaranteed annuity factors may have an effect on the entire long term savings segment, in light of the granting of the possibility to transfer life insurance policies which are combined with savings, which until now could not be transferred, while retaining the guaranteed conversion factor. The provision of the aforementioned option will increase competition with respect to these products, and may have an impact on the company’s profitability and capital requirements, inter alia, due to the possible erosion of the current management fees in the aforementioned policies, a change in the scope of the life insurance portfolio managed by Clal Insurance, and an increase in the company’s operating expenses. Additionally, a negative impact is possible on the value in force, and accordingly, on the company’s economic equity. The company’s decisions regarding the sale and/or retention of policies with guaranteed annuity factors, which may be reached from time to time, in consideration of changing market conditions, are also expected to affect the reserves which are managed by it. However, during the reporting year, the circular regarding the mobility of guaranteed annuity factors had no impact on the company’s products.

According to the company’s estimate, the implications of the annuity factors circular, together with the circular regarding the mobility of guaranteed annuity factors, are not yet final, and are dependent, inter alia, on, on the conduct of policyholders, competing entities, and distributing entities on all matters associated with the mobility and acquisition of pension products; the structure of the market and distribution channels; the company’s retention policy, the capital requirements, and the combined impact of the aforementioned reform, together with other reforms in the pension savings segment.

The information presented on all matters associated with possible implications of the factor reform constitutes forward looking information, which is based on assumptions and estimates made by the group as of the publication date of the report. The company is unable to estimate the overall impact of the proposed changes on its financial statements and on its operations. Actual implementation may differ significantly from the forecast, due to the reasons specified above.

B. **<u>The Commissioner's letter regarding assumed returns in annuity conversion factors in the new pension funds and in life insurance policies (the "Commissioner's Letter") and the draft amendment to the circular regarding provisions for the management of new funds</u>**

Further to the Commissioner's letter from August 2013, to the managers of the institutional entities, regarding assumed returns in conversion factors, 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 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 March 2017, a second draft amendment was published to the circular regarding provisions for the management of a new fund, and in amendment of the circular regarding provisions with respect to financial reporting for new pension funds. In the draft, it was proposed, inter alia, to change the mechanism for calculation and update of the annuities which are paid from a new pension fund, in a manner which will 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 proposed amendment may result in a change in the policy of the managing companies, which, prior to the amendment, and in light of the aforementioned deficit, did not accept new members who asked to transfer to them, towards retirement, their amounts from another provident fund, due to the deficit with respect to the differences in returns, which is associated with the addition of such a member to the fund. As a result, the aforementioned amendment 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 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 draft 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 final version, if and insofar as it will be accepted, the actual returns achieved by Clal Pension and Provident Funds and by the competing entities, and the preferences and choices of members.

6.2.1.6. **Investment tracks reform**

In February 2015, a **circular regarding investment tracks in provident funds** was published, on the subject of the adjustment of the savings track to the member's unique characteristics (hereinafter: the "**Investment Tracks Circular**"), which is intended to establish rules for the creation of default tracks which are adjusted to the age of members in provident funds.[42] In accordance with the circular, beginning in January 2016[43], an institutional entity will manage, in each of the provident funds which are not study funds, investment tracks for the management of funds of new members who did not choose another investment track, within the framework of an age-dependent investment model and designated investment tracks for annuity recipients. The institutional entity is also entitled to manage a limited number of specialized investment tracks, in accordance with the conditions specified in the circular. Beginning on the application date, new members, as defined in the circular, will be added to one of the default tracks as appropriate for their age, or to the annuity recipients track, as applicable, unless they have requested otherwise. Members who are not new members will be entitled, upon request, to join the default track. In accordance with the provisions of the circular regarding investment tracks, general investment tracks (which are not specialized tracks, default tracks or tracks for annuity recipients), were closed to the joining of new members.

The institutional entities in the group adjusted the current investment tracks in provident funds according to the provisions of the investment track circular. The application of the investment tracks circular may have an additional impact on the pension savings segment in its entirety, inter alia, on all matters pertaining to the differences in returns between the managed tracks in the various companies, and between them and the general tracks, due to the variability between the choices of the institutional entities with respect to the investment management method within the framework of the age-dependent tracks and the track for annuity recipients, including in connection with the designation of the general track, which may be different, and the institutional entities. Additionally, with respect to policyholders to whom insurance policies were marketed before 2004, in which the management fees change in accordance with the returns of the investments, and who choose to join age-dependent investment tracks, the aforementioned choice may result in changes to the company's income from management fees, due to the difference in returns between the chosen tracks and the track from which the money will be transferred.

The information presented on all matters associated with the investment tracks circular constitutes forward looking information. At this stage, the company is unable to estimate the implications and impact on the company and on the market in general. Actual results may differ from the estimated results, depending, inter alia, on the preferences of policyholders, the conduct of competing entities, the returns which will be realized in the various tracks, and their methods of presentation.

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[42] The circular applies to all provident funds, except for certain funds which were excepted, including central provident funds, old funds, provident funds for sick pay, provident funds for holiday pay, provident funds for other purposes, guaranteed return insurance funds which were marketed before 1992, and life insurance policies which are not insurance funds.

[43] With respect to insurance policies which are insurance funds which were marketed before 2004, the circular enters into effect on January 1, 2017.

6.2.1.7. **Others**

- **Data cleansing with respect to members' rights**

Further to the provisions of the circular regarding data cleansing with respect to members' rights in institutional entities, which was published in November 2012, regarding data cleansing 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 implemented, in their financial statements, provisions as required and in accordance with their estimates; however, they 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.

For details regarding the company's engagement with an outsourcing service provider for the purpose of adjusting the company's IT systems for the intake of the results of the data cleansing project, see Note 44(d) to the financial statements.

- **Prohibition on money laundering**

In February 2017, the **Draft 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 "**Draft Prohibition on Money Laundering Order**"). The draft 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 draft 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 draft 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.

Additionally, in December 2016, the Proposed Prohibition on Money Laundering Law (Amendment No. 19), 2016 (hereinafter: the "**Amendment 19 to the Prohibition on Money Laundering Law**"), was published, which includes changes with respect to the wording of the current version of the law, including, inter alia, expansion of the list of cases which are included in the provisions of the law and the determination of provisions regarding the transfer of information between the Israel Prohibition of Money Laundering and Financing of Terrorism Authority and the Control of Insurance Office, and their authorities, for the sake of performing their positions in accordance with the law.

According to the company's estimate, the Draft Prohibition on Money Laundering Order and Amendment 19 to the Prohibition on Money Laundering Law 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 with respect to the draft order and the law memorandum 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 draft order and the law memorandum, 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.

- **Loans to policyholders and members**

In February and September 2016, amendments were published to the circular regarding investment rules for institutional entities, are intended to formalize the method used to provide the loans which are given by institutional entities to policyholders and to members against their accrued savings amounts, and to establish clear rules for the provision and pricing of loans, in order to ensure optimal investment of all savers' funds, and to ensure that the returns are not reduced as a result of non-investment considerations. As part of the amendments, various obligations are imposed on the institutional entity, which involve, inter alia, the creation of mechanisms for the selection of the risk level and the pricing thereof, and rules pertaining to demands for immediate repayment of the loan, when the borrower does not repay the loan on time.

According to the company's estimate, the publication of the amendment may create an operational burden on all matters associated with the process of providing, managing and collecting the loan, and may affect the scope of loans which will be given by the institutional entities, and indirectly also the choices of customers, in consideration of the alternatives which are available to them. For details regarding the draft position of the Commissioner regarding handling fees for loans, see Note 43(d)(3) to the financial statements.

The company's estimate in connection with the implications of the aforementioned draft constitutes forward looking information, which is based on the information that is available to the company as of the reporting date. Actual results may differ from the estimated results,

depending, inter alia, on the preferences of policyholders and on the conduct of competing entities.

- **Restrictions on the management of central provident funds**

In December 2016, the Tax Authority published an income tax circular on the subject of “accrued balances in central severance pay funds” (hereinafter: the “**Circular Regarding Balances In Central Funds**”), which includes, inter alia, a provision stipulating that managing companies will refrain from managing central provident funds for severance pay which are managed by them, for those who do not employ employees, and the way in which such funds should be handled.
Additionally, the circular determines provisions regarding which there is a “surplus” which is created in the central fund, which is defined as a balance in the fund, after deducting the liability for employees before December 31, 2017, and after deducting the amounts which are under legal dispute between the employer and its employees, and rules for the transfer of that surplus to the severance pay component in the personal provident funds of the employer’s employees.
The circular also determines provisions regarding the regulation of ownership in central severance pay funds, for cases in which there is a difference between the owner of the central fund and the employer of the employees for whom the amounts are deposited.
According to the company’s estimate, the provisions of the circular regarding balances in central funds are expected to result in significant withdrawals from central severance pay funds. For details regarding the scope of managed assets in central provident funds which are managed by the group, see Note 17 to the financial statements.

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

For details regarding the summary of additional final provisions of the law, which were published during the reporting year and thereafter, and a summary of the draft provisions of the law which were published, which apply to the operating segment, beyond the provisions of the law which were specified in this chapter above, see also section 10.2 below.

6.3. Competition

6.3.1. The competitive conditions in the operating segment and names of the significant competitors in the segment

This segment is characterized by intense competition between all of the institutional entities.

Life insurance, pension and provident products are alternative products with specific emphases in each of them, and therefore, there is competition between them. In light of a series of reforms in the segment, which reduced the variability between the products, and gave preference to annuity products, the cancellation of the guaranteed factors in the insurance funds, the relatively low cost of the insurance coverages in the pension fund, the management fees which are collected, and the guaranteed returns on some of the assets in the pension funds, have turned the pension funds into the leading product. For details regarding trends in supply and demand during the reporting year, see section 6.1.4 above.

The insurance products which do not receive tax benefits, such as individual policies or pension savings funds which became liquid, are products which also compete against other investment products which are also marketed by financial entities which are not institutional entities supervised by the Commissioner, primarily banks.

Also provident funds for investment, whose marketing began sometime in 2016, and whose marketing is expected to increase in the coming years, constitute a substitute for alternative investment tracks, such as bank deposits, management of securities portfolios and for individual savings policies which are managed by insurance companies. For additional details regarding the provident funds for investment, see section 6.2.1.2 above. The competition in the segment is focused on returns, including the existence or absence of guaranteed returns, in the amount of the management fees, in the insurance coverages, in the existence or absence of guaranteed annuity factors, in the service level, and in insurance solutions. During the reporting year, the competition in the segment increased, inter alia, as a result of the combined impact of the regulatory reforms mentioned above and below, and the increased transparency, and the discount in management fees, the creation of a default pension fund, and the entire set of conditions which are determined in the significant transactions in the pension savings market.

In accordance with the Commissioner's publications, as of December 31, 2016, the group is the second largest in the life insurance branch, the third largest in the pension fund branch, and the fourth largest in the provident fund branch, and in total, the group is the second largest in the pension market, in accordance with the scope of managed assets, as defined by the Commissioner. It is noted that, during the reporting year, a trend of encouragement and preference for entry and support of small players in the market has been evident, which was particularly prominent in the selection of default funds, and in provident funds for investment of the long term savings for children type.

The regulation in recent years resulted in the encouragement of competition and reforms and various regulatory provisions in the segment affected, and continue to affect, the competitive conditions in the segment. The following provisions, inter alia, have affected competition:

- **The annuity factors circular** (for details regarding the circular and the implications thereof, see section 6.2.1.5(a) above).
- **Compulsory pension** (for details, see section 6.2.1.3 above).
- **Circular regarding default funds and the creation of default funds** (for details regarding the circular and its implications, see section 6.2.1.4(a) above).
- **Products reform and the trend of unification between different products -** (for details and implications, see section 6.2.1.1 above).
- **Provisions regarding the consolidation of inactive accounts** (for details, see section 6.2.1.4(d) above).
- **Creation of provident funds for investment** (for details and implications, see section 6.2.1.2 above).

- **Clearing house and mobility reform -** In general, the migration reform affects competition in the branch. The competition is reflected, inter alia, in management fees, returns and service. According to the company's estimate, the mobility reform, which led to the lifting of the regulatory barriers and to the establishment of policies regarding the transfer of funds, exposed some of the pension products to transfers between the institutional entities, and therefore increases competition in the segment, including with respect to the group's products. The clearing house facilitates the mobility processes, and therefore increased competition in the segment.

  The total incoming transfers of monies to the group's pension funds exceeded the outgoing monetary transfers from these funds in a negligible scope. The total outgoing transfers from the insurance funds exceeded the incoming transfers in a negligible scope, and the main migration of these funds was to provident funds. For additional details, see Note 20(d) to the financial statements. The total sum of outgoing transfers from provident products during the reporting year exceeded the total sum of incoming transfers from these products, and was in a non-negligible sum during the reporting year, and had a cumulative significant impact. Most of the outgoing transfers from the total pension products was from the capital based provident funds and the provident funds for savings which are managed by Clal Pension and Provident Funds. According to the company's estimate, the mobility reform affects competition with respect to the aforementioned products, an effect which is reflected, inter alia, in the retention ability, and in the amount of management fees collected. For additional details, see Part B, board of directors' report, section 3.1.1.

- **Publication of comparative benchmarks -** The Commissioner publishes, on the website of the Ministry of Finance, comparative figures with respect to returns and the risk indicators of provident funds, pension funds and insurance funds, and publishes information regarding the composition of investment assets and expenses which are deducted from members' assets with respect to the performance of investments. The Commissioner is working to expand the comparative publications and to increase competition in the segment. For details regarding the management fees calculator and regarding the tariff calculator, see section 6.2.1.4(f)(3) above; for details regarding the publication of statistical information regarding the claim settlement method and the time required to handle the requests for withdrawals, mobility, transfers between tracks and the receipt of annuities, and regarding comparative figures in connection with the service level indicator, see section 10.2.11 below.

- **Provisions of the addition to insurance circular** (for details, see section 10.2.9 below).

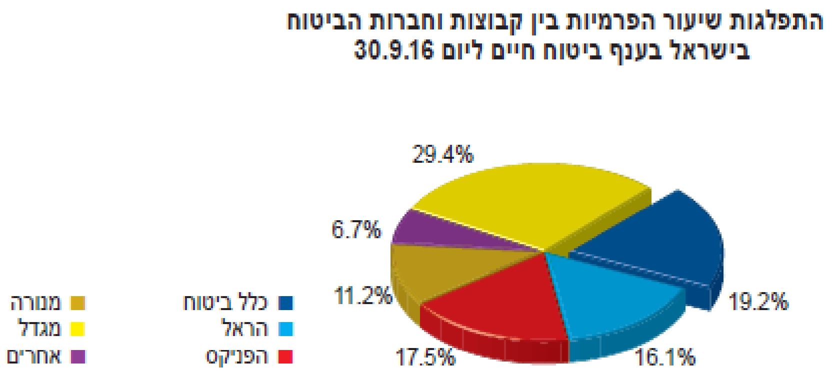
The information presented above with respect to the changes in the competition in the segment constitutes forward looking information, as defined in the Securities Law. This information relies on the group's estimates as of the publication date of the report. The actual changes could differ materially from those forecast stated above, as a result of various factors, primarily regulation changes, market condition changes, the conduct of competitors, and the choices made by members, policyholders and distributing entities.

1) <u>Life insurance branch</u>

Approximately 93.4% of the life insurance market, in terms of gross premiums earned, is controlled by the five large insurance companies (Clal Insurance, Migdal, Harel, Menorah and

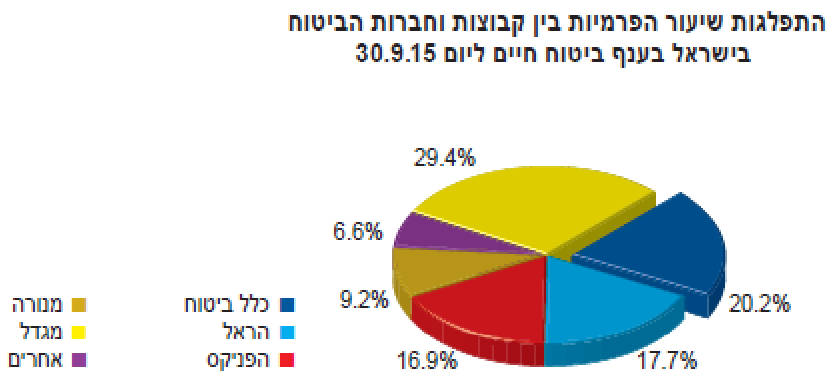
Phoenix). According to the group's estimate, Clal Insurance primarily competes against these insurers, against pension funds and against provident funds which provide alternative products. Clal Insurance also competes in the individual insurance segment.

Distribution of premium rates between insurance groups and companies in Israel in the life insurance branch as of September 30, 2016



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Purple – Others

Distribution of premium rates between insurance groups and companies in Israel in the life insurance branch as of September 30, 2015



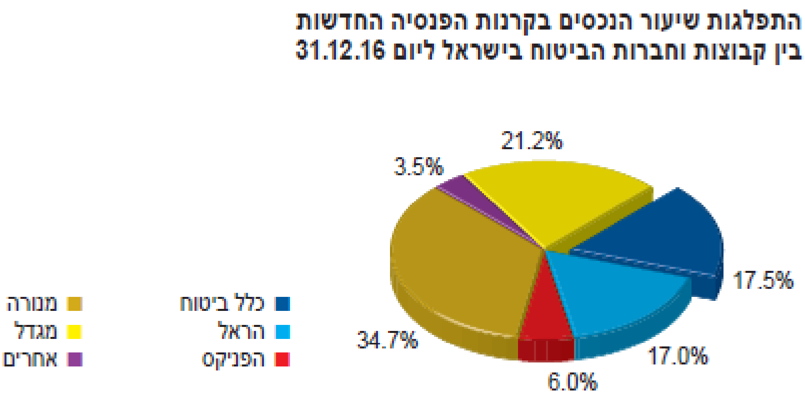
Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Purple – Others

* The scope of premiums in the life insurance branch reflects the premiums which are paid with respect to all policies which are in effect and which were sold over the years, and changes therein do not necessarily indicate a change in supply and demand during the reporting year.

2) Pension funds branch

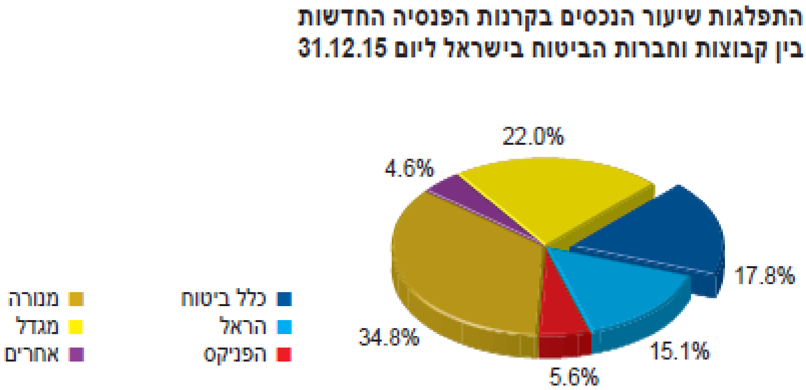
According to the group's estimate, the group's member companies primarily compete against the large new pension funds, Mivtachim (Menorah) and Makefet (Migdal), and the Harel Group.

Distribution of asset rates in new pension funds between insurance groups and companies in Israel as of December 31, 2016



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Purple – Others

Distribution of asset rates in new pension funds between insurance groups and companies in Israel as of December 31, 2015

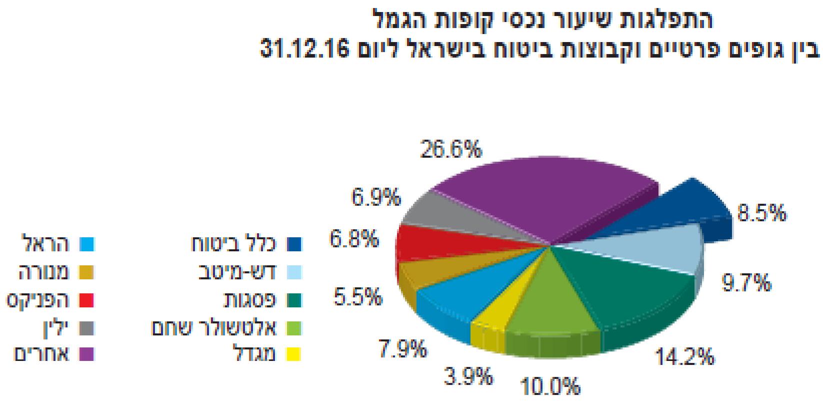


Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Purple – Others

3) Provident funds branch

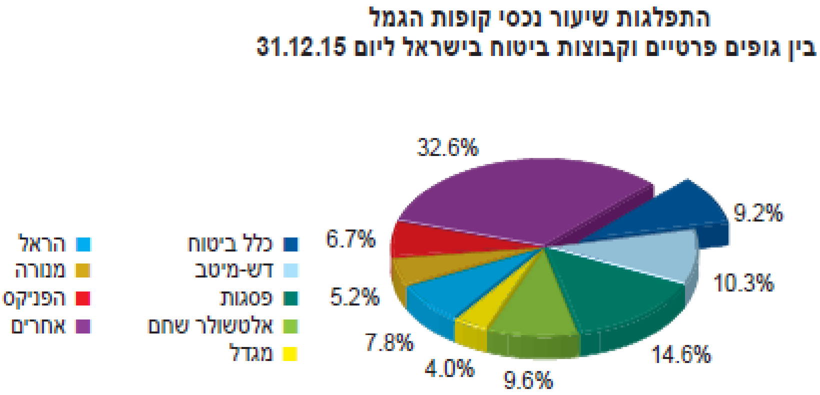
As of the reporting year, the competition in the branch takes place primarily against the other provident funds for savings. According to the group's estimate, its main competitors are Psagot, DS - Meitav, Altshuler Shaham, Harel, Phoenix, Menorah and Migdal.

Distribution of scope of assets in provident funds between private entities and insurance groups in Israel as of December 31, 2016



Dark blue – Clal Insurance
Light blue – DS-Meitav
Dark green – Psagot
Light green – Altschuler Shaham
Yellow – Migdal
Turquoise – Harel
Beige – Menorah
Red – Phoenix
Grey – Yellin
Purple – Others

Distribution of scope of assets in provident funds between private entities and insurance groups in Israel as of December 31, 2015



Dark blue – Clal Insurance
Light blue – DS-Meitav
Dark green – Psagot
Light green – Altschuler Shaham
Yellow – Migdal
Turquoise – Harel
Beige – Menorah
Red – Phoenix
Purple – Others

For additional details in connection with the changes in the market share of the group in the long term savings branches, see Part B, board of directors' report, sections 2.2.1 and 2.2.2.

6.3.2. Methods for dealing with competition and factors affecting the company's competitive position

Dealing with competition in this operating segment takes place on several levels:

- Synergy between the group's member companies - provision of integrative solutions to customers in all long-term savings channels.
- Use of regulatory reforms, including the mobility reform, the products reform, mandatory pension, and the annuity factors reform for customers aged 60 and over, and provident funds for investment, in order to be exposed to potential new customer segments and enroll them as customers.
- Increased operational efficiency - by improving work methods, improving the automation systems, operational and legal merger of companies, consolidation of headquarters units and supportive back office systems of the group's member companies, etc. For details regarding the improvement of automation and digitization systems, see section 10.10.3.1 and section 10.10.3.2 below.
- Retaining customers in the existing portfolio and improving the service to the customer – by activating designated units to handle an issue, creating designated service hotlines, including

claims hotlines and employers' hotlines, while presenting a range of existing possibilities in the group to the customer.

- Expansion of the customer base, both through the distribution channels and by increasing the sales volume, product types, and the scope of insurance coverage to existing customers.

- A professional and highly skilled investments unit, which aims to achieve maximum returns for policyholders and members, through informed risk management.

- Expansion of the distribution and marketing systems, both direct and through agents, by conducting sales promotion campaigns, improving service to agents, and recruiting new agents.

- Work vis-à-vis the pension advice units in the banks.

- Branding and positioning of the group.

- Developing products and adapting the products to customer needs and to changing market conditions, in accordance with the regulatory restrictions.

The main factors affecting the company's competitive position include:

- Many years of experience in the life insurance and long term savings segment.

- The group's reputation in the segment.

- Long term relationships with agents marketing the group's products.

- Direct distribution network.

- The variety of pension products which are sold under one roof.

- Financial stability.

- Returns achieved on savings funds, as compared with the returns of competing entities.

- The service given by the company to customers and agents, and the claim settlement method.

6.4. Customers

_______The major customer classes in the long-term savings segment are: employers, members, private policyholders, the self-employed, and collectives.

In this segment, the company is not dependent on any individual customer, or on a limited number of customers. The company does not have individual customer whose income constitutes 10% or more of the company's total income in the consolidated reports.

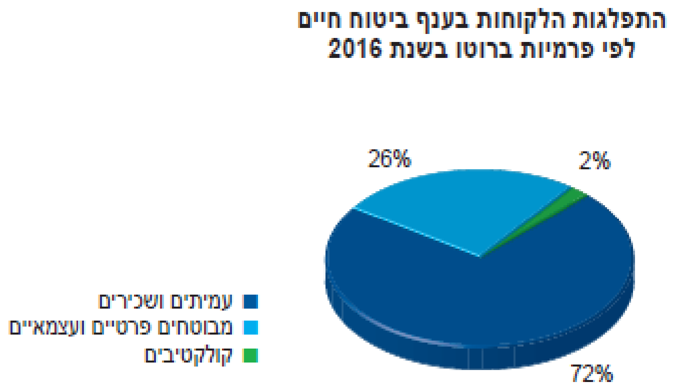
The group markets, from time to time and in the ordinary course of business, to member companies of the IDB Group (as policyholders in collective insurance, as members in central provident funds and as employers depositing into pension savings for their employees), long term savings products.

The group's total income in the long term savings segment from member companies of the IDB Group, from premiums and contributions in the ordinary course of business, does not exceed 5% of the company's total income in the segment in 2016. For the sake of caution, despite the fact that the IDB Group includes a large number of companies, all of the member companies of the IDB Group were addressed, for this purpose, as a single entity.[44]

6.4.1. Distribution of customers in the life insurance branch by premiums in the years 2016 and 2015

Customer type	2016		2015	
	Gross premiums (NIS in thousands)	**Proportion of total sales**	**Gross premiums (NIS in thousands)**	**Proportion of total sales**
Members and salaried employees	3,620,608	72%	3,453,391	71%
Private and independent policyholders	1,274,846	26%	1,259,932	26%
Collectives	103,159	2%	140,605	3%
Total	**4,998,613**	**100%**	**4,853,928**	**100%**

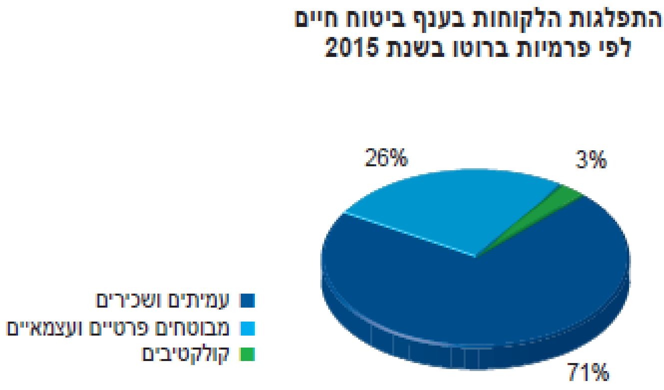
Distribution of customers in the life insurance branch by gross premiums in 2016



Blue – Members and salaried employees
Turqoise – Individual and self-employed policyholders
Green - Collectives

44 With respect to the reporting year, the evaluation also included Mr. Moshe Terry, who serves as the trustee for IDB Development for the purpose of exercising the authorities which are vested in him by virtue of the means of control.

Distribution of customers in the life insurance branch by gross premiums in 2015



Blue – Members and salaried employees
Turqoise – Individual and self-employed policyholders
Green - Collectives

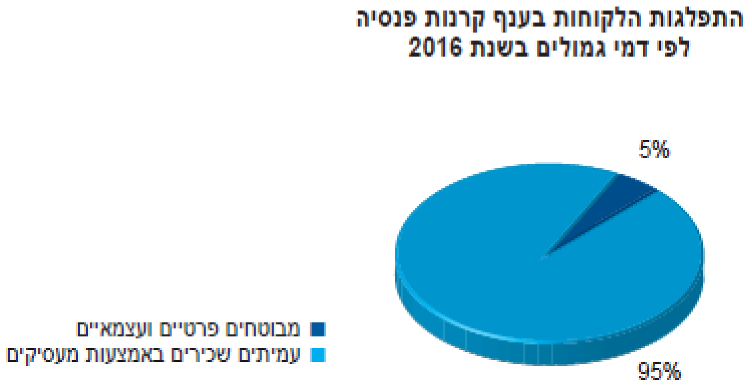
6.4.2. Redemptions in the life insurance branch

In the life insurance branch, the redemption rate from the average reserve during the reporting year was 2.2%, similarly to 2015. For additional details, see section 6.2.1.5(a) above.

6.4.3. Distribution of customers in the pension fund branch by contributions for the years 2016 and 2015

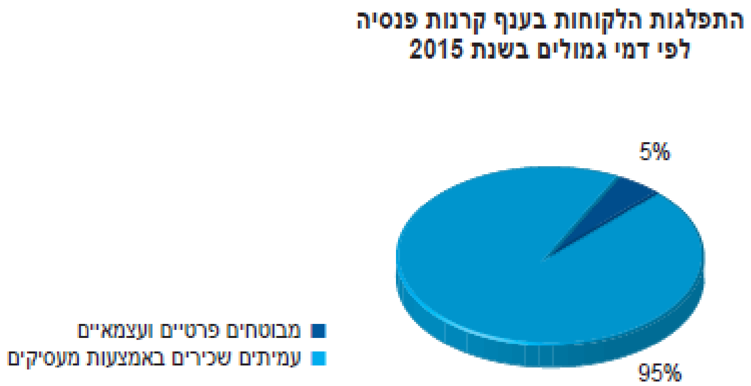
Customer type	2016		2015	
	Contributions (NIS in thousands)	Proportion of total sales	Contributions (NIS in thousands)	Proportion of total sales
Salaried employee members	5,116,407	95%	4,630,785	95%
Individual and self-employed policyholders	278,811	5%	241,711	5%
Total	**5,395,218**	**100%**	**4,872,496**	**100%**

Distribution of customers in the pension fund branch by contributions in 2016



Blue – Individual and self-employed policyholders
Turqoise – Salaried employee members

Distribution of customers in the pension fund branch by contributions in 2015



Blue – Individual and self-employed policyholders
Turqoise – Salaried employee members

6.4.4. Segmentation of customers in the provident funds branch according to contributions in 2016 and 2015

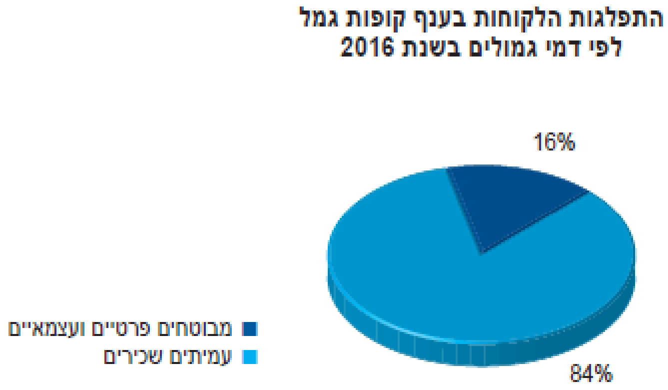
2016

Customer type	Contributions and provident funds (NIS in thousands)	Central severance pay contributions (NIS in thousands)	Contributions / deposits to study funds (NIS in thousands)	Total contributions (NIS in thousands)	Proportion of total contributions (NIS in thousands)
Salaried employee members	379,396	3,670	969,846	1,352,913	84%
Individual and self-employed policyholders	133,818	-	130,126	263,943	16%
Total	**513,214**	**3,670**	**1,099,972**	**1,616,856**	**100%**

2015

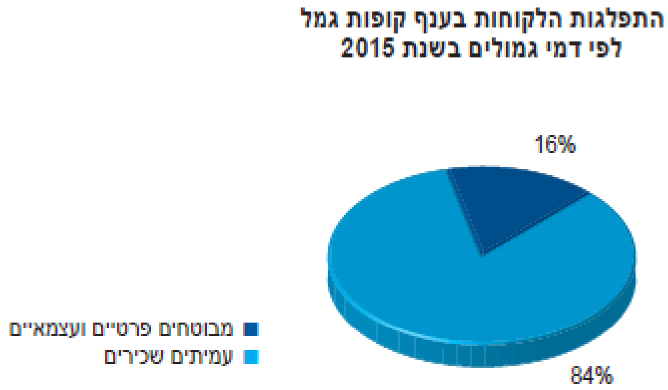
Customer type	Contributions and provident funds (NIS in thousands)	Central severance pay contributions (NIS in thousands)	Contributions / deposits to study funds (NIS in thousands)	Total contributions (NIS in thousands)	Proportion of total contributions (NIS in thousands)
Salaried employee members	312,882	3,885	924,170	1,240,937	84%
Individual and self-employed policyholders	76,198	-	166,530	242,728	16%
Total	**389,080**	**3,885**	**1,090,700**	**1,483,665**	**100%**

Distribution of customers in the provident fund branch by contributions in 2016



Blue – Individual and self-employed policyholders
Turqoise – Salaried employee members

Distribution of customers in the provident fund branch by contributions in 2015



Blue – Individual and self-employed policyholders

Turqoise – Salaried employee members

7. Non-life insurance segment

7.1. Products and services

7.1.1. Description of the insurance branches and the insurance coverages included in the segment

This segment includes the group's operations in the non-life insurance branches. The non-life insurance segment is traditionally divided into 2 main categories: (a) property insurance and (b) liability insurance.

Operations in property insurance are considered characterized by "short tail claims", due to the fact that the obsolescence period is only three years after the occurrence of the insurance event, and due to the fact that these claims are submitted, in most cases, during the insurance period. On the other hand, compulsory insurance and liability insurance are considered characterized as "long tail claims", due to the fact that the obsolescence period is seven years after the occurrence of the insurance event, due to the fact that the insurance claim does not become obsolete so long as the third party claim against the policyholder has not become obsolete, and due to the extended period of time which passes between the date of materialization of the cause of action against the policyholder, and the date of the discovery and/or the filing date of the claim (inter alia, in light of the aforementioned obsolescence period) and/or due to the time period which is required to investigate the claim. In accordance with the Amendment to the Insurance Contract Law from March 2014, the obsolescence period of claims for insurance benefits, in case of disability which was caused to the policyholder due to an illness or accident, will begin on the date when the policyholder earns the right to claim insurance benefits in accordance with the terms of the insurance contract. Therefore, personal accidents policies which include accidental disability coverage may also be considered as having "long tail claims".

Presented below is a review of the main branches which are included in the non-life insurance segment:

7.1.1.1. Compulsory motor insurance branch

(A) General

In this branch, insurance coverage is provided to vehicle owners and to vehicle drivers for any liability which they may incur in accordance with the **Road Accident Victims Compensation Law, 1975** (the "**RAVC Law**"), as well as any other liability due to physical harm caused to a person by or due to the use of the motor vehicle, and coverage is also given to the vehicle owner and his permitted driver for physical injury which may be caused to them in a road accident. In general, the terms of coverage are standard and formulated in accordance with the wording of the Standard Policy which was established in the Control of Financial Services Regulations (Insurance) (Contract Terms in Compulsory Motor insurance), 2010. This insurance is compulsory, and constitutes a the use of condition for a motor vehicle, in accordance with the Motor Vehicle Insurance Ordinance, 1970 (the "**Ordinance**").

(B) Special arrangements in the compulsory motor insurance segment

Several arrangements are in effect in the compulsory motor insurance segment which affect insurance tariffs, as specified below:

1. Residual insurance arrangement (arrangement through the "Pool"):

In light of the fact that, on the one hand, compulsory motor insurance is a legal obligation, while on the other hand, there is no obligation to insure all parties who request to acquire such insurance, by virtue of the Motor Vehicle Insurance Regulations (Residual Insurance Arrangement and Tariff Establishment Mechanism), 2001, the residual insurance arrangement was established, which covers individuals using motor vehicles who did not obtain insurance coverage directly from the commercial insurance companies (such as drivers with an insurance past indicating high risk, drivers with a history of license revocations, high risk vehicles such as motorcycles, all-terrain vehicles and/or additional vehicles which were rejected by the insurance companies). The residual insurance arrangement is based on co-insurance of all of the insurance companies which are active in the compulsory motor insurance branch, according to which the aforementioned companies are required to participate in the residual insurance arrangement, and jointly bear its losses or profits, in accordance with their share in the total premiums in compulsory motor insurance (the "**Compulsory Market Share**"). The group's share in the residual insurance arrangement as of the 2016 underwriting year amounted to a total of approximately 10.2%[45], as compared with a rate of approximately 9.8% in the 2015 underwriting year. For details regarding the impact of the residual insurance arrangement on the financial results of Clal Insurance, see Part B - board of directors' report, section 3.1.2.

The insurance companies finance their share in the residual insurance arrangement by loading the cost of residual insurance onto the other policyholders in compulsory motor insurance in the insurance company through avenues other than residual insurance. In accordance with the legislative arrangement, the loading component which the insurance companies participating in the residual insurance arrangement are permitted to charge for the purpose of financing of residual insurance is at a rate which will not exceed a range of 5.5% to 6.5% of the cost of the pure risk of the insurer's compulsory insurance through avenues other than the residual insurance, in accordance with the Commissioner's Determination. For additional details regarding the "cost of pure risk", see subsection 7.1.1.1(c)(3) below.

2. Karnit Road Accident Victims Compensation Fund

Karnit Road Accident Victims Compensation Fund ("**Karnit**") is a corporation which was established in accordance with the RAVC law, for the purpose of paying compensation to eligible individuals in accordance with the RAVC law, who are unable to claim compensation from an insurance company, due to one of the following cases: (1) Injury

[45] The specified rate is a temporary rate which is based on the data for September 2016, as published by the Pool.

caused by an uninsured vehicle; (2) Unknown insurer (such as "hit and run" accidents); (3) Insurer in liquidation proceedings, or for which an authorized manager has been appointed.

The funding of the fund is done through loading a rate of 1% of net premiums on the holders of compulsory motor insurance policies. This amount is transferred by the insurance companies to Karnit.

3. Liability regarding the provision of medical services -

_ In accordance with a legislative amendment from 2009, in which the insurance liability for the provision of medical services which are included in the basket of services set forth in the Second Addendum to the National Health Insurance Law, 1994 (hereinafter: the "**National Health Insurance Law**") and in the Drugs Ordinance, in accordance with section 8(g) of the National Health Insurance Law, due to physical injuries caused to road accident victims, was transferred from the insurers to the health funds, the insurance companies collect 9.4% of the premiums in order to finance the cost of financing the cost of providing services to road accident victims (hereinafter: the "**Participation Amount**"). The insurers will continue being liable for the remaining medical services that are not included in the Second Addendum to the National Health Insurance Law and in the Medicines Ordinance. The foregoing does not apply to certain population groups, including, inter alia, soldiers and work accident victims, where the insurance liability to cover their medical treatment expenses in case of a road accident remains with the insurers. The participation amount is transferred by the company to Karnit, which transfers it to the National Insurance Institute, which transfers it to the health funds.

(C) Tariffs and oversight thereof, the statistical information database and the database to identify insurance fraud in the compulsory motor branch

1. Tariffs reform in compulsory motor insurance - maximum and variable (net) premiums to determine tariffs in the compulsory motor branch

The insurance companies determine the premiums using variables which were approved by the Commissioner as variables which an insurer will be entitled to use for the purpose of determining the tariff (hereinafter: the "**Variables**"). The variables are intended to adjust the risk premium to the insured risk. Until April 2016, as specified below, the premiums in the compulsory motor insurance branch for vehicles other than motorcycles could not exceed the maximum rate, which was 90% of the net premiums for that policyholder, within the framework of the residual insurance tariffs which are published from time to time by the Commissioner (hereinafter: the "**Tariff Restriction**").

In January 2016, the Commissioner published an amendment to the provisions of the consolidated circular in the compulsory motor insurance branch, which enters into effect in March 2016 (hereinafter: the "**2016 Amendment to the Compulsory Motor Insurance Circular**"). As part of the 2016 Amendment to the Compulsory Motor Insurance Circular, the residual insurance premiums for private and commercial vehicles which are sold by the managing company of the residual insurance arrangement (the "Pool") were updated in a manner which reduces the cost of compulsory insurance which is sold by the "Pool", and makes us of additional variables which were previously not used by the "Pool". Within the framework of the amendment to the 2016 compulsory motor insurance circular, the following changes were made, inter alia: the possibility of determining unique net premiums for collectives was canceled, beginning in January 2017; the automatic linkage mechanism to the index of insurance premiums according to the approved tariff of the insurance company was canceled; and the possibility was canceled of reimbursing premiums for all vehicles at the end of the insurance period, which serves as an incentive for an absence of claims during the insurance period (as opposed to the situation prior to the amendment, which allowed the foregoing with respect to vehicle fleets only). Additionally, as part of the 2016 amendment to the compulsory motor insurance circular, the tariff limit was temporarily canceled until the end of 2016.

Following a petition which was filed by the Israel Insurance Association and the Pool with the Supreme Court on the matter, in August 2016, an additional amendment published to the provisions of the consolidated circular in the compulsory motor insurance branch, which permanently canceled the tariff limit.

In September 2016, the Commissioner published an additional amendment to the provisions of the consolidated circular in the compulsory motor insurance branch, in which the residual insurance premiums were updated for private vehicles, beginning in January 2017 (hereinafter: the "**2017 Amendment to the Compulsory Motor Insurance Circular**").

During the period of the compulsory motor tariffs reform, Clal Insurance was required by the Commissioner to submit to her, for approval, updated insurance tariffs which reflect, after neutralizing the implications of the Winograd committee and the amendment to the Discounting Regulations (for details, see section 7.1.1.1(d)(2) below), a significant reduction of the compulsory insurance tariff.

_The compulsory motor tariffs reform resulted, after neutralization of the offsetting implications of the Winograd committee and the amendment to the Discounting Regulations (for details, see section 7.1.1.1(d)(2) below), a significant reduction of the tariffs of the Pool for private vehicles in 2016, relative to previous years, and a reduction of the tariffs of some companies on the market, including Clal Insurance, with respect to some policyholders. In 2017, an additional reduction of the compulsory insurance tariffs of companies on the market is expected with respect to 2016. Clal Insurance has a tariff which was approved by the Commissioner regarding compulsory motor insurance until the end of May 2017, and it is holding discussions with the Commissioner in connection with the compulsory motor tariffs subsequent to that year.

The compulsory motor tariffs reform, in its entirety, is expected to result in harm to profitability; however, at this stage, it is not currently possible to assess its full impact, inter alia, in light of the fact that the branch is characterized by a long tail claim, and in light of the uncertainty regarding the future impact of the implications of the Winograd committee and the amendment to the Discounting Regulations, as specified in section 7.1.1.1(d)(2) below.

Additionally, the 2016 amendment to the compulsory motor insurance circular and the 2017 amendment to the compulsory motor insurance circular may affect the market share of the Pool, and may increase it in a manner whereby the Pool will no longer serve as insurance for cases of exceptional risk only, and accordingly, may affect changes in the market share between the competing companies, including Clal Insurance.

The company's estimate in connection with the compulsory motor tariff reform: the 2016 compulsory motor insurance circular and the 2017 amendment to the compulsory motor insurance circular, constitutes forward looking information, which is based on information which is available to the company as of the reporting date. Actual results may differ from the estimated results, inter alia, in accordance with the Commissioner's policy at the time of approval of the tariffs, changes in the Pool's share in the compulsory insurance, the conduct of competitors and customers, future underwriting results, and the impact of the Discounting Regulations, including the deferral of their date of application or cancellation.

2. Maximum fees

The consolidated circular establishes arrangements regarding the determination of premiums in the compulsory motor branch, which an insurer is entitled to collect, and the manner by which they are to be submitted to the Commissioner for approval. In accordance with the non-life insurance chapter in the consolidated circular, the risk premium component in the compulsory motor insurance tariff (net insurance premiums) is standard for all policyholders with the same characteristics at the insurer. The insurer is also entitled to collect premiums at a rate of up to 16.25% of the risk premium, which are intended to cover the insurer's administrative expenses, agent fees and profit. The insurer is entitled to provide discounts with respect to the fee component only, except in compulsory motor insurance and collectives which were sold until the end of 2016, and for vehicle fleets, regarding which the insurer is entitled to provide a discount also on the net insurance premiums (insurance premiums less fees). On this matter – a vehicle fleet includes at least 40 vehicles under the same ownership and insured by the same insurer and a collective numbers at least 100 vehicles with different ownerships, insured at the same insurer within the framework of an agreement.

3. Databases

Statistical database -

In the compulsory motor insurance branch, a statistical database is used to estimate the cost of risks in the compulsory motor insurance branch, and which was established by virtue of the **Motor Vehicle Insurance Regulations (Residual Insurance Arrangement and Tariff Determination Mechanism), 2001**, which prescribe the mode of action and the issued regarding the transfer of information to the database operator, and which also regulate the mode of action of the insurance fraud database (see this section below), and the reciprocal relationship between the databases and the insurers.

The statistical database and the insurance fraud handling database are managed by an third party which is unrelated to the company and the insurance companies (the "**Database Operator**").

The database operator is authorized by law to collect information in the insurance branch, and to use it to determine the cost of pure risk (the "**Risk Tariff**"). The insurance companies are obligated to transfer to the database operator, once per quarter, data regarding the details of the vehicle and the driver in all of the compulsory motor policies which were issued by it, as well as details regarding the claims which were paid during the quarter, and the open oustanding claims in the company. The risk tariff does not directly obligate the insurance companies; however, the "Pool" tariff is determined by the Commissioner in reference thereto, and additionally, constitutes a relevant indicator, from the perspective of the Commissioner, for the approval of the insurance companies' tariff. For details regarding the reform in compulsory motor insurance, in accordance with the 2016 draft compulsory motor insurance circular and the 2017 amendment to the compulsory motor insurance circular, see section 7.1.1.1(c)(1) above.

Insurance fraud handling database -

In the compulsory motor insurance branch, an insurance fraud handling database is operated in accordance with the Motor Vehicle Insurance Regulations (Creation and Management of Databases), 2004. The database, which centralizes the information from all of the insurance companies, is used in order to identify suspicions of fraudulent mandatory motor claims as well as to prevent insurance fraud in the underwriting process for mandatory motor insurance policies. The cost of financing the operation of the database applies to all insurance companies, in accordance with the rules which were determined by the Commissioner.In accordance with the provisions of the consolidated circular, in general, a certificate of compulsory motor insurance will not be issued for a private or commercial vehicle up to 3.5 tons, or for motorcycles, if the data were not verified through an online database query during the underwriting process.

(D) National Insurance

1. Subrogation rights of the National Insurance Institute

Pursuant to the **National Insurance Law (Consolidated Version), 1995** (hereinafter: the "**National Insurance Law**"), in the event that the National Insurance Institute has paid to an individual who is entitled to a stipend, based on grounds which also constitute grounds for requiring a third party to pay compensation to that entitled individual, in accordance with the Civil Wrongs Ordinance, or in accordance with the RAVC law, the National Insurance Institute will be entitled to claim from that third party compensation for the stipend which it paid, or which it will pay (hereinafter: the "**Third Party**"). The third party will be entitled to deduct from the compensation the stipends which are being paid and/or which will be paid by National Insurance.

In July 2013, the National Insurance Law was amended, in a manner whereby an arrangement was determined according to which the third party which deducted, or which was entitled to deduct, any amount from the compensation which they are required to pay with respect to payments which the National Insurance Institute is entitled to claim from them, must report such amounts to National Insurance. The amendment further provides that insofar as the obligation will not be fulfilled on time, the obsolescence period with respect to subrogation claims by the National Insurance Institute will begin, from the date of receipt of the report, or from the time when the National Insurance Institute becomes aware of the proceedings being conducted between the entitled individual and the insurer, whichever is earlier, and in any case, the obsolescence period will not exceed the 15th year and the date of occurrence of the event for which the National Insurance Institute is obligated to pay the stipend.

In November 2015, the Knesset approved, within the framework of the **Law Memorandum Regarding the Economic Plan for 2015-2016 (Legislative Amendments), 2015** (the “**Legislative Amendment**”), the implementation of additional amendments to the National Insurance Law, for the purpose of facilitating, for the National Insurance Institute, the processes involved in collecting subrogation amounts, and increasing the efficiency thereof. Additionally, approval was given to amend the Insurance Law, in a manner which vests in the Commissioner the authority to impose financial sanctions on an insurer who has breached the reporting requirement to the National Insurance Institute.

According to the estimate of Clal Insurance, the legislative amendment in connection with claims which are settled by it, including by way of ruling, settlement or other payment, and with respect to which the National Insurance Institute has grounds for a subrogation claim, is not expected to have an significant impact on the payments to the National Insurance Institute and to increase them in the compulsory motor insurance branch, inter alia, in light of the scope of inquiries which were received from National Insurance prior to the implementation of the amendment. The aforementioned estimate is uncertain, and depends on the actual development of subrogation claims. During the reporting year, demands for payment from the National Insurance Institute in the liabilities branches increased relative to previous years; however, at this stage, Clal Insurance is unable to estimate the full impact of the legislative amendment in the future, due to the uncertainty, which is affected, inter alia, by the scope of inquiries which will be received from National Insurance following the implementation of the amendment to the law, the scope of deductions which will actually be deducted by Clal Insurance from the insurance benefits and/or which it will be entitled to deduct, in accordance with the factual circumstances and the legal assertions which will arise in each individual claim per se. The company performed a provision in its financial statements in accordance with the information which is available t it as of the publication date of the report.

The company’s estimate in connection with the legislative amendments which regulate the subrogation right of the National Insurance Institute, as specified above, constitutes forward looking information, which is based on the information that is available to the company as of the reporting date. Actual results may differ from the estimated results, inter alia, in accordance with the development of subrogation claims from National Insurance, and the claim settlement method implemented by Clal Insurance.

2. Interest rate for the discounting of National Insurance annuities

In June 2014, an inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd was appointed in order to evaluate of the correction of life expectancy tables and the interest rate which is used discount annuities in accordance with the National Insurance Regulations (Discounting), 1978 (the “**Discounting Regulations**” and the “**Committee**”). In June 2016, an amendment to the Discounting Regulations (hereinafter: the

"**Amendment**") was published which includes, inter alia, updates to the mortality tables and the discount rates which are used to calculate the aforementioned annuities.

The Discounting Regulations formalize, inter alia, the discount rate which is used to calculate the subrogation claims which are submitted by National Insurance towards third parties, in accordance with the right which is conferred upon it by virtue of the National Insurance Law (Consolidated Version), 1995 (hereinafter: the "**Law**"), in cases where the event constitutes grounds to charge the third party in accordance with the Civil Wrongs Ordinance or the RAVC law.

In accordance with the amendment, the interest rate for the purpose of determining the annual annuity will be 2% instead of 3%, as specified in the Discounting Regulations prior to the amendment. The amendment also determines that the mortality tables and annuity discount rates will be updated again on January 1, 2020, and every four years thereafter.

The aforementioned amendment to the Discounting Regulations was supposed to enter into effect in October 2016. On August 9, 2016, a press release was issued on behalf of the Ministry of Finance, according to which "The Minister of Finance, Moshe Kachlon, decided, in coordination with the Minster of Welfare, upon the cancellation of the regulations which were intended to increase tariffs in compulsory motor insurance". In September 2016, an additional amendment to the Discounting Regulations was published, which postponed the amendment's entry into effect by one more year, until October 2017.

The amendment to the Discounting Regulations, once it has entered into effect, as stated above, will affect the discount interest rate for National Insurance pensions, and accordingly, the insurance amounts which the insurance companies are required to pay to National Insurance within the framework of subrogation claims submitted by the National Insurance Institute to insurers, within the framework of the compulsory and liabilities branches, and to increase them (the "**Discounting Of Subrogation Claims**"). Additionally, the amendment may indirectly affect court rulings regarding the discount interest rate which should be used to calculate damages for future losses, also not within the framework of subrogation claims of the National Insurance Institute, in compulsory and liabilities insurance ("**Discounting of Future Damage Payments**").

The company estimated the total possible impact of the above, while giving weight to the uncertainty regarding the actual impact, and the manner of its occurrence, if any, and accordingly, increased the insurance liabilities. For additional details, see Part B - board of directors' report, section 3.1(b).

However, at this stage, before the amendment's entry into effect, and before clarifying the scope of the impact of the amendment and the committee's recommendations, if any, on the discounting of future damage payments, it is not possible to predict the impact, and it depends, inter alia, on the amendment's entry into effect, on the case law which will be formulated with respect to the discounting of future damage payments.

In light of the foregoing, the company's estimate in connection with the National Insurance annuity discount rate constitutes forward looking information, which is based on the information which is available to the company as of the reporting date,

and regarding which, in light of the circumstances specified above, there is no certainty that it will take place.

(E) Outline regarding light-heavy clearing

In accordance with the RAVC law, each insurer is required to compensate the passengers who were riding in a vehicle which was insured by it. The RAVC law further provides that, with respect to any person who was injured in an accident outside of the insured vehicles, in an accident in which several vehicles were involved, the various insurers will be liable (without proof of guilt), jointly and severally, and amongst themselves the insurers will bear the burden, in equal parts. Exceptions to the foregoing rule were established which pertain to accidents between vehicles which are significantly different from one another, i.e., a motorcycle and another vehicle, or a light vehicle and a heavy vehicle. In these cases, the division orders determine the insurers' "balance payments", i.e., the indemnification which the insurers are entitled to receive from one another with respect to these accidents, for the purpose of balancing out the burden of payment between the insurers, in cases where the risk factors regarding the vehicle causing damage in a road accident is not clearly balanced.

The Israel Insurance Association operates a clearing system which is intended, inter alia, to transfer payments automatically between vehicle insurers in compulsory motor insurance, as required in accordance with the RAVC law and the **Compensation to Road Accident Victims Ordinance (Arrangement Regarding the Distribution of the Burden of Compensation Between Insurers), 2001**, which are intended to balance, as stated above, the burden of payment between the insurers, in the event that the risk factors of the vehicles involved in the road accident are not clearly balanced. The outline manager has the authority to serve as an arbitrator in cases where disputes have arisen between the insurers, regarding the involvement of an insured vehicle in an accident. An exemption was given for the arrangement under conditions in accordance with approval for a restrictive arrangement given by the Antitrust Commissioner until August 2020, including, inter alia, restriction of the system's operations to the aforementioned purpose only, the operation of the system by an independent entity which is not related to the insurers, a prohibition against the transfer of information between the parties to the agreement, and giving the possibility for each insurer to join the system.

7.1.1.2. **Motor property insurance branch**

(A) General

The motor property insurance branch includes the group's activity in insurance to cover loss or damage of insured vehicles and damages caused to third party property by the insured vehicles.

The motor property insurance branch is divided into two main categories:

A) Insurance for private vehicles and commercial vehicles weighing up to 3.5 tons, whose insurance policy is subject to the terms of the standard policy, as determined in the regulations which were enacted on the matter (hereinafter: the "**Standard Motor Property Policy**" and the "**Motor Property Regulations**", respectively)

B) Insurance for vehicles that are not included in the first category (such as trucks, motorcycles, buses, forklifts and ATVs), the insurance policy for which is not subject to the standard policy – motor property conditions.

The standard motor property policy sets forth minimum terms and conditions for motor property insurance, which the insurer is entitled to amend only if the amendment is in favor of the policyholder. Expansions can be added in the Standard Policy to the scope of coverage, with the Commissioner's approval.

The motor property insurance tariff, as well as the policy in its entirety, require approval from the Commissioner. The premiums tariff with respect to motor property insurance is generally differential, and was determined, inter alia, in consideration of the vehicle's characteristics (primarily the model of the insured vehicle, and its production year), and the characteristics of its drivers (primarily the age of the main driver, drivers who are authorized to drive the vehicle, the license period and the claims experience of the policyholder).

In June 2015, the Commissioner published a binding version of a principle determination, in which it was determined that if the insurer chose to compensate the policyholder through payment of the damage value, as specified in section 4 of the Addendum to the Control of Insurance Business Regulations (Contract Terms in Private Motor Insurance), 1986, or in the event that a third party claims its direct damages with respect to the repair of the vehicle, and if the amount of damages was determined by a loss adjuster, and the insurance company did not appeal their determination, it is required to pay insurance benefits which include, inter alia, the decrease in the vehicle's value, if any, and the value added tax which applies on the matter (provided that they are not entitled to a deduction of input tax), including if the plaintiff has not actually repaired his vehicle. For details regarding class actions against Clal Insurance and against six additional insurance companies on the matter which is the subject of the determination in principle, which, following a court order, was struck out against Clal Insurance and against four additional insurance companies, see Note 43(a3)(10) to the financial statements.

(B) Special arrangements for the settlement of motor property claims -

B1. Arrangement regarding loss adjusters

In order to improve efficiency and shorten the motor property claims settlement process, and according to the provisions specified in the consolidated circular, the insurance companies publish lists of loss adjusters[46]("List of External Loss Adjusters"), for selection by policyholders. In accordance with the provisions of the consolidated circular, a proposed repair or an assessment by an external loss adjuster who has been chosen by the policyholder out of the list of external loss adjusters (hereinafter: "External Loss Adjusters"), constitutes a

[46] External loss adjusters include anyone who is not a home loss adjuster. Home loss adjusters are those who may have a conflict of interest due to a special connection with the insurer, such as in case of a loss adjuster who is an employee of the insurance group; a loss adjuster whose income is 30% or more comprised of loss adjustment and other businesses with insurers from the insurance group; and a loss adjustment company in which the insurance group holds over 5% of the means of control.

proposed repair, or an effective assessment, and will be binding towards the party, subject to the right of the insurer and the policyholder to bring remarks towards external loss adjusters regarding technical matters. Additionally, the insurer and the policyholder have the option to appeal the assessment, in accordance with the arrangement set forth in the loss adjusters arrangement.

B2. Arrangement garages

In order to increase efficiency, reduce processing times and reduce prices involved in loss adjustment with respect to motor property claims, the company engaged with "arrangement garages" with respect to the repair of partially damaged vehicles of policyholders (non-total loss). An arrangement garage is a garage which has engaged with the company in a service provision agreement as an arrangement garage, in consideration of discounts which are given to the insurer and/or including an undertaking to make use of replacement parts which are provided by it to the insurer, and which can be obtained at a reduced cost relative to the "book price" on the market (hereinafter: "Arrangement Garage"). Clal Insurance allows its policyholders to choose the garage where the vehicle will be repaired; however, it offers to its policyholders various benefits, such as discounts on deductibles and/or the provision of alternative vehicles during the period of the repair, in order to incentivize the policyholders to have their vehicles repaired in one of the arrangement garages with which the company has engaged. During the reporting year, Clal added an insurance track to the comprehensive policy named "Select Garages", which offers policyholders, on the date of engagement, to undertake that in case of the occurrence of an insurance event, the vehicle will be repaired in one of the garages which are included in the list of select garages (a list of approximately 50 garages) which is published on the company's website, for which the policyholder will receive a premium discount, and additional benefits upon the occurrence of the insurance event. For additional details regarding the Select Garages track, see section 7.1.5 below.

Joint letter of the Ministry of Transport and the Ministry of Finance regarding arrangement garages and the loss adjusters arrangement and the draft Licensing for Vehicle Services Regulations (Vehicle Loss Adjustment), 2016

Further to discussions which were held between the Ministry of Finance and the Ministry of Transport (hereinafter, jointly: the "Ministries"), in light of the proceedings involved in the enactment of the Licensing of Services and Professions in the Vehicle Branch Law (hereinafter: the "Vehicle Services Licensing Law"), in June 2016, a joint letter of the Ministry of Transport and the Ministry of Finance was sent to the Chairman of the Economy Committee, which specified the principles which the ministries intend to adopt, including: cancellation of the companies' lists of external loss adjusters, and replacement thereof with a national loss adjuster database, which will include all licensed loss adjusters, excluding "home loss adjusters" on behalf of the insurance company; determination of a provision stipulating that vehicle repairs will not be performed before approval has been received from the insurance company for the loss adjuster's report, or for the appointment of a loss adjuster on its behalf; cancellation of the currently existing lists of loss adjusters, and expansion of the lists of arrangement garages for all garages which meet the requirements which will be determined by the ministries; the insurance companies will be required to publish conditions for recognition as an arrangement garage, and will allow each garage which meets those conditions to engage with them as an arrangement garage (hereinafter: the "Statement Of Principles"); the statement of principles further specifies that the ministries have agreed that the provisions and amendments to the regulations on the subjects specified above will be performed in consultation and in collaboration between them, and that an intra-governmental professional staff will be established, including representatives on behalf of the ministries (hereinafter: the "Joint Staff"), which will evaluate the implementation of the aforementioned principles, and will evaluate additional issues, including the imposition of supervision on the prices of the main replacement parts which are used in vehicle repairs following accidents, and its implications on the conditions for engagement with arrangement garages; premium pricing and differentiation in the deductible between policyholders who have their vehicles repaired at arrangement garages and policyholders who have their vehicles repaired at a non-arrangement garages; and additional issues which will promote competition and contribute to increased professionalism, while protecting customers.

In August 2016, the Draft Vehicle Services Licensing Regulations (Vehicle Loss Adjusting), 2016, were published (hereinafter in this section: the "Draft Vehicle Services Licensing Regulations - Loss Adjusting"), which regulates the activities of loss adjusters, and addresses, inter alia, the method used to price a garage work hour by the loss adjuster, the timing of the loss adjustment (before repairing the vehicle), and the prohibited influence on the vehicle loss adjuster's judgment by interested parties.

In January 2017, the Draft Licensing of Services and Professions in the Vehicle Branch Regulations (Prohibited Influence on Judgment of Vehicle Loss Adjuster), 2017 (hereinafter: the "Draft Prohibited Influence on Judgment of Vehicle Loss Adjuster Regulations") were published, which addresses the definition of the prohibited influence on a loss adjuster by a license holder, as defined in the law.

According to publications in the printed press from January 2017, for several hours, a draft circular of the Ministry of Finance was published on the website of the Ministry of Finance, which was intended to regulate the motor property loss adjustment method on all matters associated with the arrangement garages and the selection of loss adjusters in accordance with the outline of the statement of principles, and with certain changes (hereinafter: the "Draft Circular Regarding Arrangement Garages and Selection of Loss Adjuster").

At this preliminary stage, before the publication of the official draft of the circular regarding arrangement garages and selection of loss adjusters, and before the publication of a binding version of the draft regulations regarding vehicle licensing services - loss adjusting, and of the draft regulations regarding prohibited influence on the judgment of vehicle loss adjusters, it is not possible to estimate the impact of these legislative amendments and circulars.

(C) Entitlement to information and disclosure in the motor property branch

Beginning in December 2013, the database created by the Israel Insurance Association and the Clearing Center of the Insurance Companies Ltd. (the "**Clearing Company**") is in operation, which primarily involves the registration of historical vehicle accidents. The information is available both to the public of used vehicle buyers and to insurers who chose to join the database, and is intended for location of information and transparency regarding accidents which occurred to used vehicles during the period prior to their acquisition.

The Israel Insurance Association and the clearing company received, on June 30, 2011, an exemption from approval of a restrictive arrangement from the Antitrust Commissioner, for a period of two years, which was extended on July 29, 2013 for an additional period of three years, and was subsequently extended on February 2, 2017 for an additional period of four years.

As of the publication date of the report, the database includes information from all fo the insurance companies which provide motor property policies in Israel, including Clal Insurance.

As of the publication date of the report, Clal Insurance makes use of the information stored in the database for the purpose of claim settlement and underwriting, in accordance with its requirements. The possibility to make use of the information in the database reduces the information gaps.

7.1.1.3. **Liabilities insurance branch**

In liabilities insurance policies, insurance is conventionally applied according to one of two coverage bases:

- **Coverage on an occurrence basis -** In these policies, the coverage is given for events which occurred during the insurance period, when the claim can also be filed after the end of the insurance period, subject to a statute of limitations;

- **Coverage on a claims made basis -** In these policies, the coverage is given based on the filing date of the claim, in other words, for claims which were initially filed against the policyholder during the insurance period, even if the cause of action against the policyholder materialized before the insurance period start date, provided that it was created after a certain date which was specified in the policy.

<u>The main insurance sub-branches in the liabilities insurance branch include:</u>

- Third party liability insurance;
- Product liability insurance;
- Professional liability insurance;
- Employer's liability insurance;
- Directors and officers (D&O) liability insurance.

For a description of the policy characteristics, see section 7.1.2(c) below.

- **Amendment to the National Insurance Law (Consolidated Version), 1995**

For details regarding amendments to the National Insurance Law from 2013 and 2015, see section 7.1.1.1(d) above.

- **Interest rate used to discount National Insurance annuities**

For details regarding the interest rate which is used to discount National Insurance annuities, see section 7.1.1.1(d)(2) above.

7.1.1.4. **Other property and others insurance branch**

This branch includes several sub-branches, as specified below:

(A) Apartment insurance sub-branch

- This sub-branch includes apartment, contents and structure insurance, in various plans, of which the primary one is a comprehensive apartment insurance plan. This sub-branch includes coverage for the policyholder's apartment against loss or physical damage which have been caused to the structure of the apartment or to its contents, due to risks which are specified in the policy. This policy is subject to the minimum terms which were determined within the framework of the **Addendum to the Control of Insurance Business Regulations (Contract Terms Regarding the Insurance of Apartments and the Contents Thereof), 1986** (hereinafter: the "**Standard Apartment Insurance Policy**"). The terms of the standard apartment insurance policy can only be amended in favor of the policyholder, and expansions can only be added to it with respect to the insured property and risks, the scope of coverage and the types of liability insurance which are associated with the residential apartment (such as third party liability insurance). The insurance is intended for residential apartments in the private sector.

- In January 2015, the Commissioner published an **Amendment to the Control of Insurance Business Regulations (Contract Terms Regarding the Insurance of Apartments and the Contents Thereof) (Amendment), 2015** (the "**Amendment to the Regulations**"). Within the framework of the Amendment to the Regulations, the wording of the standard apartment insurance policy was amended in a manner which expands or changes the current coverages in the policy, some of which are compulsory coverages, while others are optional coverages, according to the policyholder's choice, inter alia: (1) Addition of an insurance chapter regarding an additional amount in a condominium (coverage ensuring compensation to the policyholder in case of damage caused to the building as a result of an earthquake, at a rate exceeding 70% of the building insurance amount, for an apartment in a condominium); (2) Establishment of a standard wording for coverage in third party liability insurance; (3) Change to the definition of "underinsurance" - cancellation of the insurer's right to receive the remedies prescribed in the Insurance Contract Law with respect to the status of underinsurance with respect to the building chapter, and classification of the insurer's rights to underinsurance in the contents chapter, if the rate of underinsurance is less than 85%; (4) Linkage of the insurance amount and the insurance benefits, with reference to the apartment building, to the construction input price index. Additionally, in the amendment to the regulations, the standard apartment insurance policy was amended with respect to the terms regarding the cancellation of the policy by the policyholder, in a manner whereby the policyholder can, at his own initiative, cancel the policy at any time, and receive proportional reimbursement of the premiums, with no cancellation fee. The insurer's right to cancel the policy in case of fraud or failure to disclose details about which the policyholder was asked before issuing the policy was also restricted. The amendment to the regulations is in effect with respect to policies whose commencement date is July 27, 2015 or later.

According to the company’s estimate, the amendment to the regulations may result, over the long term, in an increase in the scope of claims and in the amount of the average claim, due, inter alia, to the expected increase in claim payments. Linkage of the insurance benefits to the construction input price index may result in an increase in the company’s undertakings, particularly in a catastrophe event, as a result of the scope of damages and the difference between the change in the construction input price index and the returns which the company will achieve on the relevant assets. The aforementioned implications may be mitigated or changed as a result of the method used by Clal Insurance to price the products, which is dependent, inter alia, on risk assessment under uncertain conditions, competitive conditions and the conduct of policyholders and competing entities. At this stage, it is not possible to estimate the full impact of the amendment to the regulations, which, as of the present date, is not seen as material, in light of the combination of additional factors which affect the business results, such as, inter alia, the optimization of losing segments in the insurance portfolio and the determination of a new tariff structure, and in light of the preliminary nature of the arrangement.

The company’s estimate in connection with the Draft Standard Apartment Insurance Policy Regulations constitutes forward looking information, which is based on information available to the company as at the reporting date. Actual results may differ from the estimated results, due to the factors specified above.

- In November 2016, an amendment was published to the consolidated circular on the subject of provisions regarding water damages in apartment insurance (hereinafter: the “**Amendment To The Consolidated Circular Regarding Water Damages**”), in which it was determined, inter alia, that before engaging in an insurance contract, in cases where the insurance company has chosen the alternative of providing compensation to the policyholder by repairing the apartment, it must allow the policyholder to choose between repairs performed by a plumber chosen by the policyholder, and repairs of the damage performed by a plumber from the list of plumbers in the arrangement (hereinafter, respectively: “**List Plumber**” and “**List of Plumbers in the Arrangement**); The insurance company will be required to compile the list of plumbers in the arrangement according to the number of policyholders and the geographical region; The insurer will publish a summary grade of each list plumber, in accordance with the grades which were given to it by the policyholders; The insurer will be responsible, inter alia, for the quality of the repair and service given to the policyholder by the plumber in the list, for the availability of service and the conclusion of the repair within a reasonable period of time; The payment to list plumbers will be performed directly by the insurer for each repair performed; and the option of including a restriction regarding the average claim amount in the contractual agreement between the arrangement plumber and the insurance company was prohibited.

According to the company’s estimate, the amendment to the circular regarding water damages is expected to result in a significant change in the claim settlement method with respect to cases of water damage in the apartment insurance sub-branch, in cases where the policyholder has chosen the alternative of providing compensation through repair of the apartment by a list plumber, inter alia, in light of the need for changes to the business structure of the engagement between the company and the service providers, and the implications thereof. Clal Insurance is studying the amendment to the consolidated circular regarding water damages, inter alia, with respect to the possible increase in claim settlement costs, and in accordance with the impact of the amendment on tariff pricing and expenses, operational aspects, including the need to manage the claim settlement if the alternative of a list plumber has been chosen, the prohibition against including a restriction with respect to the average claim amount in the contractual agreement with the arrangement plumber, for the purpose of directly paying the list plumbers for each repair, and the additional costs which may be incurred as a result of the increased cost of services.

The company's estimate in connection with the amendment to the consolidated circular regarding water damages 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, due to the decisions of Clal Insurance regarding the options which it will offer to its policyholders in connection with the amendment regarding water damages, to the arrangements which will be adopted by it vis-à-vis external suppliers, and to the conduct of competing entities, distributors and customers.

(B) Other property insurance sub-branch

This sub-branch includes policies which are primarily intended for the business segment, and cover loss or direct physical damage to the policyholder's property, or to property with which the policyholder is associated, due to risks which may be caused to the insured property, such as fire, lightning, and various other risks. Additionally, coverage can be acquired for resultant damage due to the direct physical damage ("**Loss of Profit Policy**"). Within the framework of this sub-branch insurance covering engineering equipment and construction work (contract and building work) insurance, international land (marine and air) transport insurance, insurance of marine vehicles, terrorism damage insurance, and various other insurances are sold. For a description of the characteristics of the products, see section 7.1.2(d) below.

(C) Guarantees sub-branch

This sub-branch includes guarantee policies in accordance with the **Sales (Apartments) (Securing Investments of Apartment Buyers) Law, 1974** (the "**Sales Law**"), which are issued by Clal Insurance, which involve an undertaking to indemnify the beneficiary with respect to the breach of the undertaking of the debtor and/or the policyholder, towards it.Policies in accordance with the Sales Law are intended to secure the investments of buyers of residential units whose construction has not yet been completed, in case the apartment seller is unable to transfer to the buyer ownership or other rights to the apartment, as agreed in the sale agreement, due to the fulfillment of one of the causes of action specified in the Sales Law. The format of the policies according to the Sales Law which are sold by Clal Insurance matches, with the necessary changes, the provisions that were published on the subject within the framework of the regulations enacted by virtue of the Sales Law.

Beginning in the reporting year, the company began providing loans to accompany residential construction, along with sale guarantees, in collaboration with banks. In the past, Clal Insurance also issued performance and quality guarantees; however, beginning in 2014, no new guarantees of this kind were issued, other than in exceptional cases.

(D) Accident, illness and disability insurance sub-branch

This sub-branch includes personal accidents insurance policies which constitute policies for set insurance periods of up to 12 months, which provide compensation in case of death and/or disability (full or partial) due to an accident and/or loss of working capacity due to an accident, according to the chosen scope of coverage, as well as the requested additional extensions.

These policies are sold as individual insurance and as collective insurance.

7.1.1.5. **Credit and foreign trade risks insurance branch**

This branch includes insurance policies to cover credit risk in the local market and foreign trade risks abroad, which are marketed by Clal Credit Insurance, and provide to policyholders - companies which sell on credit in Israel and abroad - coverage for commercial risks, against insolvency and ongoing default by the buyer from the insured company in Israel and abroad, as well as coverage for political risks abroad only. Political risks include a general moratorium declared by the state from which the payment of consideration to the policyholder was intended to take place (the “**Importing Country**”), a prohibition against importing by the importing country, or cancellation of an import license, which prevent the implementation fo the agreement between the insured company and its customer, a political event, or economic difficulty in the importing country, which prevent the transfer of the consideration and non-payment of the consideration by a public customer in the import country (i.e., the government or any local authority or entity overseen by any of them).

The scopes of coverage are determined in the underwriting process, and are specified in the policy terms. In general, the policies in this branch are for one year, and are generally renewed automatically, and coverage for them is given for the short term (up to one year).

Activities in the credit and foreign trade risks insurance branch are performed through Clal Credit Insurance. Clal Credit Insurance is a company under the control of Clal Insurance, which holds 80% of its shares, where 20% of the additional shares are held by Atradius Participation Holdings B.V. (“**Atradius Group**”). An agreement is in place between the shareholders of Clal Credit Insurance, which formalizes the group’s business collaboration with Atradius Group as a strategic partner, and allows Clal Credit Insurance to insure credit transaction in many countries (the shareholders agreement, including the amendments thereto, shall hereinafter be referred to as: the “**Shareholders Agreement**”). For details regarding the shareholders agreement, see section 10.17.2 below.

7.1.2. Details regarding the primary details included in the operating segment

(A) Compulsory motor insurance branch

The product is insurance which the vehicle owner is required to purchase with respect to physical harm only which may be caused to the driver of the insured vehicle, or to passengers therein, or to pedestrians who were injured as a result of the damage to the insured vehicle.

This operating branch has several unique characteristics, including, inter alia:

Product uniformity: The scope of liability and the scope of coverage for physical harm corresponds to the provisions of the standard compulsory motor policy, which determined binding standard phrasings. Extensions can be added to these coverages, with the Commissioner’s approval.

No fault principle: In accordance with the provisions of the RAVC law, the liability of the vehicle driver or of the individual holding possession of the vehicle is absolute and total liability, with no need for proof of guilt.

Designation of cause of action: Any person who was injured in a road accident, and upon whom the RAVC law confers cause of action, must claim their right in accordance with the RAVC law only, and is not entitled to claim their damages in accordance with any other law. Any person who does not have does not have in accordance with this law may sue the party that caused the damage through a tort claim. In general, the insurer of the involved vehicle is required to cover the injured persons in the insured vehicle, and is not entitled to claim subrogation from the party which caused or contributed to or exacerbated the damage, of the compensation which the insurer paid to the injured party.

Special methods of compensation: The RAVC law, and accordingly, the compulsory insurance policy, do not specify the insurance amount, and the compensation due to physical injury is calculated in accordance with the RAVC law and the regulations which were enacted in accordance therewith. These determine, inter alia, in contrast to the Civil Wrongs Ordinance, the maximum compensation limit for the damage components which are not monetary damages, and limit the wage losses which can be claimed to three times the average salary on the market. Except for the aforementioned two heads of damage, the coverage is not restricted as to amount.

(B) Motor property insurance branch

Motor property insurance is insurance which covers property damage which was caused to the vehicle, as specified in the policy. Motor property insurance for private and commercial vehicles weighing up to 3.5 tons provides insurance coverage in accordance with the terms of the standard motor property policy. For details regarding the standard motor property policy, see section 7.1.1.2(a) above.

Vehicles other than private and commercial vehicles weighing up to 3.5 tons are not subject to terms of the standard policy.A policyholder who owns at least 40 private and commercial vehicles of at least 3.5 tons insured at one insurer, is entitled at the insurance proposal stage to waive the contents of all or part of the standard policy in an express notice documented at the insurer.

Motor property insurance provides a basket of insurance coverages, including: theft, fire, accidental collision, overturn and accidents of any kind whatsoever, damages caused with malicious intent, and the policyholder's liability due to damage which may be caused to third party property as a result of the use of the vehicle during the insurance period ("**Third Party Insurance**"). During the insurance proposal stage, the policyholder is entitled to choose coverage through one of the following alternatives: (1) Comprehensive insurance; (2) Comprehensive insurance without theft coverage; (3) Comprehensive insurance without accident coverage; and (4) Third party insurance only.

Clal Insurance offers service letters (undertakings by the insurer according to the policy, which are given through a third party) as an addition to the policy, which grant the right to receive various services, including towing service and/or alternative vehicle services and/or windshield repair services. For details regarding service letters, see section 10.2.13 below.

(C) Liabilities insurance branch

Third party liability insurance: this insurance is intended to cover the policyholder's liability - generally liability in accordance with the Civil Wrongs Ordinance - towards third parties (in case of a policyholder which employs employees, the insurance does not cover liability towards the policyholder's employees), due to accidental events which caused physical injury and/or property damage, including resultant damage due to the accident, and which took place during the insurance period (occurrence basis policy).

Third party liability insurance is sold as an independent product or as additional coverage within the framework of other insurance policies, such as business insurance policies, apartment insurance policies, and contract works insurance.

The premiums in policies of this kind are determined as a function of several variables, including the policyholder's activity type, the construction type of the business building, the scope of activities, the number of employees, the presence of dangerous materials used in the business, the number of sites in which the policyholder conducts its activities, adjacent businesses, the overall maintenance condition of the business, the liability limits requested by the policyholder, the deductible and the policyholder's claims history.

Employers' liability insurance: This insurance is intended to cover the policyholder's liability towards its employees due to physical injury only, which was caused to an employee during and due to the work at the policyholder, due to negligence by the policyholder during the insurance period, as a result of an accident and/or illness (occurrence basis policy). The liability covered under this policy applies pursuant to the Civil Wrongs Ordinance. Broader policies also cover the liability of the insured employer towards its employees, also pursuant to the Liability for Defective Products Law.

Employer's liability insurance is a supplementary product to the compensation paid by the National Insurance Institute to a person who was injured due to a work accident or work-related illness, which, in the law, are restricted by type and limited in amount. This policy covers the surplus exposure, beyond the National Insurance coverage, and no more than the liability limit specified in the policy.

Employers' liability policies may be acquired as an independent product or integrated as additional coverage in the framework of other insurance policies, such as: policies insuring businesses, policies insuring apartments, and policies insuring contractors.

Insurance fees in these types of policy are determined as a function of a number of variables such as: the number of workers employed, the annual wages the employer pays, the business risk level according to its business, and its claims experience. Additionally, the premiums are affected by the adherence to the safety policies applied by the employer in the business, the general maintenance condition of the business, and the extent of its exposure to dangerous materials.

Product liability: This insurance is intended to cover the employer's liability with respect to physical injury and/or property damage to a third party, including resultant damage caused by a defect product which was manufactured, imported or provided by the policyholder, after the product has left the possession of the policyholder, and where a claim with respect thereto was filed for the first time during the insurance period, and the insurance event itself occurred after the retroactive date which was determined in the policy (claims made basis policy).

The policy relies on two provisions of the law: The Defective Products (Liability) Law, 1980, which imposes on the manufacturer (as defined in the Law, which includes, for example, also an importer and/or supplier), liability with respect to physical injury only (and establishes a closed list of protections for the manufacturer); and the Civil Wrongs Ordinance, which imposes tort liability on the manufacturer with respect to physical injury and property damage.

The premiums in policies of this kind are determined as a function of several variables, including: The policyholder’s activity type, and the types of products which are manufactured, imported or provided by it, the scope of activities (in accordance with the sales turnover of the business), the requested liability limits, the deductible amount, the coverage period for claims which were first reported during the insurance period, but which refer to a specific preceding date, the claims history, the scope of territorial coverage (in Israel or including also exporting to foreign countries).

Professional liability: This insurance is intended to cover the policyholder’s debt with respect to physical injury and/or property damage caused to a third party and/or monetary damage caused to a third party, as a result of a breach in good faith of professional duty, which is due to an action or omission which constitute negligence, error or omission of the policyholder within the framework of the policyholder’s profession, for which coverage was given in the policy, and for which a claim was first filed during the insurance period, and where the insurance event itself occurred after the retroactive date which was determined in the policy (claims made basis policy). The coverage in the policy is not limited to accidental events.

The premiums in policies of this kind are determined as a function of several variables, including: the area of engagement, the scope of activities, the coverage period for claims which were reported for the first time during the insurance period, but which refer to a specific date beforehand, the requested liability limits, the deductible amount, the revenue cycle, the number of employees, seniority in the profession, claims history, during the insurance territorial area and jurisdiction.

Directors and officers’ liability insurance: This insurance is intended to cover the legal liability of directors and officers with respect to monetary damages which were incurred due to an action or ommission which they performed, or did not perform, in good faith, or due to negligence, subject to the exceptions specified in the policy, by virtue of their status as corporate officers in the company, and for which claims were first field during the insurance period, while the insurance event itself occurred after the retroactive date which was determined in the policy (**claims made basis policy**).

The liability which is covered under this policy is by virtue of the Companies Law and additional provisions of the law, which impose personal liability on officers including breach of their duty of care and breach of fiduciary duty in good faith, which can be insured by law.

The insurance company will pay insurance benefits to the policyholder (the corporate officer), or will indemnify the policyholder (generally the company buying the coverage for its corporate officers), with respect to payment which is paid to the corporate officer, and was entitled to do so by law.

The premiums in policies of this kind are determined as a function of several variables, such as: The area of engagement, composition of shareholders, territorial exposure, financial stability, exposure to trading on stock exchanges, liability limits, deductible amounts, coverage period for claims which were reported for the first time during the insurance period but which refer to a specific time beforehand, the claims history and the terms of the reinsurance contracts.

(D) Other property and others insurance branch

Apartment insurance sub-branch

- **Comprehensive apartment insurance** - This sub-branch includes coverage for the policyholder’s apartment, in accordance with the minimum terms which were determined in the Addendum to the Control of Insurance Business Regulations **(Terms of Contract in Insurance for Apartments and Contents Thereof), 1986** (the “**Standard Apartment Insurance Policy**”), which can be amended only in favor of the policyholder, and to which extensions can only be added. The insurance is intended for residential apartments in the private sector.

  The group offers several apartment insurance plans, which are differentiated from one another by the scope of coverage and the premium amount. The premiums are for the most part differential, and are primarily derived from the requested scope of coverage, the insurance amounts and the risk level.

- **“Clal Rishon for Safe Homes” insurance -** An apartment insurance policy which provides a variety of insurance coverages for the policyholder’s apartment, against specific risks including fire, lightning, thunder, explosion, storm, flood, as well as damages caused due to break-in and theft, water damages, earthquake damages, or supplementary “all risks” coverage (in accordance with the acquired coverage). The apartment insurance policy is based on the Standard Policy, which determines, inter alia, the minimum conditions (see section 7.1.1.4(a) above), according to which the policyholder can acquire building insurance and/or content insurance, and which allow the policyholder the possibility of buying, in his discretion, additional coverages as well, including all risks coverage for jewelry and valuables, all risks coverage for apartment contents, additional amount insurance, third party liability insurance and employer’s liability insurance.

- “**Mortgaged apartment building**” insurance - An apartment insurance policy for policyholders who took out a loan backed by a mortgage, which includes coverage for the apartment building, additional amount insurance for a condominium (optional), and third party liability insurance. This insurance is sold through the group’s agents.

- **“Apartment through mortgage” insurance -** An apartment insurance policy for policyholders who took out a loan backed by a mortgage, which includes comprehensive coverage for the apartment building only, which corresponds to the minimum conditions set forth in the standard apartment insurance policy. This insurance is sold through the insurance agencies of the mortgage banks. The premiums in this policy are determined by the Commissioner.

Other property insurance sub-branch

Fire insurance policies provide insurance coverage against loss or physical damage caused due to fire and lightning, to buildings, machines, equipment and inventory owned by the policyholder, or with which the policyholder is associated.

The most common policy is the "**extended fire**" insurance policy, which is a policy for specific risks including risks for damages which may be caused to the policyholder's property, including fire and lightning, explosion, collision, strikes, malicious damages, break-in and robbery. The policy also covers natural disasters, including earthquakes, if coverage for these risks has been purchased. "Extended fire" insurance is intended to provide coverage for the restoration of the business, while providing indemnification with respect to the physical damage. Fire damages, including natural disasters and earthquakes, are characterized by low prevalence but high severity, as compared with break-in damages, which are characterized by high prevalence but low severity.

"Resultant loss" insurance coverage cam be acquired as an addition to an "extended fire" insurance policy (loss of profits) which is due to the physical damage that was caused to the policyholder's property. Premiums in "resultant loss" coverage are generally determined as a proportion of the insurance amount which was determined in the policy, according to the activity type of the insured business, the scope of coverage provided to it, and the requested indemnification period.

The coverage can be expanded to "**all risks supplementary**" coverage. For the most part, the expansion involves the payment of an addition premium, and is in a limited amount. Furthermore, there is a policy based on "all risks for industry," which is sold in special cases to specific businesses, in which accidental damages are covered for the policyholder's property, apart from damages which are excluded under the policy.

In most cases, other property insurance policies are issued for a period of one year.

Guarantees sub-branch

Policies in accordance with the Sales Law - Policies which are intended to secure the investments of residential unit buyers in accordance with the Sales Law, and which rely on its provisions. These policies are generally issued against collateral, such as the project's land, the project's bank account, guarantees and agreements. For the most part, the insurance period in these policies is long (several years may pass until the expiration of the policy, according to one of the alternatives under the Sales Law, and until the cancellation of the coverage provided therein). The risk in these policies gradually decreases as construction progresses, until the transfer of possession of the property. In accordance with the Commissioner's directives, and in light of the foregoing, the recognition of income with respect to these policies is deferred over 3 years.

Accident, illness and disability insurance sub-branch

- **Personal accidents insurance -** Provides coverage to the policyholder in case of death and/or permanent disability (full or partial) due to an accident and/or temporary loss of working capacity, as a result of an accident or illness. See section 7.1.1.4(d) above.

  Personal accidents insurance policies are sold as individual policies and collective policies, with certain adjustments. Until August 2016, Clal Insurance insured municipalities, local committees and educational institutions with students personal accident insurance policies, which provide coverage for personal accidents of students, inter alia, following Clal Insurance's winning of tenders which were conducted by Local Government Economic Services Ltd., the last of which, from 2015, was supposed to be effective for a period of three years (hereinafter, respectively: the "**2015 Tender**" and "**Local Government Economic Services**"). In July 2016, the Students Personal Accidents Insurance Law (Legislative Amendments), 2016 was published (hereinafter: the "**Legislative Amendment**"), in which legislative amendments were made to the Compulsory Education Law, 1949 and to the Municipalities Ordinance, with the aim of, inter alia, determining standard premiums for all students in Israel, which will be determined by the Minister of Education, with the approval of the Education, Culture and Sports Committee. Subsequently, the education, culture and sports committee approved the determination of the Minister of Education to set the premiums in the tender in the amount of NIS 49 (as compared with NIS 75 in the 2015 tender), and the maximum commission for the insurance agency in the amount of 3% of the premiums. Accordingly, Local Government Economic Services published a public tender to cover all students in the State of Israel, with respect to the basic insurance amounts in the policy (the "**New Tender**"), and notified Clal Insurance that, upon the declaration of the winner in the new tender, its win the 2015 tender will be canceled. Clal Insurance decided not to submit a bid for the new tender, and another insurance company won it. Accordingly, Clal Insurance stopped marketing and insuring students personal accident insurance policies beginning in September 2016.

  The liabilities in personal accidents for students policies are characterized as very long tail claim, due to the fact that the obsolescence period for minors begins, at the earliest, when they reach age 18.

  According to the company's estimate, the cancellation of the 2015 tender and the discontinuation of marketing and insurance of students personal accident insurance policies do not have a significant effect on Clal Insurance with respect to the reporting year. For additional details, see Part B, board of directors' report, section 3.1.2.

  The company's estimate in connection with the discontinuation of marketing and insurance of students personal accident insurance policies 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, in light of the long tail claims which characterize claims in the students insurance segment.

(E) Credit and foreign trade risks insurance branch

This policy is intended for companies that sell on credit both in Israel and overseas to other businesses (B2B). The insurance covers liabilities due to the sale of goods and/or the provision of services on credit. In general, the insurance is given with respect to all or most of the policyholder's debtors, where a certain credit limit is determined with respect to each debtor, and additionally, a total coverage limit is determined for the policy. The insurance coverage marketed by Clal Credit Insurance is primarily short term (up to one year), and includes coverage for commercial risks against insolvency (bankruptcy, receivership or issuance of liquidation order) and ongoing insolvency (when the debtor continues operating in the ordinary course of business, but does not repay its debts, except in case of a commercial dispute), political risks (in foreign trade risks insurance only, generally as an associated coverage), orders insurance (addition to the policy in case of the creation of special orders for the customers), and legal handling and collection services around the world, upon the occurrence of an insurance event (in general, as a supplementary service to the insurance coverage which is given in the policy). The policy grants stability to the policyholder by reducing lost debts and stability in cash flows, while managing the credit risks of the policyholder's customers and handling difficult to collect debts.

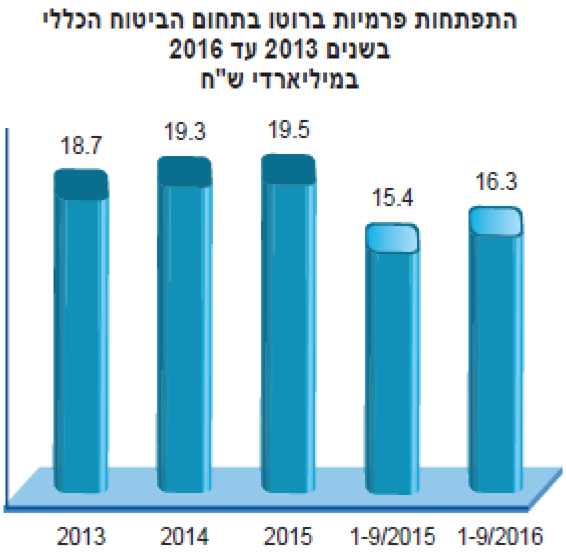
Additionally, based on the policyholder's insurance policy, the policyholder can choose to receive factoring services from banks or from other financial companies, and can also contact the financing entity of the policyholder (bank, factoring company or any other entity), in order to increase the policyholder's credit facility, by establishing the financing entity as a beneficiary to receive insurance benefits under the policy.

7.1.3. Main markets, trends and changes in supply and demand

The non-life insurance market showed a moderate increase in the scope of premiums during the reporting year, while maintaining stability in the mix of products in the segment.

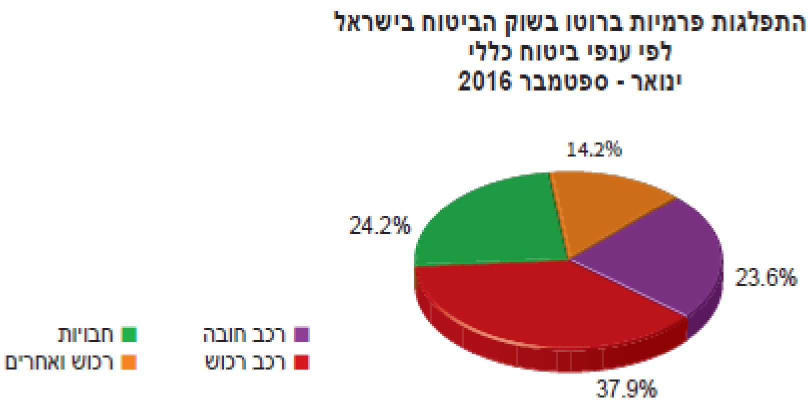
In accordance with the Commissioner's publications, as of September 30, 2016, gross premiums in the non-life insurance segment in Israel in the first nine months of 2016 amounted to approximately NIS 16.3 billion, as compared with approximately NIS 15.4 billion in the corresponding period last year, i.e., an increase of approximately 6%, as compared with an increase of approximately 2% in 2015, relative to the corresponding period in 2014. The increase in the motor property branch was primarily due to the increase in the number of vehicles in Israel, and the increase in average premiums. For further details on this matter with respect to Clal Insurance, see Part B - board of directors' report, section 2.2.1.

Distribution of gross premiums in non-life insurance in the years 2013 to 2016
NIS in billions



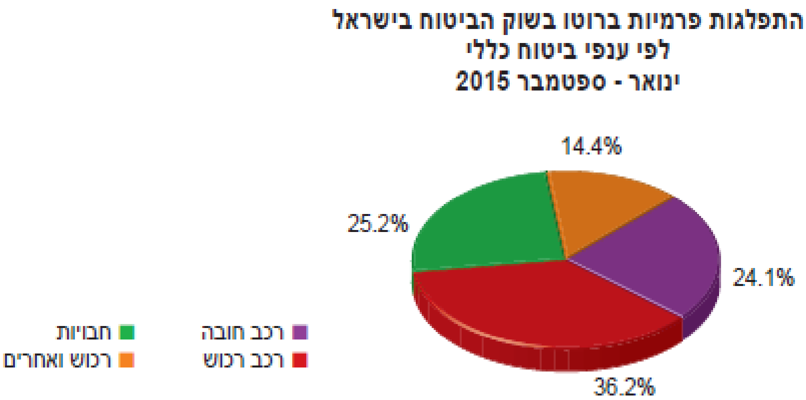
Presented below is the distribution of gross premiums in the non-life insurance market in Israel, by non-life insurance branches, as described in this segment (excluding the short term illness and hospitalization branch, as described in the section regarding health insurance (section 8 below), with variability between the companies regarding its inclusion in the health segment or in the non-life insurance segment), in January to September of 2015 and 2016:

Distribution of gross premiums in the Israeli insurance market by non-life insurance branches
January – September 2016



Purple – Compulsory motor
Red – Motor property
Green – Liabilities
Beige – Property and others

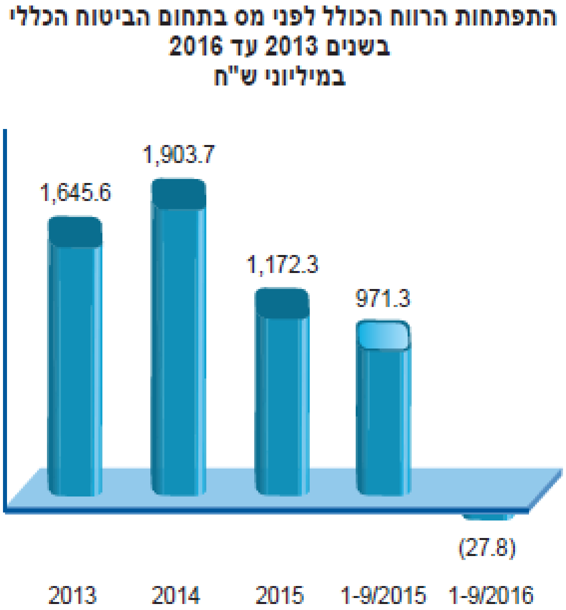
Distribution of gross premiums in the Israeli insurance market by non-life insurance branches
January – September 2015



Purple – Compulsory motor
Red – Motor property
Green – Liabilities
Beige – Property and others

In accordance with the Commissioner's publications, as of September 30, 2016, loss in the non-life insurance segment in Israel in the first nine months of 2016 amounted to approximately NIS 0.03 billion, as compared with income of approximately NIS 0.97 billion in the corresponding period last year (a decrease of approximately 103%). The changes in profitability were primarily influenced by the provision with respect to the implications of the Winograd committee and the amendment to the Discounting Regulations, as well as the decrease in underwriting profitability (profit without investment income) in the compulsory motor and motor property branches. On the other hand, an increase in investment income occurred, as well as an improvement in underwriting profitability in property and others and liabilities branches. For additional details regarding the development of profit in the non-life insurance segment in Clal Insurance, see section 3.1.2 of the board of directors' report.

Development of comprehensive income before tax in the non-life insurance segment in the years 2013 – 2016
NIS in millions



* The data for 2013 were restated based on the data presentation method which was applied in the financial statements of the relevant companies, according to the periodic reports for 2014.

(A) Compulsory motor insurance branch

Most of the insurance companies in Israel operate in this branch, which is generally characterized by a uniform product, and by significant price competition. The demand in this segment is a result of the number of vehicles, which gradually increases each year.

In recent years, the transparency in this branch was increased by providing the possibility to compare tariffs on the website of the Capital Markets, Insurance and Savings Authority, which resulted in increased competition in the branch, and in reduced prices (as specified in section 7.2.1 below).

Beyond pricing, which is affected by considerations of competition, the profitability in this branch may be affected, inter alia, by changes in the number of road accidents, and the severity of injuries therein, by changes in the scope of subrogation claims, and by changes in legislation and in case law which pertain to the branch. For additional details regarding the 2016 amendment to the compulsory motor insurance circular, and the 2017 to the compulsory motor insurance circular and the 2017 amendment to the compulsory motor insurance circular, see section 7.1.1.1(c)(1) above.

The obtained profitability is affected by the results of the investments, which are affected by changes in the capital market, and also by changes in interest rates and inflation rates. The aforementioned changes in interest and inflation rates particularly affect profitability in liabilities insurance, including compulsory motor insurance, in light of the fact that these branches are characterized by a relatively high level of reserves, due to the significant time difference between the premium receipt date and the completion of claims handling. For additional details regarding the reform in compulsory motor tariffs, the effect of the conclusions of the Winograd committee and the amendment to the Discounting Regulations, see sections 7.1.1.1(c)(1) and 7.1.1.1(d)(2) above.

(B) Motor property insurance branch

- Most of the insurance companies in Israel operate in this branch, which is generally characterized by uniform products with respect to private and commercial vehicles weighing up to 3.5 tons, and in significant price competition. The demand in this segment is a result of the number of vehicles, which gradually increases each year.

- Profitability in this branch is likely to be affected, inter alia, by various changes in the parameters, such as: the number of vehicle thefts and road accidents, changes in the prices of replacement parts and repair costs, changes in standardization and regulation, changes in new vehicle prices, the hourly work rate at the garages, and damages due to natural disasters. For additional details, see section 7.1.1.2(b) above.

- In recent years, the police unit for the prevention of vehicle thefts (“**Etgar**”), which is intended to intensify the war on vehicle thefts, has been in operation. 40% of the unit’s operations are financed by external entities, which includes the Israel Insurance Association, through the insurers, and the leasing and rental companies, and 60% of the unit’s operations are financed by the State. The activities of the Etgar Unit are contributing to a reduction in the number of vehicle thefts. Additionally, the rate of vehicle theft is also affected by the political situation and the regulatory restrictions regarding the use of replacement parts, which were intended to neutralize the incentive for vehicle thefts. According to the Etgar report for 2016, the number of vehicle thefts decreased in 2016 on the national level at a rate of 6.5%, as compared with 2015.

  For details regarding expected regulatory changes in the motor property insurance branch which may affect the profitability in this branch, see section 7.1.1.2(b)(2) above.

(C) Liabilities insurance branch

Most of the insurance companies in Israel operate in this branch, which features products with similar characteristics and substantial price competition. The demand in this branch is a result, inter alia, of the legal situation, including case law which was determined in connection with the interpretation of provisions of the law regarding physical injury and property damage caused to third parties which are covered under the policies.

The profitability in the liabilities branches may be affected by the competition in the branch, regulatory changes, the quality of underwriting and the degree of legal certainty. For additional details regarding legislative amendments which regulate the subrogation rights of the National Insurance Institute, and the effect of the conclusions of the Winograd committee on the amendment to the Discounting Regulations, see sections 7.1.1.1(d)(1) and 7.1.1.1(d)(2) above.

For details regarding the impact of investment income on profitability in this branch, see subsection A above, “compulsory motor insurance branch”, which has similar characteristics in this regard.

(D) Other property and others insurance branches

The demand for the property branches, and the profitability thereof, may be affected, inter alia, by the rate of break-ins, fires and water damages to apartments and businesses, and to damages due to natural disasters.

The demand in these branches may be affected by the competition in the segment. Additionally, insurance policies of the personal accidents type may constitute alternatives through the acquisition of different products in life and health insurance which provide long term coverage. For details regarding students personal accident insurance, see section 7.1.2(d) above.

Guarantee insurance policies are sold by insurance companies, and Sale Law guarantees are also issued through banks. The demand for these insurance policies is affected, inter alia, by the development in the construction segment, and by the alternatives which are evaluated by contractors, and may be affected, inter alia, by the economic, political and security situation in Israel and abroad, by the status of the capital market and the quality of underwriting, including assessment of the risks in the branch where the creditor operates, and determining the debtor's repayment ability.

(E) Credit and foreign trade risks insurance branch

The demand and profitability in the credit and foreign trade risks insurance branch may be affected, inter alia, by the economical, political and security situation in Israel and abroad, by the state of the capital market, by the risk level in the branch where the debtor operates, and by the state of competition in the Israeli credit insurance market.

In the foreign trade risks branch, a reserve for the surplus of income over expenses must be kept for two years.

7.1.4. Expected significant changes in the company's share in the main markets, with respect to the main products and services and the mix thereof, in consideration of, inter alia, the demand and seniority of current products

In accordance with the Commissioner's publications, the group is the fifth largest group in the non-life insurance segment.

According to the company's estimate, the company's share in the will be affected, inter alia, by the continued process of business optimization in Clal Insurance, with preference for profitability considerations over market share, and by the intense competition in the segment, which will continue being focused on premiums and the provision of services to policyholders. This competition is expected to increase in the compulsory motor branch in light of the 2017 amendment to the compulsory motor insurance circular, and may affect the company's share in the compulsory insurance market. For details regarding this matter, and regarding the compulsory motor insurance calculator, see section 7.1.1.1(c)(1) and section 7.2.1 below. Additionally, competition may also increase in the motor property insurance branch, in light of the expected publication of the motor property insurance tariff calculator, which will present comparative information also in connection with motor property insurance tariffs on the website of the Capital Markets, Insurance and Savings Authority. Changes in arrangements vis-à-vis suppliers (garages and loss adjusters) following the draft circular regarding arrangement garages and selection of loss adjusters may affect the market shares in the markets. For details on this matter, see section 7.1.1.2(b) above. In the apartment insurance sub-branch, the company's share in the may be affected by the provisions of the consolidated circular on the matter regarding water damages and its effect on the competition between insurers, and customer satisfaction. For additional details regarding the effect of the competition and business optimization, see section 7.2 below.

The company's estimates constitute 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, depending, inter alia, on the competitive conditions in the segment, on the manner of implementation of the regulatory provisions, including the 2017 compulsory motor insurance circular, the amendment to the consolidated circular regarding water damages, and the expected draft circular regarding arrangement garages and the selection of loss adjusters, as well as the conduct of competing entities and license holders.

7.1.5. New products

During the reporting year, no significant new products were marketed by the group in this segment. However, following the circular regarding provisions for the phrasing of insurance plans, and following the Commissioner's position - principles for the phrasing of insurance plans (for details, see section 10.2.8 below), the company worked, including during the reporting year, to correct and adjust its products according to the circular and to the aforementioned provisions of the position paper. The company's efforts to adjust the aforementioned products are expected to continue in light of the amendment to the circular regarding instructions for the phrasing of insurance plans from March 2017 (for details, see section 10.2.8 below). During the reporting year, the insurance policies for businesses, contract works, professional liability and additional products in the various branches were updated, inter alia, in light of the provisions of the aforementioned circular and position paper.

In the motor property branch, Clal Insurance added a track for the comprehensive policy, called "Select Garages", which offers policyholders the option, on the date of the engagement, to undertake that upon the occurrence of an insurance event, the vehicle will be repaired in a garage which is included in the list of Select Garages (a list of approximately 50 garages), which is published on the company's website, and in exchange, the policyholder will receive a discount on premiums and additional benefits upon the occurrence of the insurance event. In January 2017, after a petition which had been filed with the Supreme Court on the matter was struck out for procedural reasons, the Association of Garages in Israel filed, together with Lahav - Bureau of Self-Employed and Business Organizations in Israel, an administrative petition and a motion for an interim order, against the Commissioner, the Chairman of the Economics Committee - MP Eitan Kavel, and against Clal Insurance, against the approval which was given for Clal Insurance by the Commissioner to market this insurance track. In January 2017, the petitioners' motion of for an interim order, which involved the immediate discontinuation of marketing of the Select Garages track, was dismissed, and the petition is expected to be heard on the merits.

Additionally, further to the circular regarding the implementation and marketing of service letters, from December 2015, the company worked to adjust the service letters to the circular, including cancellation or adjustment of the service letters to the provisions of the circular. In 2016, inter alia, service letters / coverages were canceled with respect to repair services for electric products and service for heaters which are included in apartment insurance policies.

7.2. Competition

7.2.1. Factors encouraging competition

According to the company's estimate, the competition in the branch will continue to increase in the coming years, due to the future impact of regulatory reforms which are unique in the field, as specified below, and due to industry-wide regulatory provisions.

Transparency and price - A significant part of the competition in the segment is focused on competition over the amount of premiums. On the website of the Capital Markets, Insurance and Savings Authority, a compulsory motor insurance calculator is available which presents the insurance tariffs of all of the companies, which are determined according to the relevant variables (of each company) to insure the vehicle for which a query is performed using the calculator (the "Compulsory Motor Calculator"). The compulsory motor calculator allows interested parties to compare tariffs for compulsory motor insurance between the companies. Additionally, on the aforementioned website, the apartment insurance tariff calculator is published ("**Apartment Insurance Calculator**"). The apartment insurance calculator is intended to present comparative insurance tariffs of insurers, in accordance with the coverages given in the standard insurance policy for apartments and their contents. Additionally, in December 2015, a **draft was published regarding the establishment of an infrastructure for reporting to the Commissioner regarding motor property insurance tariffs**, in which it is proposed to develop a calculator for motor property insurance tariffs which will allow anyone who wishes to acquire compulsory motor insurance to compare the insurance products of the various companies, similarly to the compulsory motor calculator. In accordance with the draft letter regarding the creation of a reporting infrastructure, the reports of insurance companies regarding tariffs in motor property insurance, for the purpose of presenting them in the motor property calculator, will be done online and in real time. In accordance with the draft letter regarding the creation of reporting infrastructures, the compulsory motor calculator is expected to be integrated, in the future, into the in the future calculator. The draft letter regarding the creation of a reporting infrastructure specifies the variables which will be used in the pricing of the premiums.

According to the company's estimate, the publication of the motor property calculator may increase competition in the motor property branch, and as a result, may affect the amount of premiums and profitability in this branch, and may also indirectly impact the competition in the compulsory motor branch. However, at this stage, it is not possible to predict the overall impact of the calculator, which is dependent, inter alia, on the manner in which the calculator reflects the distinctions between the various policyholders, in accordance with the unique characteristics of each individual policyholder and insurer, and is dependent upon the conduct of competitors and customers in the market.

The group's estimate in connection with the motor property calculator, as stated above, constitutes forward looking information, which is based on the information which is available to the group as of the reporting date. Actual results may differ from the estimated results, inter alia, in light of the final version which will be published, the characteristics underlying the comparison and the conduct of insurers and distributing entities.

The publication of the calculators, as stated above, contributed to the increased competition in the branch, and is dependent, inter alia, on the conduct of competitors, agents and customers in the market.

Additionally, during the reporting year, a circular was published on the subject of “interface for the identification of insurance products”, as well as a circular on the subject of “retrieval of personal information”. The purpose of these circulars is to allow an accessible and simple internet interface for policyholders to identify their insurance products at all of the insurance companies, and to receive information regarding those insurance products on the insurance companies’ websites. The circular regarding the “interface for the identification of insurance products” entered into effect proximate to the publication date of the report, and the circular regarding “retrieval of personal information” is expected to enter into effect at the end of March 2017. For additional details with respect to the circular regarding the retrieval of personal information, see section 10.10.3.3 below.

The company expects that the 2017 amendment to the compulsory motor insurance circular will have a significant impact on competition in the market. For details on this matter, see section 7.1.1.1(c)(1) above.

The provisions of the addition to insurance circular from 2015, in which the Commissioner established principles regarding the regulation of the conduct of insurance companies and insurance agents when adding an insurance applicant to an insurance plan, together with the provisions of the circular regarding the renewal of insurance contracts, which was published in September 2014, may also affect the policy renewal processes, and increase competition in the segment. For additional details regarding the addition to insurance circular and the insurance contract renewal circular, see sections 10.2.9 and 7.4.1 below. For details regarding the amendment to the circular regarding addition to insurance from March 2017, see section 10.2.9 below.

Service and claim settlement - according to the company’s estimate, in the reporting year and in the coming years, the competition in the segment will continue to increase, and will also address additional components, beyond the pricing issue, such as the issue of service and the claim settlement method. These data constitute an additional measurement tool for selection of the insurance product. For details regarding publications on the website of the Capital Markets, Insurance and Savings Authority, regarding comparative figures with respect to the claim settlement method used by insurance companies, and regarding service, which were published by the Commissioner, see section 10.2.11 below.

According to the company’s estimate, during the reporting year, the competition-encouraging factors specified above had an effect on the company’s activity in the non-life insurance branches; however, the company is unable to estimate the impact of those factors, per se, in light of the combination of other factors such as business optimization, prices and the conduct of the competing players in the market, distributing entities and customers.

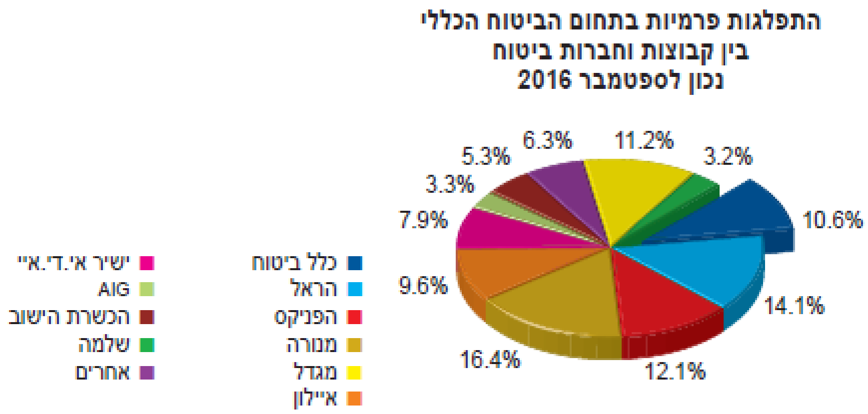
The group’s estimate in connection with the competing entities, as specified above, partially constitutes forward looking information, which is based on the information which is available to the group as of the reporting date. Actual results may differ materially from the estimated results, due to the reasons presented above.

7.2.2. Competitive conditions in the operating segment

Most of the insurance companies in Israel are engaged in this segment.

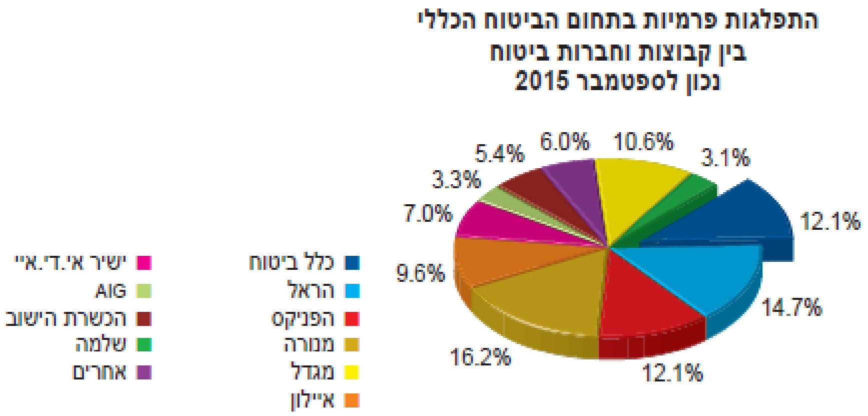
Total gross premiums in the non-life insurance segment in the group amounted, as of September 30, 2016, to approximately NIS 1,717 million, and constituted, according to the data in the financial statements of the insurance companies as of September 30, 2016, which are published on the website of the Capital Markets, Insurance and Savings Authority, approximately 10.6% of the activity in the non-life insurance segment. In the first nine months of 2015, gross premiums in non-life insurance in the group amounted to approximately NIS 1,859 million, and constituted approximately 12.1% of the activities in the non-life insurance segment.

Distribution pf premiums in the non-life insurance segment between insurance groups and companies as of September 2016



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Orange – Ayalon
Pink – Direct IDI
Light green – AIG
Brown – Israel Land Development Company
Dark green – Shlomo
Purple – Others

Distribution of premiums in the non-life insurance segment between insurance groups and companies as of September 2015



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Pink – Direct IDI
Light green – AIG
Brown – Israel Land Development Company
Dark green – Shlomo
Purple – Others

(A) Individual branches

Most of the "traditional" insurance companies sell most of the products in the individual insurance branches (compulsory motor insurance, motor property insurance and apartment insurance), and additionally, the direct insurance companies, which constitute, as of the end of September 2016, approximately 13.8% of the non-life insurance market in the individual branches. The market in the individual insurance branches features significant competition.

Additionally, within the framework of the 2016 and 2017 amendments to the compulsory motor insurance circular, the competitive conditions increased, inter alia, due to the decrease in prices and the increase in the number of unique characteristics of the vehicle and/or policyholder, which constitute the basis for pricing. For additional details, see the reference in section 7.1.1.1(c)(1) above.

During the reporting year, the company continued focusing on profitability considerations over market share, and this optimization focused, during the reporting year, on the compulsory motor insurance and motor property branches, and on the apartments sub-branch. Additionally, in September 2016, the company stopped insuring students in the students personal accidents insurance sub-branch. For additional details, see section 7.1.2(d) above and Part B, board of directors' report, section 3.1.2.3.

The competition in the activity branches increased in branches where there is uniformity between the products, and therefore, there is excess sensitivity to the tariffs in those products, which is increased in light of the comparative data which is available on the website of the Capital Markets, Insurance and Savings Authority. In general, in recent years, consumer awareness regarding the existence of competition has increased. For details regarding this matter, see section 7.2.1 above.

(B) Business branches

Some of the insurance companies sell the business branch products. The competition in the liabilities and property branches is affected by the general competition in the business insurance segment. The sale of these insurance types requires specialization, and sometimes involvement of reinsurers in the risk.

Competition in large businesses is, inter alia, affected by conducting insurance tenders by the customers and the involvement of consultants, as well as the capacity of Clal Insurance's reinsurance vs. of the competing companies.

The decrease in premiums in non-life insurance was due, inter alia, to the non-renewal of losing business operations, including collective business operations in compulsory motor and property branches.

For an analysis of the company's business results in the individual segments and business insurance segments, see Part B - board of directors' report, section 3.1.2.

7.2.3. Significant competitors in the segment

There is intense competition between all of the insurance companies operating in this segment. According to the group's estimate, the group's main competitors in this segment are the large insurance groups: Harel, Migdal, Phoenix and Menorah, which hold, jointly with the group, approximately 64.3% of the market share in non-life insurance as of September 30, 2016, in accordance with the data which are published on the website of the Capital Markets, Insurance and Savings Authority, where the group alone holds approximately 10.6% of the aforementioned market share.

In certain branches in the non-life insurance segment in Israel, there are significant competitors in the same branch, as is the case, for example, in the motor property and compulsory insurance branch, in which direct insurance companies also compete over consumers (for details regarding the market share of the direct insurance companies, see section 7.2.2(a) above). In the credit and foreign trade risks insurance branch, the main competitor of Clal Insurance is ICIC - The Israel Credit Insurance Company Ltd., and an additional competitor named COFAS, which began operating in Israel in 2015.

7.2.4. Methods for dealing with competition and factors affecting the company's competitive position

The company deals with competition on several levels:

Improvement in pricing, underwriting and risk management methods - Data analysis using actuarial models, analysis of current business data and basing operations on an extensive database, which provide a picture that allows responding to market changes, including through differential tariffs and improvement of underwriting processes.

Improving the service to customers and agents – inter alia, by providing the possibility of receiving a mandatory motor insurance certificate paid by credit cards, which is issued at the agent's offices, financing arrangements and premium payment terms in mandatory motor insurance, and settling claims relatively quickly, use of the SAP claims system, operation of policy production systems at the agent's office, technological improvement in the interfaces with the agents (such as a system for printing and direct mailing of policies, tablets for agents which allow the receipt of a full and accessible picture regarding the customer, and a claims opening system).

Increased operational efficiency - for the purpose of complying with the new regulatory directives, Clal Insurance developed automational tools in order to facilitate the agents' work in the required actions. Clal Insurance also worked to improve work methods, improve agreements with service providers, transfer of most outsourcing services in the business review segment for self-performance, etc.

Products – Creating unique products according to market segments and/or certain population groups, as well as expanding existing policies and adapting them to the customers' needs.

Marketing - Sales promotion to agents through brochures, publications in professional media, focused campaigns, initiated visits of professional entities on behalf of Clal Insurance in the agent's office, professional conventions, professional training and publication of a product catalog. During the reporting year, the company developed and increased the variety of sales tools, and as part of the foregoing, provided benefits to policyholders, based on an analysis of customer data and their relationship with the company, in order to expand the mix of products acquired by the customer.

According to the group's estimate, the factors which positively affect its status in the segment include: the group's stability and financial soundness, which are particularly significant in long tail claim insurance branches, professional specialization, the ability to offer a broad variety of solutions, and to tailor products to the customers' requirements, advanced policy production systems in the individual branches, good relationships with reinsurers, including reinsurance contracts which allow the company flexibility in the receipt of various businesses, improvement in service quality, and loyalty of customers and agents. However, selective underwriting and strict control, while filtering out losing customers, reduce the group's market share in this segment.

7.3. Customers

7.3.1. General

Customers in the non-life insurance segment include individual and business customers: the motor property and compulsory motor insurance branches, and the apartment insurance sub-branch, primarily include individual policyholders. The liabilities insurance branch, the other property and others (excluding apartments) insurance branch, the credit and foreign trade risks insurance branch, and the Sales Law guarantees and policies branch (in which the apartment buyer is the beneficiary, and the contractor is the policyholder) primarily include business policyholders.

In some of the insurance branches in the segment, which are individual insurance branches, a significant component of the sales aimed to collectives, including the personal accidents insurance sub-branch, the compulsory motor insurance branch and the motor property insurance branch.

Additionally, in the compulsory motor and motor property insurance branches, there are customers which are companies that own vehicle fleets, including companies which are engaged in vehicle rentals / leasing companies.

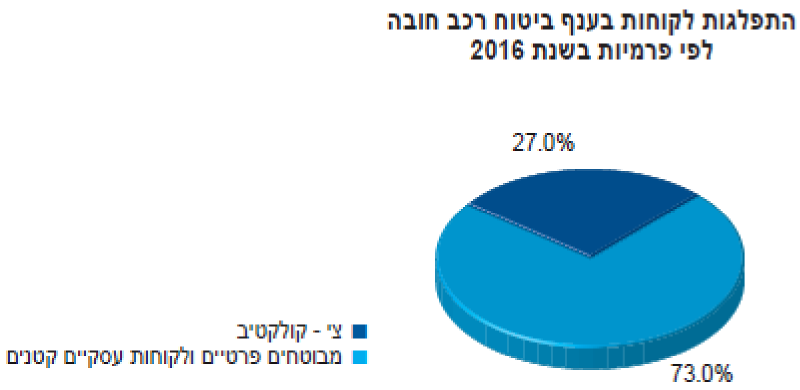
The group's types of customers in the liabilities insurance branch are divided according to the insurance type: third party liability insurance and employer's liability insurance are intended both for the private sector (households and condominiums) and for the business sector (businesses, corporations, local authorities and other institutional entities). Directors and officers insurance, professional liability insurance and product liability insurance are intended for the business segment only.

<u>Distribution of gross premiums (NIS in thousands) by types of customers in the various branches in the non-life insurance segment, in the years 2015 and 2016</u>

(A) Compulsory motor insurance branch

	2016		2015	
Customer type	**Premiums, NIS in thousands**	**Proportion of total sales**	**Premiums, NIS in thousands**	**Proportion of total sales**
Individual policyholders and small business customers	319,964	73%	313,883	69%
Fleet - collective	118,342	27%	140,821	31%
Total	**438,306**	**100.0%**	**454,704**	**100.0%**

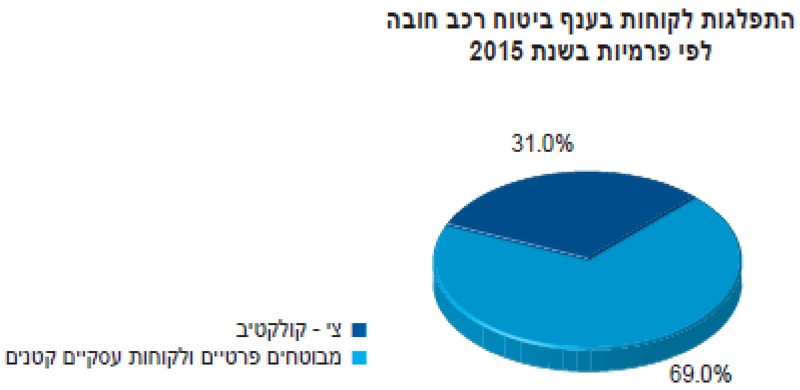
Distribution of customers in the compulsory motor insurance branch by premiums in 2016



Dark blue – Fleet – collective

Light blue – Individual customers and small business customers

Distribution of customers in the compulsory motor insurance branch by premiums in 2015



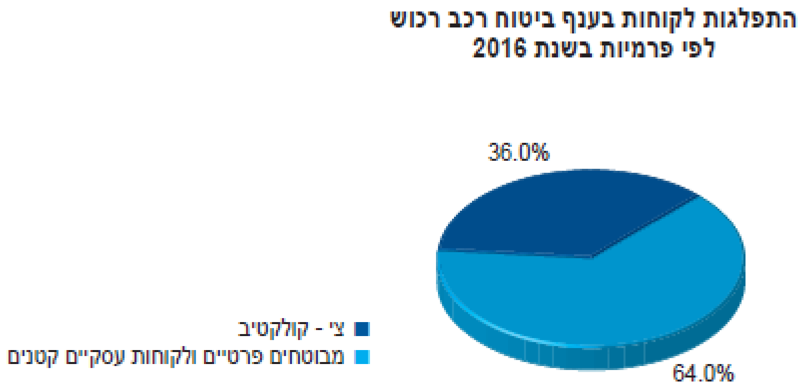
Dark blue – Fleet – collective

Light blue – Individual customers and small business customers

(B) Motor property insurance branch

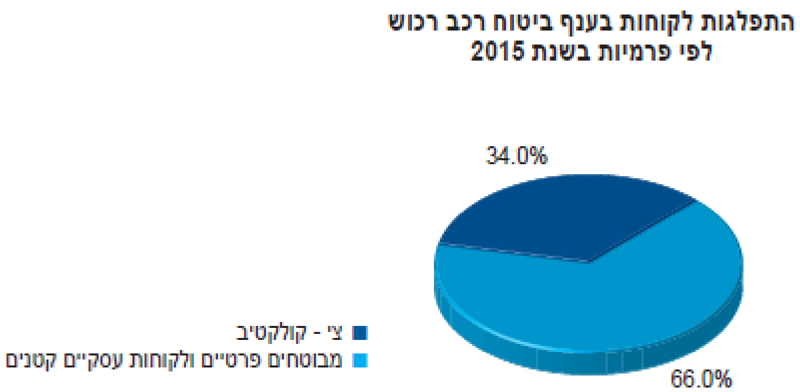
Customer type	2016		2015	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders and small business customers	406,085	64%	423,048	66%
Fleet - collective	228,423	36%	216,049	34%
Total	**634,508**	**100.0%**	**639,097**	**100.0%**

Distribution of customers in the motor property insurance branch by premiums in 2016



Dark blue – Fleet – collective
Light blue – Individual customers and small business customers

Distribution of customers in the motor property insurance branch by premiums in 2015

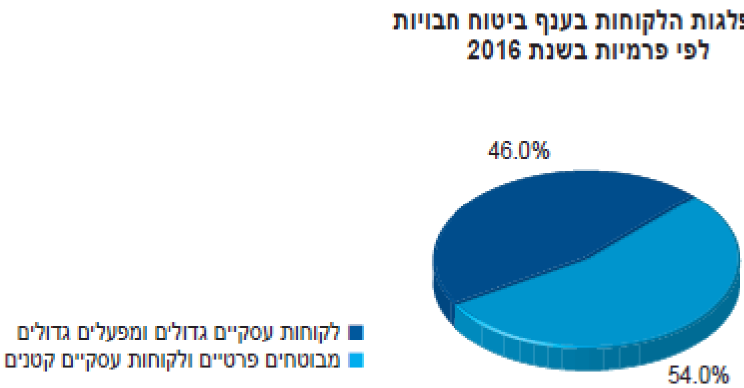


Dark blue – Fleet – collective
Light blue – Individual customers and small business customers

(C) Liabilities insurance branch

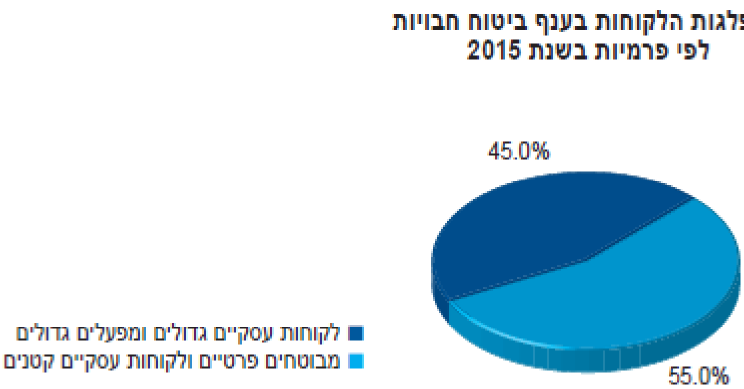
	2016		2015	
Customer type	**Premiums, NIS in thousands**	**Proportion of total sales**	**Premiums, NIS in thousands**	**Proportion of total sales**
Individual policyholders and small business customers	168,505	54%	179,678	55%
Large business customers and large plants	141,754	46%	145,713	45%
Total	**310,259**	**100%**	**325,391**	**100%**

Distribution of customers in the liabilities insurance branch by premiums in 2015



Dark blue – Large businesses and large plants
Light blue – Individual customers and small business customers

Distribution of customers in the liabilities insurance branch by premiums in 2015



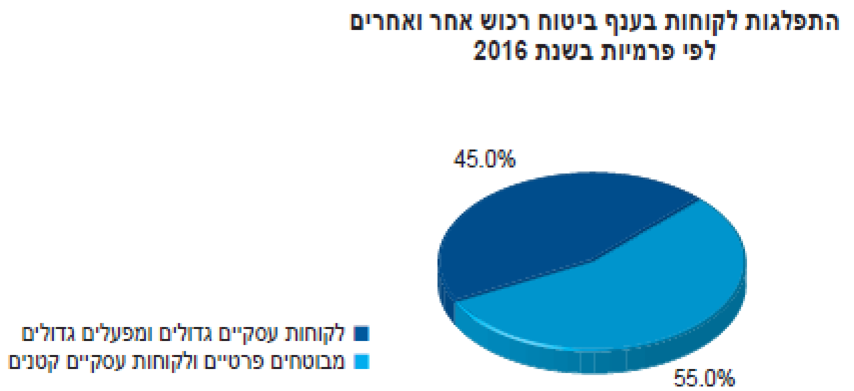
Dark blue – Large businesses and large plants
Light blue – Individual customers and small business customers

(D) Other property and others insurance branch

Customer type	2016 Premiums, NIS in thousands	2016 Proportion of total sales	2015 Premiums, NIS in thousands	2015 Proportion of total sales
Private policyholders and small business customers *	407,575	55%	528,529	61%
Large business customers and large plants	335,005	45%	344,447	39%
Total	**742,580**	**100%**	**872,976**	**100%**

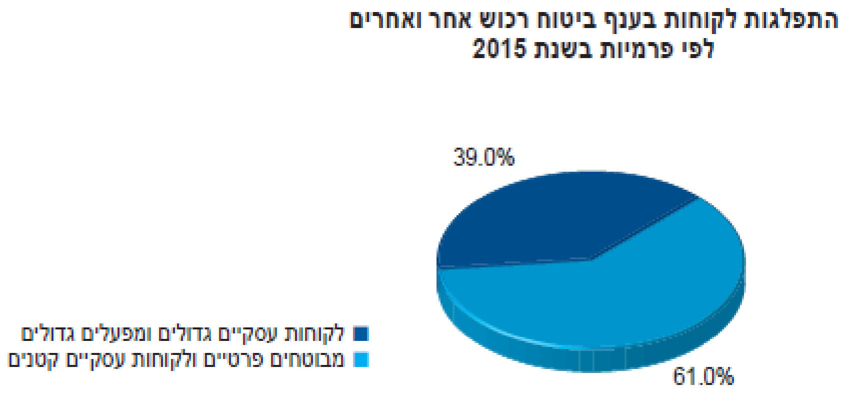
* The decrease in premiums was due to the fact that, in September 2016, the company stopped insuring students in the students personal accidents insurance sub-branch. For additional details, see section 7.1.2(d) above and Part B, board of directors' report, section 3.1.2.3.

Distribution of customers in the other property and others insurance branch by premiums in 2016



Dark blue – Large businesses and large plants
Light blue – Individual customers and small business customers

Distribution of customers in the other property and others insurance branch by premiums in 2015



Dark blue – Large businesses and large plants
Light blue – Individual customers and small business customers

(E) Credit insurance branch

	2016		2015	
Customer type	**Premiums, NIS in thousands**	**Proportion of total sales**	**Premiums, NIS in thousands**	**Proportion of total sales**
Business policyholders	107,027	100.0%	103,121	100.0%
Total	**107,027**	**100.0%**	**103,121**	**100.0%**

7.3.2. <u>Dependence on customers in the segment, renewal rates and seniority</u>

- In the non-life insurance segment, the group is not dependent on any individual customer or on a limited number of customers.

- The group does not have any individual customer whose income in the segment constitutes 10% or more of the company's total income in the consolidated reports.

- The group insures, from time to time and in the ordinary course of business, member companies of the IDB Group. The group's total income in the non-life insurance segment from member companies of the IDB Group, from premiums in the ordinary course of business, did not exceed 5% of the company's income in the segment in 2016. For the sake of caution, despite the fact that the IDB Group includes a large number of companies, all of the member companies of the IDB Group, for this purpose, are referred to jointly as a single entity.

- The rate of individual policyholders who purchased compulsory motor insurance together with motor property insurance in 2016, out of the total customers who purchased compulsory motor insurance in the group, amounts to approximately 63%. The rate of individual policyholders who purchased compulsory motor insurance together with motor property insurance in 2016, out of the total customers who purchased motor property insurance in the group, amounts to approximately 84%.

- Presented below are data regarding the renewal rate (customers who renewed policies in which the insurance had terminated) in the mandatory motor insurance, motor property insurance branches and the housing insurance sub-sector in 2016, 2015 and 2014 out of the total insurance fees in respect of policies that terminated in 2016, 2015 and 2014, respectively:

Branch	**Rate of renewals from total premiums with respect to policies whose conclusion date is in 2016**	**Rate of renewals from total premiums with respect to policies whose conclusion date is in 2015**	**Rate of renewals from total premiums with respect to policies whose conclusion date is in 2014**
Compulsory motor insurance	**61.50%**	63.60%	62.45%
Motor property insurance	**64.45%**	67.54%	64.03%
Apartment insurance	**88.02%**	90.20%	87.57%

- Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, according to the number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date, **in the compulsory motor insurance branch**[47]:

Number of insurance years (years of seniority)	**Premiums, NIS in thousands**			**Proportion of total sales**		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
First insurance year (no seniority)	168,748	155,977	203,820	38.50%	34.30%	37.55%
Second insurance year (one year of seniority)	84,023	102,427	133,118	19.17%	22.53%	24.53%
Third insurance year (two years of seniority)	61,275	65,805	69,552	13.98%	14.47%	12.81%
Over three years of seniority	124,260	130,495	136,261	28.35%	28.70%	25.11%
Total	**438,306**	**454,704**	**542,751**	**100.0%**	**100.0%**	**100.0%**

[47] For details regarding premiums which were collected by Clal Insurance in the non-life insurance segment during the reporting year, see Note 5 to the financial statements.

o Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, by number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date), **in the motor property insurance branch**:

Number of insurance years (years of seniority)	**Premiums, NIS in thousands**			**Proportion of total sales**		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
First insurance year (no seniority)	224,846	205,352	268,622	35.55%	32.13%	35.98%
Second insurance year (one year of seniority)	119,853	143,483	160,017	18.95%	22.45%	21.43%
Third insurance year (two years of seniority)	89,005	84,119	106,194	14.08%	13.16%	14.22%
Over three years of seniority	200,754	206,143	211,876	31.42%	32.26%	28.37%
Total	**634,508**	**639,097**	**746,709**	**100.0%**	**100.0%**	**100.0%**

o Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, by number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date), in the apartment insurance sub-branch[48]:

Number of insurance years (years of seniority)	**Premiums, NIS in thousands**			**Proportion of total sales**		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
First insurance year (no seniority)	27,690	37,952	44,058	11.98%	12.01%	16.15%
Second insurance year (one year of seniority)	24,824	44,732	28,590	10.75%	14.16%	10.48%
Third insurance year (two years of seniority)	28,425	27,508	21,906	12.30%	8.71%	8.03%
Over three years of seniority	150,117	205,752	178,249	64.97%	65.12%	65.34%
	231,056	**315,944**	**272,803**	**100.0%**	**100.0%**	**100.0%**

* The data regarding renewals and seniority for customers do not include data regarding policies which were sold through mortgage banks.

48 See footnote 47 above.

7.4. **Other**

7.4.1. Insurance contract renewal circular

In 2015, a circular entered into effect which was published in September 2014, on the subject of the renewal of insurance contracts, which determined that an insurer is required to submit to the policyholder, 30 days before the end of the insurance period, notice regarding the end of the insurance period, including specification of the following: the insurance premiums and the deductible amount in the concluded policy, the need for the policyholder's consent as a condition for the renewal of the insurance policy, and the policyholder's responsibility for obtaining insurance coverage.

In the circular, it was further determined that an insurance company which is interested in renewing the policy must obtain and document the policyholder's consent. The circular applies to the motor property insurance, apartment insurance and personal accidents insurance branches, with respect to individual policies whose insurance periods do not exceed one year. Additionally, the provisions of the circular apply to the compulsory motor insurance branch, with respect to the delivery of notice regarding the conclusion of the insurance period. The provisions of the circular regarding the obligation to provide notice regarding the conclusion of the insurance period do not apply to policies in which the insurance period does not exceed three months, and do not apply to collective insurance policies and to insurance policies in which it was stipulated, in advance, that the insurance will be automatically extended at the end of the insurance period. The circular entered into effect on March 31, 2015, excluding as regards the obligation to document the insurer's consent, which entered into effect on March 31, 2016.

The insurance contract renewal circular, along with the addition to insurance circular, as specified in section 10.2.9 below, have resulted in changes to the process of engaging with policyholders, on all matters associated with the renewal of insurance contracts. As a result, automational and operational preparation was required, which affected the obligations which apply to insurance agent in those branches. At this stage, it is not apparent that the aforementioned circulars have resulted in any change to the renewal rate of renewed policies in Clal Insurance.

The group's estimate in connection with the provisions of the renewal circular constitutes forward looking information, which is based on information available to the group as at the reporting date. Actual results may differ from the estimated results, due to the reasons specified above, the combination of the renewal circular and the addition circular, and the conduct of competitors and customers in the market, following its application.

For details regarding the summary of additional final provisions of the law, which were published during the reporting year and thereafter, and a summary of the draft provisions of the law which were published, which apply to the operating segment, beyond the provisions of the law which were specified in this chapter above, see also section 10.2 below.

8. Health insurance segment

8.1. Products and services

8.1.1. Description of the insurance branches and the insurance coverages included in the segment

1) Illness and hospitalization branch

In Israel, there are several layers providing illness and hospitalization coverage: The basic health basket which is provided to the country's citizens by virtue of the National Health Insurance Law (the "**Basic Basket**"); additional services which are provided by the health funds in accordance with the provisions of the National Health Insurance Law (hereinafter: the "**Additional Services**" or the "**Additional Health Services**" or the "**Additional Health Services Plans**"); and insurance policies sold by the insurance companies.

The group offers to its policyholders a variety of insurance coverages in the illness and hospitalization branch, which include compensation or indemnification to policyholders with respect to medical expenses in case of harm to health due to an illness or accident. Some of these products replace, supplement and extend the covers and services provided in the basic basket within the framework of the National Health Insurance Law and/or the additional services.

The illness and hospitalization branch includes the following sub-branches:

- Illness and hospitalization insurance.
- International travel insurance.
- Insurance for foreigners residing in Israel.
- Personal accidents insurance.
- Dental insurance.
- Insurance for Israelis residing abroad.

2) Long term care branch

Long term care insurance provides solutions for situations in which the policyholder is defined as requiring long term care, according to the definition of the insurance event in the policy, i.e., anyone who cannot independently perform part of the activities of daily living, and therefore requires assistance or supervision. A policyholder with mental incapacity is also considered as requiring long term care.

A person requiring long term care who resides at home, and who fulfills certain criteria (including, inter alia, health and economic criteria), may be entitled to receive services from the National Insurance Institute, including treatment hours at home, in accordance with the provisions of the National Insurance Law (Combined Version), 1995.

The Ministry of Health also participates in assisting the funding of residence in a long term care institution among the long term care institutions which are recognized by it for this purpose, for any person requiring long term care who requires assistance in financing such residence.

In the long term care branch, insurance coverages are sold which are paid, in addition to the payments or services which are given by the state, as specified above, as individual insurance and as collective insurance, in which, upon the occurrence of an insurance event, the insurance company undertakes to insurance company in funding the long term care hospitalization or to compensate the policyholder. The policies provide insurance benefits for a defined period, or for the entire lifetime.

8.1.2. Details regarding the primary products and services included in the operating segment

1) Illness and hospitalization branch

In the illness and hospitalization branch, Clal Insurance markets individual insurance and collective insurance.

1) A. Individual insurance

Individual health insurance policies which were sold until the end of January 2016 are generally for an undefined period, regarding which, except for the cases specified in the policies and in the policies, only the policyholder is entitled to announce their termination. In February 2016, an insurance circular on the subject of "Preparation of individual health insurance plans" (hereinafter: the "**Pricing Circular**") entered into effect. The pricing circular aims to regulate both the need to update the insurance coverage over the years, and the uncertainty associated with the pricing of products over the long term.

The pricing circular applies to all individual health insurance types, excluding loss of working capacity, long term care insurance, international travel, dental, and foreign workers and residents. According to the pricing circular, once every two years, an insurance company may update the tariffs and conditions in all individual health insurance policies, until the date of the next update of the tariff and/or conditions (hereinafter: the "**Date of the Change**"). It is necessary to inform all policyholders regarding the change approximately two months in advance; however, in case the monthly insurance premiums have increased in the next insurance period by more than NIS 10, or by more than 20% of the insurance premiums, whichever is higher, relative to the monthly insurance premiums which the policyholder paid prior to the date of the change, or if a reduction was implemented in the scope of insurance coverage, as an alternative to increasing premiums, as aforesaid, it will not be possible to continue the insurance without obtaining the policyholder's express consent. The pricing circular establishes update mechanisms which includes the sending of letters, and also allows a policyholder who has not provided his consent according to the required process to continue being insured during an additional time period. Additionally, according to the pricing circular, the company contacted the current policyholders in individual insurance, and offered them to transfer to the new plans which are proposed in accordance with the aforementioned circular, without a medical underwriting process with respect to the overlapping coverages. The pricing circular applies to all of the individual health insurance plans specified above which are marketed from February 2016.

It is difficult to estimate the impact of the reform over the long term; however, in the short term, during the reporting year, the update to the policies in accordance with the pricing circular resulted in a reduction of tariffs in Clal Insurance in overlapping coverages. Additionally, the company estimates that periodically updating the policy terms may affect the ability to maintain policyholders and increase policy cancellation rates, particularly among healthy policyholders. During the reporting year, the obligation to offer to existing policyholders, in accordance with the previous version of the policies, the possibility to transfer to policies according to the framework specified in the pricing circular, had no significant impact on Clal Insurance.

The information presented on all matters associated with the possible implications of the pricing circular constitutes forward looking information, which is based on assumptions and estimates made by the group, as of the reporting date. Actual implementation may differ from the forecast, and depends on a variety of factors, including the manner in which the policies are updated, according to the requirement and/or possibility to update them, over the years, and the operating expenses associated therewith, and the conduct of competing companies, distributing entities and the preferences of policyholders over time, as well as the combined impact of the pricing circular, together with the independence circular and the standard policy regulations, as defined below, as well as the combined impact of synergistic sales.

in February 2016, a circular entered into effect regarding "independence between coverages in individual health insurance" (hereinafter: the "**Independence Circular**"), which applies to individual policies in the illness and hospitalization branch and in the personal accidents branch which were marketed from that date onwards, which is intended to determine provisions regarding the marketing of various insurance coverages of products in the aforementioned branches, and provisions regarding their cancellation. In accordance with the provisions of the independence circular, an insurer will allow a potential policyholder to purchase a base plan, independently of their purchase of another, additional plan, or another base plan, unless the Commissioner has given advance written consent for the above. The circular also determines that an insurer will allow potential policyholders to purchase any of the following coverages as a base plan: surgeries, transplants, drugs and critical illness. It was further determined that an insurer will not make a discount in a certain plan conditional upon the purchase or holding of any other plan, and that it is necessary to obtain the policyholder's separate consent for the acquisition or cancellation of each one of the plans.

As of the publication date of the report, the independence circular had no significant impact on the company's sales volume and sales method, primarily in light of the method for marketing of the aforementioned insurance plans prior to the entry into effect of the independence circular. However, the company estimates that the separate sale of health insurance products, in accordance with the independence circular, may result, in the future, in a reduction of the scope of premiums in the health branch, as a result of the choices and preferences of customers when joining the insurance, or during the insurance period, and may also result in an increase in the rate of selling expenses. Additionally, the sale of the basket of products reduces, to a certain degree, the "anti selection" risk (the risk that policies will be sold to customers with a higher risk of occurrence of the insurance event), and accordingly, their separation could increase the aforementioned risk.

The information presented on all matters associated with the possible future implications of the provisions regarding the independence circular constitutes forward looking information, which is based on assumptions and estimates made by the group, as of the publication date of

the report. However, at this stage, it is not possible to estimate the entire implications of the aforementioned provisions, and these are dependent, inter alia, on the conduct of competing entities, distributors and the preferences of policyholders, and in consideration of the fact that prior to the independence circular, the company did not make discounts conditional on cross-purchase of various health products.

1) B. Collective insurance

Collective health insurance policies are generally for periods of several years, where in some of the policies, policyholders are entitled to acquire, at the end of the collective insurance period, individual policies without underwriting ("**Insurable**").

In January 2016, an Amendment to the Control of Finance Services Regulations (Insurance) (Collective Health Insurance), 2009 (hereinafter: the "**Amendment to the Regulations**") entered into effect. The amendment to the regulations prescribes several changes, mostly with respect to the method used to add policyholders to collective insurance, renewals of collective insurance policies, and the departure of policyholders from the relevant group. Inter alia, it was determined that the continuous renewal of collective insurance, which, prior to the amended regulations, did not require the receipt of express consent from the policyholder, will be implemented only on the condition that one or more of the basic coverage chapters, as defined in the regulations, which existed in the policy prior to its renewal, have not been canceled; It was further determined that the premiums cannot be raised, during the insurance period, or on the date of renewal of the collective insurance policy, at a rate or amount higher than that specified in the amended regulations, without the express consent of the policyholder.

During the reporting year, the provisions of the Amendment to the Regulations had no significant implications. However, over the long term, the company estimates that the requirement to obtain the policyholder's consent on the renewal dates, including in case of an update to the premium during the insurance period, or upon its renewal, may have an impact on the insurer's ability to update the provisions of the aforementioned policy and/or the premiums, and on the scope of policyholders who choose to continue being policyholders, in case of the aforementioned update.

The company's estimate in connection with the Amendment to the Control of Finance Services Regulations (Insurance) (Collective Health Insurance), 2009 constitutes forward looking information which is based on information which is available to the company as of the reporting date. Actual results may differ from the projected results, and are dependent, inter alia, on the method used to price the policy and its terms of renewal, and on the conduct of competing entities and of policyholders with whom the company engaged in agreements.

In July 2016, a draft amendment to the Control of Financial Services Regulations (Insurance) (Collective Health Insurance), 2009 (hereinafter: the "**Amendment**") was published, in which, inter alia, the list was expanded of entities who may be policyholders in collective health insurance, even if they receive benefits due to their status as policyholders, and even if there is no link between them and the group of policyholders, subject to the conditions which were determined, including the condition according to which the engagement in the collective health insurance contract benefits the policyholders in the group, relative to an individual health insurance policy.

With respect to policyholders of this kind, it was determined that an insurer will be entitled to reimburse amounts to the policyholder, subject to the terms which will be determined.

At this preliminary stage, it is not possible to estimate the implications of the amendment, and it depends, inter alia, on the final version of the regulations, insofar as it will be published, and on supplementary arrangements, with respect to material issues, which, at present, have not yet been determined, as well as regarding the decisions of the company and of the competing entities, with respect to the sale of policies of this kind and the choices of potential agents, policyholders and insurants.

1) C. Insurance coverages in the illness and hospitalization branch

Presented below is a description of the essence of the insurance covers in the main products sold by the group in the illness and hospitalization branch:

A. Illness and hospitalization insurance

- In the illness and hospitalization branch, the insurance companies offer coverages which are divided into three types:
  - **Alternative insurance -** Insurance coverage which constitutes an alternative to the services which are given in the basic basket and/or for additional services.
  - **Additional insurance –** Coverage for services which, are their date of sale, are not included in the basic basket or in the additional services.
  - **Expansionary insurance -** Coverage which expands coverage given in the basic basket and/or in the additional services.
- **The basic insurance coverages in the sub-branch include:**
  - Insurance for surgeries, transplants and special treatments - Provides coverage to the policyholder with respect to private medical services. Within this framework, the policyholder is given the right to choose the date of receiving the medical service, the identity of the attending physician and the medical institution. The aforementioned insurance coverage provides a refund for medical expenses or compensation, inter alia, in connection with surgery, transplants and/or special treatment overseas etc. For details regarding changes which were made to the policies regarding surgery and alternatives treatments to surgery in Israel during the reporting year, see below.
  - Critical illness insurance - insurance coverage in which the policyholder, in case of the diagnosis of a critical illness insurance, is entitled to receive monetary compensation in a one-time amount.
  - Drugs insurance - Insurance coverage for purchasing drugs which are not included in the national health basket.
  - There are also additional coverages, such as ambulatory services - services which provide medical treatment, in a hospital or a clinic, with no need for hospitalization.

- In February 2016, the **Control of Finance Services Regulations (Insurance) (Conditions in Insurance Contract Regarding Surgery and Surgery Replacement Treatment in Israel), 2015**, entered into effect (hereinafter: the “**Standard Policy Regulations**”). The standard policy regulations determine that a policy will include standard insurance coverage for surgeries, alternative treatments to surgery, and 3 consultations with a specialized physician in each insurance year, regarding a surgery or regarding alternative treatments to surgery, in Israel. The standard policy regulations prescribe that policies with such coverage will only be prepared in accordance with the conditions specified therein, and no additions or subtractions can be made with respect to them (hereinafter: the “**Standard Policy**”). It was further determined that if and when the Commissioner so instructs, the following conditions will be included by the insurer in the standard policy, according to the rates, conditions and restrictions specified by the Commissioner, as stated above: (1) The Standard Policy will include deductibles in the amounts instructed by the Commissioner, including different rates for different types of procedures. (2) A procedure will only be performed by means of a service provider which has an arrangement with the insurer for the performance of the procedure (hereinafter: the “**Service Provider Under the Arrangement**”).

  It was also determined in the standard policy regulations that the addition to a standard contract cannot be made contingent upon the acquisition of any insurance coverage or service. Additionally, cancellation of the standard policy may not be made conditional upon the cancellation of any insurance coverage or service.

  Further to the standard policy regulations, on November 30, 2015, the **Economic Plan Law (Legislative Amendments for the Implementation of the Economic Policy for Budget Years 2015 and 2016), 2015** (hereinafter: the “**2015 Arrangements Law**”) was published. In the Economic Arrangements Law, it was determined that, beginning on July 1, 2016, insurance plans which include surgery insurance will not be marketed, and changes to such plans will not be approved, unless it has been proven to the Insurance Commissioner that the insurance company has agreements with physicians or medical institutions, as follows:

  - In accordance with the aforementioned agreements, the entire payments associated with a surgery which was performed in Israel, including payments to the physician and the medical institution, as well as payments for the equipment, devices and drugs used in the performance of the surgery, and during treatment, will be paid by the insurance company, excluding the deductible amount, insofar as any was determined in the insurance plan (hereinafter: “**Surgery Arrangement**”);

  - The aforementioned agreements ensure that policyholders have a sufficient number of surgeons and surgeries, both in terms of the variety of surgeons and the types of surgery, and in terms of geographical distribution, including distribution in the periphery areas.

  - Notwithstanding the foregoing, an insurance company is entitled to submit to the Minister of Finance for approval a list of up to 50 physicians specializing in unique areas or located in geographical regions where there are a limited number of specialized physicians, regarding which the insurance company will be entitled to offer monetary reimbursement, if the insurance company does not have a surgery arrangement with them.

It was further determined in the Economic Arrangements Law, in a uniform manner for all insurance companies and health funds, that the insurance company will pay in accordance with the insurance plan, with respect to a surgery, to the physician or to the medical institution in which the surgery was performed, according to an insurance arrangement only, and will not pay to the patient monetary reimbursement or payment for the surgery.

It was further determined that a physician will not be included in the list of surgeons with whom the insurance company has surgery arrangement unless the insurance company according to which has an arrangement with him according to which the entire payment owed to the physician with respect to medical consultation, excluding the deductible, will be financed by the insurance company.

The aforementioned provisions will not apply to an insurance company whose market share is lower than a rate specified by the Insurance Commissioner, if in his opinion this is required in order to ensure competition, and which received approval from the Insurance Commissioner for this purpose, provided that the aforementioned market share rate does not exceed 10% (hereinafter: "**Insurers With Low Market Share**").

Presented below is a description of the standard policy regulations, together with the implications of the health chapter in the arrangements law:

The standard policy regulations, and the existence of a standard surgery policy at an insurance company which, in accordance with the Economic Arrangements Law, allow the provision of service to policyholders through providers which have an agreement with the insurance company only, may increase competition, which will be focused on price, service (including the available doctors, which will be determined in the arrangement), and the claim settlement method. The pricing of the policy, in light of the scope of coverages given therein, may affect the possibility of retaining policyholders in policies which were sold before the entry into effect of the standard policy regulations, and accordingly, may affect the mix of policyholders in these policies. At this stage, and in consideration of the fact that these are long term arrangements, it is not possible to estimate the extent of their impact.

In February 2016, the Israel Medical Association filed a petition with the Supreme Court in objection to the health chapter in the Economic Arrangements Law. The petition was filed against the Knesset, the government, the Ministry of Health and the Minister of Health, the Ministry of Finance and the Minister of Finance, and against the insurance companies and hospitals which were defined as "formal respondents". In the petition, it was claimed that the health chapter in the Economic Arrangements Law includes far-reaching changes, although they were not preceded by informed and in-depth discussions, and that the aforementioned reform is inappropriate for inclusion in the Economic Arrangements Law. Inter alia, it was claimed in the petition, with respect to a surgery arrangement, that the foregoing restricts the access of patients to a variety of physicians, that it constitutes a breach of Basic Law: Human Dignity and Liberty, and that it revokes from citizens the right to choose the best medical treatment, in their judgment. In September 2016, the Court determined that in light of the fact that this is a new arrangement, the implications of which are not yet known, the hearing of the petition will be deferred until March 2017.

The company's estimate in connection with the standard policy regulations and the health chapter in the Economic Arrangements Law constitutes forward looking information, which is based on the information which is available to the company as of the reporting date. Actual results over the long term may differ from the estimated results, and are dependent, inter alia, on the impact of policy pricing and on the conduct of competing entities, including insurers with low market shares, health funds and policyholders, and on the combined impact of the standard policy regulations, together with the pricing circular and the independence circular.

B. International travel insurance

The international travel branch is comprised of a basket of insurance coverages which are intended for policyholders during their time spent abroad, which includes, inter alia, coverage with respect to medical expenses, personal accidents, reduction of travel period and cargo. The insurance period in an international travel policy is specified in days, according to the period of the policyholder's stay abroad, or for the duration of all travel days in a single calendar year. International travel policies are sold by insurance agents and the direct sales unit to members of collectives of three health funds and to certain credit card holders.

In January 2017, an amendment was published to the provisions of the consolidated circular regarding international travel insurance, and provisions were determined regarding the phrasing of international travel insurance plans, and the marketing thereof (hereinafter: the "**Provisions**"), which primarily involve the determination stating that the plan structure will include basic coverage, with which various expansions can be acquired, in accordance with the provisions which were determined.

Within the framework of the provisions, the exceptions which can be included in the policy and which can be ascertained during the sale process were reduced, relative to the status quo, including cancellation of the possibility to exclude an insurance event involving cancellation or shortening of a trip due to the death or hospitalization of the policyholder, due to a previously existing medical condition, and additional provisions were determined, according to which the liability limits in the plan will be adjusted to the expected cost for the policyholder upon the occurrence of the insurance event, inter alia, in accordance with the destination countries, as well as provisions pertaining to the process of engaging in an insurance contract over the internet, extension of the insurance period after engaging in the agreement, and proviisons regarding documentation and control by the insurer or insurance agent. The circular will apply to international travel insurance plans which will be sold or renewed beginning on August 1, 2017.

According to the company's estimate, the expansion of the scope of coverage which is given within the framework of the provisions, and the reduction of expenses, including the obligation to adjust the liability limits in the policy, as stated above, will impose difficulties on the sale process, and will result in the need to re-price in accordance with the changes in the insured risk, depending, inter alia, on the competitive conditions which will be created, and on the relationship between the company and the reinsurers. The obligation to adjust the liability limits to the destination country, as stated above, may expose the company, in cases where it is found that the insurance coverage is insufficient.

The information presented on all matters associated with the possible implications of the provisions constitutes forward looking information, which is based on the company's estimates and assessments, and actual results may differ significantly from the forecast, inter alia, due to the pricing which will be determined, and its correspondence to the adjustment of and the competitive conditions in the segment.

C. Personal accident insurance

This sub-branch includes individual policies which grant entitlement to compensation upon the occurrence of an insurance event, such as fractures, burns, disability and death due to an accident.

For details regarding a determination in principle regarding the correction of deficiencies in the marketing of personal accidents policies from April 2016, see Note 43(d)(1) to the financial statements.

2) Long term care branch

In the long term care branch, Clal Insurance markets policies in which, upon the occurrence of an insurance event, the company undertakes to participate in the financing of residence in a long term care institution, or to compensate the policyholder in a predetermined amount. The policies provide insurance benefits for a defined period, or for the entire lifetime.

In accordance with the Commissioner's directives on the matter, as expressed in the circular regarding the "preparation of long term care insurance plan" (the "**Long Term Care Circular**"), an insurance event which is due to a situation wherein the individual is unable to perform at least 3 of 6 activities which are defined in the circular (getting up and lying down, getting dressed and undressed, bathing, eating and drinking, continence and mobility) will entitle the policyholder to no less than 50% of the monthly insurance benefits, and an insurance event which is situation a situation of mental incapacity" (as defined in the circular), will entitle the policyholder to receive 100% of the monthly insurance benefits. The insurance benefits are paid beginning at the end of the waiting period, for the entire lifetime of the policyholder, or for a period of several years, as defined in the policy, and so long as the policyholder continues to require long term care. The waiting period may be a several months or several years, depending on the product purchased by the policyholder.

For additional details in connection with class actions in connection with the insurance event in long-term care policies, see Notes 43(a2)(12), 43(a2)(14), 43(a2)(22), and 43(d)(1) to the financial statements.
For additional details in connection with the annex to the claim settlement circular from September 2016, and the Commissioner's position regarding the re-evaluation of eligibility, see section 10.2.12 below, and Note 43(d)(5) to the financial statements.

- **Individual long term care insurance**

Individual insurance policies in the long term care branch are insurance policies which are purchased privately by policyholders. The insurance period in such policies is for the entire lifetime, where the maximum period of entitlement to receive insurance benefits is in accordance with the type of policy which was acquired (several years to entire lifetime). There are long term care insurance policies which are supplementary to long term care insurance acquired by a policyholder (generally through health funds or collective insurance), which provide insurance benefits only after the end of a waiting period of 36 or 60 months.

There are fixed premium long term care policies which grant the policyholder the right, in cases where he stops paying the premiums, for any reason whatsoever, under certain conditions, to accrue settlement values, which allow him to receive reduced insurance benefits in case of a claim, in accordance with his age, the premium payment period, and the premium amount which was paid by him. When the settlement values are lower than a certain limit which was determined by the Commissioner, the policyholder receives, instead of the settlement values, a one-time amount. Additionally, until 2013, individual long term care policies were also sold at variable premiums, without settlement values. In accordance with the Commissioner's directives, beginning in 2013, in addition to fixed premium policies, only policies with premiums linked to the CPI's increase of up to 4% per year can be sold, in which the price is fixed no later than age 65 ("**Restricted Variable Rate Premium**").

During the reporting year, the long term care policies which were marketed by Clal Insurance were mostly with fixed premiums, while others were with restricted variable rate premiums.

Until 2007, Clal Insurance also marketed long term care insurance with fixed premiums, which included a mechanism for linkage to investment portfolio returns, in a manner whereby positive returns, beyond the minimum returns determined in the policy, increased the amount of the monthly stipend to which the policyholder is entitled upon the occurrence of the insurance event. Returns lower than the minimum returns defined in the policy entitle Clal Insurance to increase the insurance premiums, in a manner whereby the amount of the monthly stipend to which the policyholder is entitled upon the occurrence of the insurance event will not be reduced. Since 2007, long term care policies with this mechanism are no longer sold by the group.

- **Collective long term care insurance**

Collective insurance agreements in the long term care branch include, for the most part, insurance coverages whci are similar to the coverages provided in the individual insurance agreements; however, for a fixed period. Collective long-term care insurance is subject to the Commissioner's circulars on the subject, including, inter alia, the insurer's obligation to offer an policyholder, whose insurance coverage by virtue of the collective policy has terminated, in certain defined cases, continuity of insurance, by providing the possibility of transferring to a private policy for life ("**the Continuation Policy**"), without renewed underwriting and without a qualification period. The premiums will be according to the insurer's regular rate on the transfer date, for policyholders with similar individual policies. The insurance amount and the payment period for insurance benefits will be as determined for the policyholder in the collective long term care insurance which he holds.

In accordance with the Commissioner's provisions, collective policies which are sold or renewed on or after January 1, 2013, will apply for the policyholder's entire lifetime (as opposed to the previous situation, according to which the insurance period in collective policies is for a defined period), and the premium pricing will not be based on subsidization between different age groups (where the number of years of age in each age group will not exceed five years), and between genders. However, the aforementioned guidelines determined that an insurer will be entitled to renew existing contracts for the implementation of collective long term care insurance plans, according to their previous format, provided that these conclude by December 31, 2013. This date was postponed several times by the Commissioner, and as of December 31, 2016, it has been postponed to December 31, 2017.

For details regarding a class action which was filed in connection with collective long-term care policies and the marketing thereof, see Note 43(a2)(23) to the financial statements.

In December 2016, the Commissioner published draft provisions which determine detailed provisions with respect to collective long-term care insurance policies (hereinafter: the “**Draft Provisions Regarding Collective Long-Term Care Insurance**” or the “**Draft**”). In accordance with the draft 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; 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, only until age 65); a policyholder in collective long-term care insurance will accrue settlement values 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 the collective long-term care insurance policy at the same insurer, it will not be possible to reduce the insurance coverages, but rather only to implement changes to the premiums or to the settlement values; upon realization of the right of continuity in long-term care policies according to the private framework, the premium of the continuing policy will be identical to the premium which was paid by the policyholder with respect to the collective long-term care insurance on the date of its conclusion. The aforementioned provisions will apply to collective long-term care insurance policies which are renewed / marketed 3 months after their publication date.

The implementation of the draft provisions regarding collective long-term care insurance, insofar as they become a final and binding document, will result 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 guarantee to policyholders, 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 paid 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 provisions regarding collective long-term care insurance.

At this preliminary stage, before the final provisions have been published, the company is unable to estimate the entire impact of the aforementioned provisions, including with respect to the profitability of the continued activity within the framework of collective long-term care insurance, according to the proposed framework.

In December 2016, the Commissioner published a document for discussion on the subject of a model for long-term care insurance for senior new members (hereinafter: the “**Document For Discussion**”). The document for discussion proposed an additional model for the acquisition of long-term care insurance at old age, in response to difficulties faced by seniors who wish to join the currently available long-term care insurance policies: individual insurance and/or collective insurance of health funds (such as price and underwriting conditions for acceptance). The proposed model attributed to the product with the following characteristics: acquisition of the insurance will be possible during the period from age 60 until retirement or age 67, whichever is lower; the insurance period will be for life; the addition to insurance will be without medical underwriting; the insurance coverage will be subject to a qualification period; the addition will be only after the receipt of the insurance applicant’s consent; the payment of premiums with respect to the insurance may be performed in a one-time framework and in advance; the insurance will have no surrender values. The document for discussion raises two alternatives for the implementation of the proposed model: individual long-term care insurance by way of a tender, or mutual long-term care insurance according to which the insurance risk will be imposed on the policyholders, where the updates to parameters (such as morbidity rate, claim duration) will affect the cost of insurance and the entitlement to insurance benefits.

At this preliminary stage, the company is unable to estimate the impact and feasibility of the document for discussion.

In July 2016, the **Control of Financial Services Regulations (Insurance) (Collective Long Term Care Insurance for Health Fund Members), 2015** entered into effect, as well as the circular regarding collective long term care insurance for health fund members (hereinafter: the “**Provisions**”). The provisions specify, inter alia, standard terms for the collective long term care insurance policies of the health funds, rules for the management of policyholder funds, due to the premiums which are paid for the policyholders, which will be used as insurance coverage in case of the transition of policyholders between health funds, and regarding which it was determined that, during the insurance period, the policyholder fund may bear up to 80% of the difference between the actual value of the insurance claims, and the expected value of the claims, in accordance with the agreement between the fund and the insurer. It was further determined that the reimbursement of expenses which the health fund may receive from the insurer will be calculated in accordance with the number of individuals joining and leaving the fund, and will not exceed 5% of the premiums which were actually collected (relative to the situation prior to the publication of the provisions, according to which it was possible to reimburse amounts which the fund paid with respect to the policy in an amount which will not exceed a rate of 5% of the total of the total premiums from the policyholders).

The provisions regulate the transfer of policyholders between funds, and regulate the coverage for individuals who were covered by collective long term care policies (which were not prepared through the health funds), which concluded after January 1, 2011, and were not renewed at any insurer, and who were aged 60 or higher on the application date of the regulations, or on the conclusion date of the insurance period in the aforementioned policy, whichever is later (hereinafter: “**Entitled Policyholders**”). The entitled policyholders will be entitled to join the long term care insurance of the health fund with which they are registered, according to the tariffs which are practiced in the health fund for their age group, within 120 days after the application date of the regulations, or from the end of the collective policy, whichever is later. Additionally, an obligation was established with respect to insurers who insured the entitled policyholders, to notify them regarding the aforementioned rights.

In accordance with the provisions, the Commissioner is entitled to approve, for that insurer, to insure two funds only in cases where it insures, in total, less than 50% of all holders of the health funds’ policies. As of the publication date of the report, Clal Insurance insures, in collective long term care insurance, members of the Maccabi and Leumit health funds.

During the reporting year, following the publication of the provisions, Clal Insurance and the Maccabi and Leumit health funds worked to adjust and price the existing agreements, including as regards the current contractual agreements between Clal Insurance and the Maccabi and Leumit health funds, as specified in this section below.

In March 2017, the draft provisions regarding Control of Financial Services (Insurance) (Collective Long-Term Care Insurance for Health Fund Members)(Amendment), 2017, were published, in which it was proposed to improve, inter alia, the insurance coverage which is given within the framework of the standard long-term care policy for health fund members (hereinafter: the "**Draft Amendment To The Regulations**" and the "**Standard Policy**"). The draft amendment to the regulations allows soldiers, including career soldiers, to receive continuity of insurance also during their period of military service. The draft amendment to the regulations also expands insurance coverage, both with respect to an expansion of the definition of the insurance event, in case of a mobility restriction of the policyholder, and with respect to expansion of the insurance coverage also in case of an insurance event which occurred for the first time during the first 36 months of the policyholder's life.

Insofar as the Draft Regulations will be published as a binding document, they 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 company is studying the implications of the Draft Regulations.

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 Maccabi agreement, see below.

Maccabi agreement

Following Clal Insurance's (hereinafter, in this section: the "**Insurer**") winning of a tender to select providers of long term care insurance for members of the Maccabi Gold program and members of Maccabi Health Services, on July 1, 2008 (hereinafter: the "**Effective Date**") a collective long term care insurance policy for members of Maccabi Health Services entered into effect (in this section: the "**Policy**"). The policyholders under the policy are members of the Maccabi Magen program who, prior to the effective date, were included in a long term care coverage plan which was operated by Maccabi Magen (the "**Long Term Care Fund**"), who were transferred to the policy, according to the layer in which they were insured. The policy also covers members of Maccabi Health Services who, prior to the effective date, were not members of Maccabi Magen, who were not included in the long term care fund, and who requested to obtain coverage under the policy from the effective date onwards, and whose request was approved by the insurer. The agreement period which was signed with Maccabi, following the insurer's winning of the tender (hereinafter, in this section: the "**Agreement**") was 5 years (in this section: the "**Original Agreement Period**"), which concluded on June 30, 2013, and which was extended by an additional 3 years, and later by one year, until June 2017. Within the framework of the extension, the terms of the insurance coverage were adjusted in accordance with the Control of Financial Services Regulations (Insurance) (Collective long-term care insurance for health fund members), 2015 (in this section, jointly: the "**Regulations**" and the "**Extension Period**").

Additionally, within the framework of the engagement with Maccabi, on the effective date, assets worth approximately NIS 687 million were transferred to the management of the insurer (in this section: the "**Principal**"), which were held, during the original agreement period, in accordance with the provisions specified in the agreement, with the aim of returning them upon the conclusion of the agreement period, with a value which increased during the agreement period, and which was calculated based on a mechanism which was determined in the tender documents, which included, inter alia, an addition factor (which is a component in the premiums collected from policyholders, beyond the insurance risk premium), and is transferred to the principal. Additionally, during the original agreement period, the insurer also committed to real annual returns on the principal at a rate of 4%. As part of the extension of the agreement period, it was determined that the principal, according to its value at the end of the original agreement period, in the amount of approximately NIS 1,678 million, will be managed by Clal Insurance, subject to an investment-linked liability, and the aforementioned commitment to guaranteed returns was canceled. As of the end of the reporting year the value of the principal is NIS 2,603 million.

As part of the extension of the within the framework of period, it was determined that if the continuity clause in the policy is activated, which anchors the policyholders' rights to acquire private continuation policies without medical underwriting in the event that the collective policy is not renewed, or is renewed under inferior terms, the fund will bear the continuity costs in accordance with a mechanism which was determined between the parties. Additionally, in accordance with the agreement, Clal Health undertook to indemnify Maccabi for any damage and/or financial expense caused to Maccabi, and/or to Maccabi Magen in respect of, inter alia, a breach of the policy and/or in respect of a breach of the agreement by Clal Insurance, as well as in respect of any claim or demand directed against Maccabi and/or Maccabi Magen relating to the policy and/or relating to the insurer's liability according to the agreement and/or the policy. In accordance with the agreement between the parties, it was determined that Maccabi will be entitled to terminate the engagement if an event takes place in the insurer among a certain list of events, including liquidation, receivership, reaching an arrangement with creditors, inability to any debts on time, or a significant adverse effect on various parameters associated with the insurer's financial position. It was further determined in the agreement that in the event that the agreement has been terminated, as specified above, liquidated damages will be paid to Maccabi at a rate of 10% of the total annual premiums of policyholders under the policy. To secure the insurer's undertakings by virtue of the agreement, the insurer provided a bank guarantee in the amount of NIS 50 million, linked to the CPI for May 2008, which was published on June 15, 2008. The annual scope of premiums from the transaction during the reporting year was approximately NIS 564 million. The agreement establishes mechanisms for the adjustment of premiums in case the regulations are amended during the insurance period. For details regarding provisions with respect to the Control of Financial Services Regulations (Insurance) (Collective Long Term Care Insurance for Health Fund Members), 2015, and the implications thereof, and the proposed amendment thereto, see above.

On March 21, 2017, Clal Insurance engaged with Maccabi in an agreement for the extension of the collective long-term care policy for Maccabi members for a period a year and a half, from July 1, 2017 to December 31, 2018 (the "**Additional Extension Period**"). During the additional extension period, the provisions of the policy, as updated beginning on July 1, 2016, will continue to apply, and an additional payment of Clal Insurance to the policyholder fund was established, which will be financed, in part, out of the additional premiums. Clal Insurance will continue managing the policyholder fund without a commitment to guaranteed returns, and will also provide to Maccabi services for the operation of the long-term care members who belonged to Maccabi Magen prior to the signing of the original agreement, and who remained in Maccabi Magen, in accordance with the regulations of Maccabi Magen. The agreement is subject to the receipt of the Commissioner's approval.

8.1.3. Main markets, trends and changes in supply and demand

1) Illness and hospitalization branch

In recent years, the illness and hospitalization branch has been a developing branch, inter alia, due to the following facts: the gap between the scope of health services provided by the state in the basket of basic health services, and citizens' need for improved health services; technological improvements in the field of medicine; increased life expectancy and improved quality of life, which require expensive medical resources, such as advanced drugs and medical treatments; The additional health services, which are subject to change, which do not necessarily sufficiently address various issues such as transplants and drugs; and increased consumer awareness in the field of health, including for medical services which are not included in the basic health basket, and the additional services of health funds.

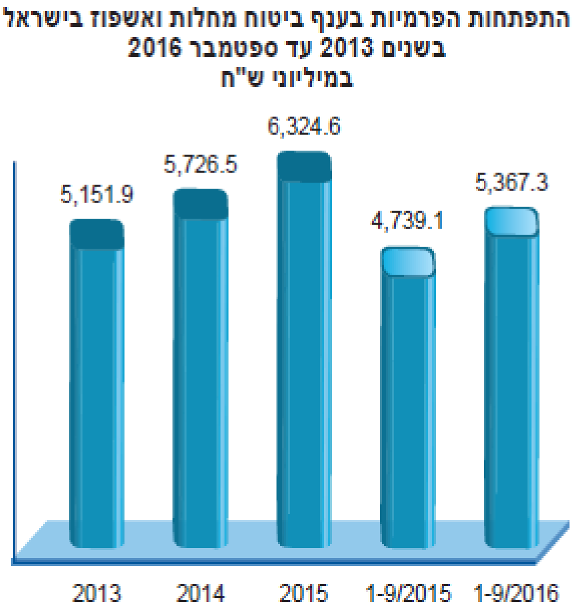
Additionally, in light of the company's decision to focus on its core activities in this branch, in general, Clal Insurance no longer markets policies in the insurance branch for foreigners residing in Israel, dental insurance and health insurance policies for Israelis residing abroad.

In accordance with the Commissioner's publications as of September 30, 2016, the market volume, in terms of gross premiums in the illness and hospitalization branch in the first nine months of 2016, amounted to approximately NIS 5.4 billion, as compared with approximately NIS 4.7 billion in the corresponding period last year. Premiums in the illness and hospitalization branch in the first nine months of 2016 constituted approximately 13.9% of total premiums in the entire insurance market in Israel, as compared with approximately 13.2% in the corresponding period last year.

In January to September 2016, an increase of approximately 13.3% occurred in the market volume, in terms of gross premiums of illness and hospitalization insurance, in the insurance market in Israel relative to the corresponding period last year, as compared with an increase of approximately 10.4% in the total scope of the aforementioned premiums in 2015, relative to 2014.

In recent years, there has been a rising trend in the sale of illness and hospitalization insurance, inter alia, as a result of public awareness, and the reasons specified in section 8.1.2(1) above.

Development of premiums in the illness and hospitalization branch in Israel from 2013 to September 2016
NIS in millions



The scope of premiums in the illness and hospitalization insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and the changes therein do not necessarily indicate a change in supply and demand during the reporting year.

For details regarding the possible implications of the Control of Finance Services Regulations (Insurance) (Terms of Insurance Contract for Surgeries and Alternative Treatments to Surgery in Israel), 2016, the Economic Arrangements Law for 2015, an insurance circular on the subject of provisions regarding the implementation of the Control of Finance Services Regulations (Insurance) (Terms of Insurance Contract for Surgeries and Alternative Treatments to Surgery in Israel), 2016, the independence circular and the insurance circular regarding "Preparation of individual health insurance plan", see section 8.1.2(1) above.

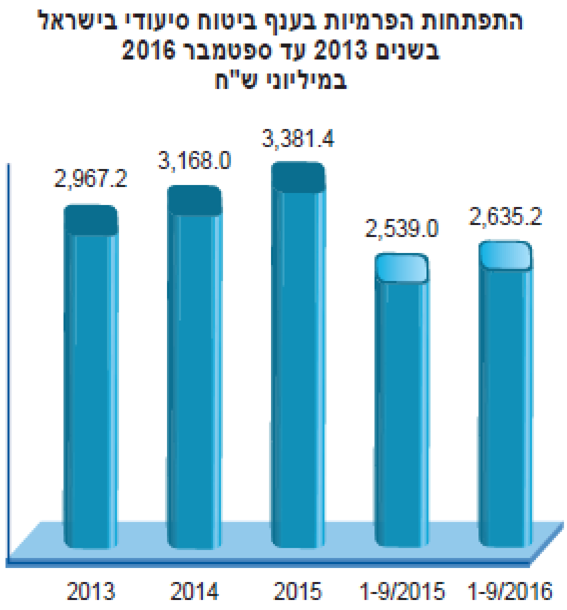
2) Long term care branch

The long term care branch is a developing branch, inter alia, due to the increase in life expectancy, including as a result of technological improvements in the field of medicine, and due to the fact that there are no alternative products to it on the market. In recent years, a decrease has occurred in the sales of individual long term care insurance by Clal Insurance (which includes individual long term care policies, as part of the realization of the continuity rights of policyholders in concluded long term care collectives), due, inter alia, to its decision to reduce its exposure to this segment, which is exposed to significant risks, including exposure to regulatory changes.

In accordance with the Commissioner's publications as of September 30, 2016, the market volume in terms of gross premiums in the long term care branch in the market, in the first nine months of 2016, amounted to approximately NIS 2.6 billion, as compared with approximately NIS 2.5 billion in the corresponding period last year. Premiums in the long term care branch in the first nine months of 2015 constituted approximately 6.8% of total premiums in the insurance market in Israel, as compared with approximately 7.1% in the corresponding period last year.

In January to September 2016, an increase of approximately 3.8% occurred in the scope of gross premiums in long term care insurance in the insurance market in Israel, as compared with the corresponding period last year, as compared with an increase of approximately 6.7% in the scope of premiums in long term care insurance in the insurance market in Israel in 2015, relative to 2014.

Distribution of premiums in the long term care insurance branch in Israel from 2013 to September 2016



The scope of premiums in the long term care insurance branch reflects the premiums which are paid with respect to policies in effect which were sold over the years, and where the changes therein do not necessarily reflect the change in supply and demand during the reporting year.

Some of the branches in the segment are characterized by the accrual of significant reserves for long periods, and therefore, the profitability in the segment is affected, inter alia, by investment income held against insurance liabilities.

8.1.4. <u>Material expected changes in the company's share in the main markets, with respect to the main products and services and the mix thereof, in consideration of, inter alia, the demand and seniority of current products</u>

In accordance with the Commissioner's publications with respect to the data for the nine month period ended September 30, 2016, the group is the second largest group in the health segment, the third largest in the illness and hospitalization branch, and the second largest in the long term care branch.

The health insurance market is a developing market, and the company is a central player in this market. However, in light of the fact that the market has been subject to comprehensive regulation in recent years, and in light of recent regulatory changes, future changes are possible, inter alia, in connection with the regulations which apply to health funds, and the development of the aforementioned changes in the coming years, and it is not currently possible, at this stage, to predict the way in which the changes will affect the segment in general, and the company's share in particular, in the future.

Regarding long term care insurance - in light of the **Control of Financial Services Regulations (Insurance) (Collective Long Term Care Insurance for Health Fund Members), 2015**, as specified in section 8.1.2(2) above, changes to the collective insurance market for health fund members are possible, as well as to the players competing therein, and as a result, also to the market shares of companies which insure the health funds.

For details regarding the regulatory encouragement of increased competition in the illness and hospitalization insurance segment, see the obligation to sell policies with a standard wording, in accordance with the standard policy regulations, in section 8.1.2(1) above, the existence of a calculator for the comparison of health insurance on the website of the Commissioner of Capital Markets, Insurance, and Savings, as specified in section 8.3.1 below, and the publication of statistical data with respect to the method for service and claim settlement, as specified in section 10.2.11 below. For details regarding the regulatory encouragement for insurers with small market shares, see the 2015 Amendments to the Economic Arrangements Law, as specified in section 8.1.2(1) above. For details regarding additional regulatory changes which are intended to affect the pricing of the policies, and the flexibility in the selection and cancellation thereof, see the provisions regarding the pricing circular and the provisions regarding the independence circular in section 8.1.2(1a) above.

For details regarding the draft directives of the Commissioner regarding the sale of insurance products, including in the health segment, through sales representatives who are not insurance agents and who are not employees of the insurance company, see section 10.8.2 below.

The company's estimate 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 long term effects of the aforementioned regulatory changes, on the business results of Clal Insurance, on the conduct of competitors and distributing entities, and the preferences of policyholders.

8.1.5. <u>New products</u>

The main changes to the products during the reporting year are the launch of a standard policy for surgeries and alternative treatments to surgery in Israel, following the standard policy regulations, an update to the reimbursement policies with respect to medical expenses, and an update to the critical illness policies, following regulatory directives, and for commercial reasons.

Additionally, following the position paper regarding principles for the phrasing of insurance plans, which was published in August 2015 by the Commissioner, and the circular regarding instructions for the phrasing of insurance plans which was published in August 2015, which included the specification of principles which are intended to instruct the insurer upon the phrasing of insurance plans, in a manner whereby they will not include discriminatory conditions, and will be simple and clear, Clal Insurance worked also during the reporting year to modify its products in accordance with the relevant regulatory provisions. For details regarding the reform in the area of product approval and the principles circular, see section 6.1.3 above and section 10.2.8 below.

8.2. **Restrictions, legislation, standardization and special constraints which apply to the operating segment**

The activity in this segment is subject to the provisions of the law which apply to insurers engaged in the segment, and to the Commissioner's directives which are published from time to time.From time to time, the Commissioner publishes circulars that relate to insurance covers that are included in policies in the segment.

The activity in this segment requires a license, in accordance with the Insurance Law, and is overseen by the Capital Markets, Insurance and Savings Division in the Ministry of Finance.

For details regarding the summary of additional final provisions of the law, which were published during the reporting year and thereafter, and a summary of the draft provisions of the law which were published, which apply to the operating segment, beyond the provisions of the law which were specified in this chapter above, see also section 10.2 below.

8.3. Competition

8.3.1. Competitive conditions in the segment and names of competitors in the segment

According to the group's estimate, the main competitors in the segment are divided into two main groups:

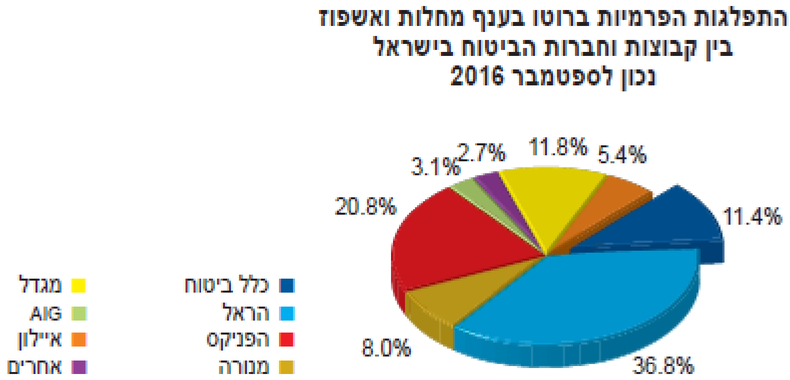
- The insurance companies, most of which operate in the segment.
- Alternatives are available to some of the coverages in the illness and hospitalization branch, within the framework of the additional services of health funds.

The competition between the insurance companies in the segment is focused on the extent of correspondence to the policyholder's needs and wishes, and on service, claim settlement and tariffs.

Total gross premiums in the illness and hospitalization branch in the group amounted, in the first nine months of 2016, to approximately NIS 611 million, and constituted, in accordance with the Commissioner's data, approximately 11.4% of the activity in this branch in the insurance market in Israel. In the corresponding period last year, total gross premiums amounted to approximately NIS 557 million, and constituted approximately 11.8% of the activity in this branch in the insurance market in Israel.

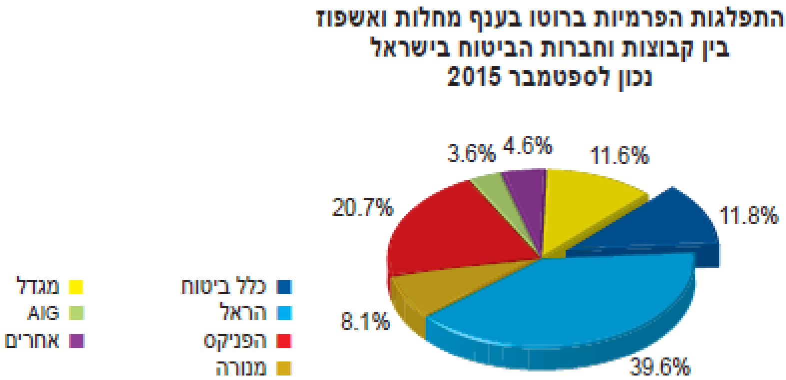
According to the group's estimate, the significant competitors in the segment are Harel Group, Phoenix Group and Migdal Group.

Distribution of gross premiums in the illness and hospitalization branch among insurance groups and companies in Israel as of September 2016



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Light green – AIG
Orange - Ayalon
Purple – Others

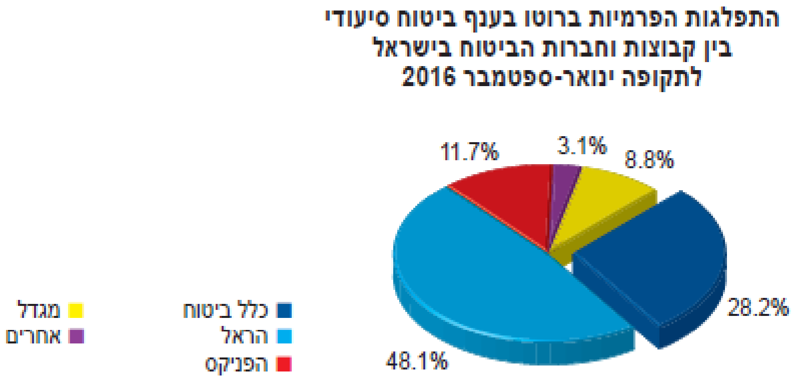
Distribution of gross premiums in the illness and hospitalization branch among insurance groups and companies in Israel as of September 2015



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Beige – Menorah
Yellow – Migdal
Light green – AIG
Purple – Others

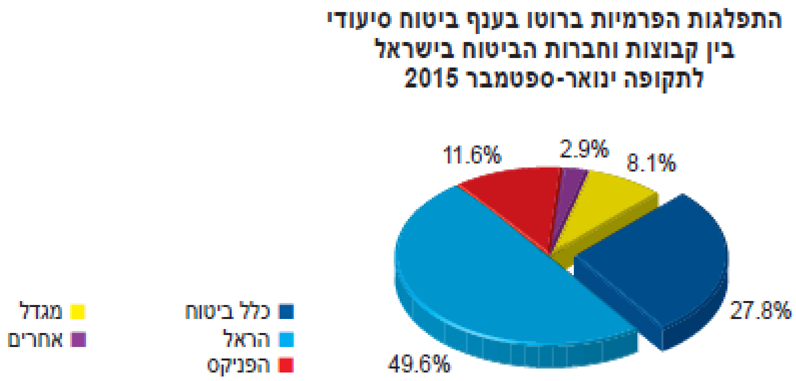
Total gross premiums in the long term care branch in the group amounted, in the first nine months of 2016, to approximately NIS 743 million, and constituted, in accordance with the Commissioner's data, which are published on the website of the Capital Markets, Insurance and Savings Division, approximately 28.2% of the activity in this branch in the insurance market in Israel. In the corresponding period in 2015, total gross premiums amounted to approximately NIS 705 million, and constituted approximately 27.8% of the activity in this branch in the insurance market in Israel. The decrease in market share was due to both the decrease in sales of individual long term care policies in Clal Insurance, and to the optimization of current business, primarily in collective business operations.

Distribution of gross premiums in the long term care branch among insurance groups and companies in Israel as of September 2016



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Yellow – Migdal
Purple – Others

Distribution of gross premiums in the long term care branch among insurance groups and companies in Israel as of September 2015



Dark blue – Clal Insurance
Turquoise – Harel
Red – Phoenix
Yellow – Migdal
Purple – Others

According to the company's estimate, the competition in the health segment is expected to increase in the coming years, as a result of the combined future impact of the regulatory reforms which are unique to the segment, including planned reforms which have not yet entered into effect, as specified in section 8.1.2 above, and also as a result of industry-wide regulatory provisions, including the provisions of the circular regarding the "**Collection of statistical information regarding claim settlement and the method used to handle requests to withdraw and transfer funds**", after which comparative figures were published on the website of the Capital Markets, Insurance and Savings Division, regarding the service level indicator of insurance companies, and an industry-wide audit regarding service was published, which primarily involved an evaluation of customer satisfaction from the service which is provided to them directly by the institutional entities in the various insurance segments. For additional details, see section 10.2.11 below.

Additionally, with the aim of improving the market, the competition therein, and the transparency thereof, and to help policyholders choose the most appropriate insurance for them, the Commissioner launched a calculator for the comparison of health insurance, which allows the comparison of the main coverages sold in health insurance policies (transplants, drugs and surgeries), among all insurance companies which market those coverages. The purpose of the calculator is to increase competition in the market, and to allow policyholders to compare the tariffs which are offerd to new health insurance policyholders, as stated above. Additionally, during the reporting year, a circular was published on the subject of "interface for the identification of insurance products", as well as a circular regarding "retrieval of personal information", which are intended to allow an accessible and simple online interface, which will allow policyholders to identify their insurance products at all of the insurance companies, and to receive information regarding those insurance products on the insurance companies' websites. For additional details, see section 10.10.3.3 below. The aforementioned regulatory reforms, including the publication of the aforementioned information, and/or parts thereof, may affect the competition in the segment, and will constitute an additional measurement tool in the policyholder's selection of the insurance product.

Additionally, the provisions of the 2015 addition to insurance circular, and the amendment to the circular from March 2017 (for details, see section 10.2.9 below), which determine principles regarding the regulation of the conduct of insurance companies insurance agents when adding an insurance applicant to an insurance plan, and may affect the policy renewal processes and increase competition in the segment.

Clal Insurance is unable to estimate, at this stage, the impact of the aforementioned provisions on the company's market share in the segment, particularly in the long term. For additional details, see section 10.2.9 below.

8.3.2. Methods for dealing with competition

The group deals with competition in this operating segment on several levels:

- Development of modern, innovative products which provide high-quality solutions for policyholders' needs.
- Appropriate pricing of products, in consideration of all of the influencing factors, including distribution and sale commissions, operating costs, policy resiliency and the cost of risk.
- The existence of high-quality information regarding past experience, which serves as the basis for risk management.
- Reinsurance contracts and distribution of risks, in collaboration with reinsurers, in a manner which allows finding appropriate solutions for the various types of consumers.
- Providing rapid, efficient, professional, fair and high-quality service both to agents from the aspect of operations and to policyholders in terms of claim handling and service.
- The ability to adjust to changing market conditions, and to the uncertainty due to expected regulatory changes, which pertains, is, to the aspects of operations, product adjustment and profitability.

The main factors affecting the company's competitive position include:

- Many years of experience in the field of health insurance;
- The group's reputation in the segment;
- Long term relationships with agents marketing the group's products.
- Direct distribution network;
- The variety of health products which are sold under one roof;
- The service given by the company to customers and agents; and the claim settlement method.

8.4. Customers

The main types of customers in the segment are collectives and individual policyholders.

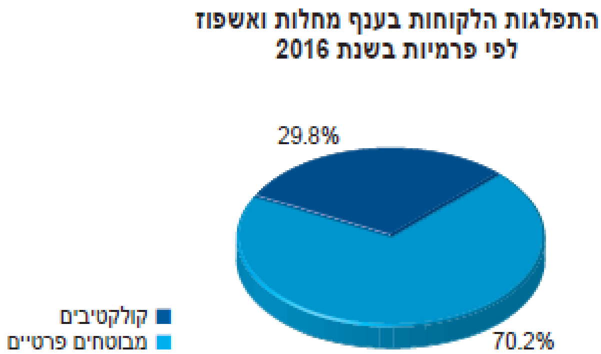
Presented below is the distribution of gross premiums (NIS in thousands) by types of customers in the health insurance segment, by branches, for the years 2015 and 2016:

Illness and hospitalization[49]

NIS in thousands	Gross premiums for 2016	Proportion of total gross premiums for 2016	Gross premiums for 2015	Proportion of total gross premiums for 2015
Collectives*	241,330	29.8%	250,577	33.9%
Individual policyholders	569,306	70.2%	488,059	66.1%
Total	**810,636**	**100%**	**738,636**	**100.0%**

* Includes sales of international travel insurance at the health funds.

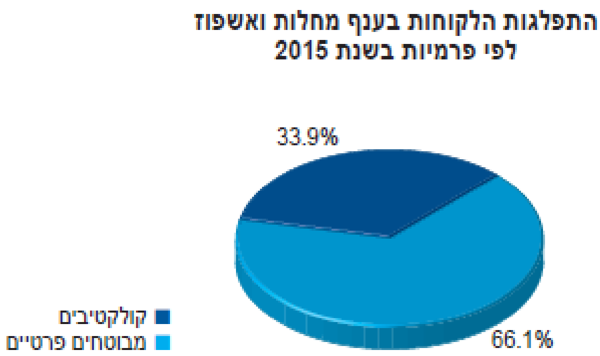
Distribution of customers in the illness and hospitalization branch by premiums in 2016



Dark blue – collectives
Light blue – Individual policyholders

[49] The scope of premiums in the illness and hospitalization insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and changes therein do not necessarily indicate the change during the reporting year.

Distribution of customers in the illness and hospitalization branch by premiums in 2015



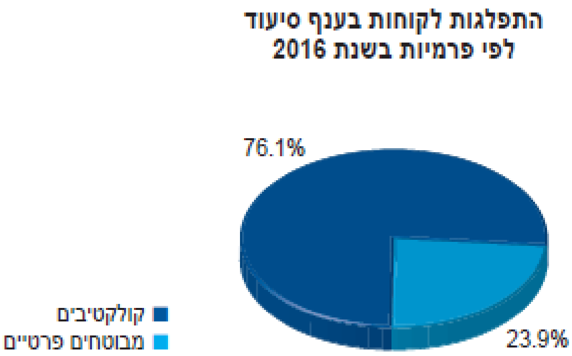
Dark blue – collectives
Light blue – Individual policyholders

<u>Long term care</u>[50]

NIS in thousands	Gross premiums for 2016	Proportion of total gross premiums for 2016	Gross premiums for 2015	Proportion of total gross premiums for 2015
Collectives	752,455	76.1%	708,074	75.3%
Individual policyholders	235,789	23.9%	231,664	24.7%
Total	988,244	100.0%	939,738	100.0%

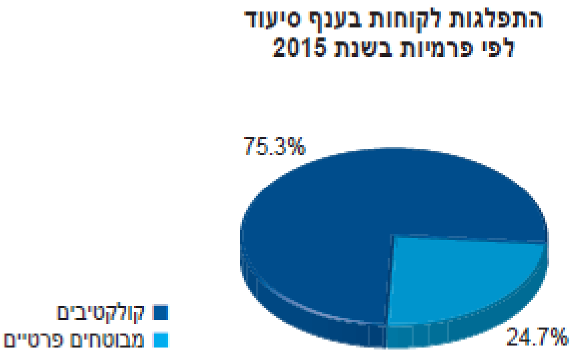
50 The scope of premiums in the long term care insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and change therein do not necessarily reflect the change during the reporting year.

Distribution of customers in the long term care branch by premiums in 2016



Dark blue – collectives
Light blue – Individual policyholders

Distribution of customers in the long term care branch by premiums in 2015



Dark blue – collectives
Light blue – Individual policyholders

- The percentage of cancellations (including cancellation of the policy, reduction or non-renewal) for the year from policies in effect at the beginning of the year, in terms of premiums in the long-term private illness and hospitalization branch (sub-branch illness and hospitalization only) was approximately 8.2% during the reporting year, compared with approximately 7.9% in 2015[51].

- The rate of cancellations (including settlement, cancellation of the policy, reduction or non-renewal) for the year from policies in effect at the beginning of the year, in terms of premiums

51 In accordance with the provisions of the Commissioner's circular, the cancellation rate is calculated by dividing the premium amount which was charged in the last month of the year, by the premium amount which was charged in the last month of the previous year. The calculation only refers to policies which commenced before the current year, after neutralization of the increase in tariffs.

in the individual long-term care branch was approximately 3.4% during the reporting year, compared with approximately 4.5% in 2015[52].

- The group is not dependent on any single customer or on a limited number of customers in the health insurance segment.

- The group has no single customer whose income in the segment constitutes 10% or more of the group's total income in the consolidated reports.

- Clal Insurance insures, from time to time and in the ordinary course of business, member companies of the IDB Group (which constitute policyholders in collective insurance policies) in policies in the segment. The company's income in the health insurance segment from member companies of the IDB Group from premiums in the ordinary course of business does not exceed 5% of the company's total income in the segment in 2016. For the sake of caution, despite the fact that the IDB Group includes a large number of companies, all of the member companies of the IDB Group are referred to as a single entity for this purpose.

- The rate of premiums of the Maccabi long term care collective amounted, during the reporting year, to approximately 57% of total premiums in the long term care segment, which constitutes a total of approximately NIS 563.6 million. It is emphasized that the agreement with Maccabi Health Services is for a defined period (see section 8.1.2(2) above).

[52] See footnote 51 above.

Part III - Additional Information Regarding Branches Which Were Not Included in the Operating Segments

9. Additional information regarding other operations which were not included in the operating segments

The group has several activities which were not included in the aforementioned operating segments, as well as activities which were discontinued and/or and which are in runoff, and which do not constitute a significant business component, according to the organization attribution presented below:

9.1. Clal Agency Holdings

Clal Agency Holdings (1998) Ltd. is a wholly owned subsidiary of the company, which concentrated the holding of the group's insurance agencies. For additional details, see section 10.8.2 below.

9.2. Financing activities

In 2013, the company decided to gradually discontinue the company's activities in the financing segment, which include the factoring, financial leasing, consumer credit and business credit activities (the "**Financing Activities**"), with the intention of focusing on the group's core business segments. The financing activity is currently in a run off stage, and in general, no new business activity is being performed.

For additional details, see Notes 27(c)(2) and (3) to the financial statements.

9.3. Clal Finance

In the past, the group was engaged in the financial services segment through Clal Finance and its subsidiaries.

Beginning in the end of 2013, Clal Finance remained with no business operations, after a series of transactions in which it sold companies and/or operations which it owned.

For details regarding class actions in connection with the activity of Clal Finance, and an undertaking which the company accepted upon itself in connection with past activities of Clal Finance, including in connection with the aforementioned claims, see Notes 27(c)(1), 43(a1)(9) and 43(b3)(1) to the financial statements.

Part IV: Additional Information on the Level of the Corporation - Matters Pertaining to the Activities of the Group as a Whole

10. Additional information on the level of the corporation

10.1. General environment and the impact of external factors on activities

For details regarding a description of trends, events and developments in the group's macro-economic environment, which currently affect or are expected to affect on the group, see the specific reference under the various operating segments, and Part B - Board of directors' report, section 2.1

10.2. Restrictions and supervision of the corporation's activities

The group's activities in the various segments are subject to the general provisions of the law and also to the provisions of the law which apply to each operating segment, as described above.

Along with the general laws, insurance and pension savings activities in Israel, which is the main component of the group's activities, are subject to unique laws which apply to the branch, including the Insurance Law, the Insurance Contract Law, the Provident Funds Law, the Pension Advice Law and regulations enacted pursuant thereto, and also to principle rulings of the courts, which affect activities in insurance and pension savings in Israel, including as regards the interpretation of the aforementioned laws and regulations.

Insurance and pension savings activities in Israel are also subject to the oversight of the Capital Markets, Insurance and Savings Authority, and the Commissioner is the figure authorized to establish provisions and guidelines.

The member companies in the group are overseen by various oversight authorities, including the Commissioner, who oversees the activities of the institutional entities and the insurance agencies in the group. Additionally, the company and Clalbit Finance are overseen by the Israel Securities Authority. Member companies in the group are exposed, from time to time, to administrative enforcement proceedings and to the imposition of fines. For additional details, see Note 43(d) to the financial statements.

As part of the enforcement program, the company performs, since 2012, gradually and in different segments, compliance gap surveys, in which deficiencies are identified which the company works to regulate, within the framework of action plans which are determined by it. To the best of the company's knowledge, subject to that stated above and below, the group's member companies are not currently in a fundamental breach of the provisions of the law which apply to them in the various operating segments, including with respect to the licenses and permits which are required by law, which may have a significant impact on the company's business.

Below is a summary of the provisions of the law and of the final circulars that were published during and after the reporting year, as well as a summary of the drafts published by the Commissioner applying to the operations of the companies in the group, and which are significant for the group's operations, in addition to the laws specified in the description of the operating segments, and in additional sections above and below. For details regarding the regulatory restrictions which apply to the group's institutional entities, in connection with the capital requirements and the requirements regarding the control of the company, and for details regarding industry-wide decisions of the Commissioner, see Notes 16(e) and (f) and 43(d) to the financial statements.

10.2.1. Preparation for the implementation of a Solvency II-based solvency regime

10.2.2. For details regarding instructions for the performance of IQIS for 2015, which were published in April 2016, and provisions regarding the implementation of a new Solvency II-based economic solvency regime for insurance companies from February 2017, within the framework of the preparation for the implementation of a Solvency II-based solvency regime, see Note 16(e)(3) to the financial statements.

10.2.3. Letter from the Commissioner regarding dividend distributions by insurance companies

For details regarding a letter from the Commissioner regarding dividend distributions by insurance companies, on the subject of restrictions on dividend distributions, depending on the solvency ratio, see Note 16(e)(2)(d) to the financial statements.

10.2.4. Establishment of the Capital Markets Authority

In November 2016, the Division of Capital Markets at the Ministry of Finance became an independent authority known as the "Capital Market, Insurance and Savings Authority". The Authority operates as an independent, separate government unit, with its own separate budget, subordinate to the Minister of Finance. The Authority is led by the Commissioner of Capital Markets, Insurance and Savings, who was appointed by the Minister of Finance, with the approval of the government, for a 5 year term.

The authority's functions include: protecting the interests of policyholders, ensuring stability and proper management of the institutional entities, promoting competition in the capital, insurance and savings market, and encouraging innovation and business innovation. Upon the establishment of the Capital Market, Insurance and Savings Authority, a significant part of the authorities which are currently conferred, in accordance with the control law, upon the Minister of Finance, were transferred to the Commissioner, who will be entitled to establish them by means of administrative provisions, and not through regulations, as stated in the law, due to the fact that the aforementioned authorities are professional in nature. The material issues which were submitted to the Commissioner's for determination include: the provision of orders with respect to the management of institutional entities' business affairs, the determination of provisions regarding conditions in insurance contracts, and the phrasing thereof, issuance of directives regarding corporate governance in institutional entities, determination of circumstances which constitute a conflict of interest between pension adviser/s and customer/s, and circumstances in which a pension adviser/agent will refrain from performing any action which involves a conflict of interest, as stated above. A petition against the Authority's decision in accordance with the Control Laws, on certain matters, and excluding a decision of the Commissioner which determines rules or guidelines which have legislative effect, in accordance with those laws, will be heard in the Administrative Matters Court.

The company is unable to estimate the implications of the law at this stage, inter alia, in light of the uncertainty in connection with the possible implications of the expansion of the Commissioner's authorities.

10.2.5. The Law to Promote Competition and Reduce Concentration, 2013 (the "**Concentration Law**")

In December 2013, the Concentration Law was published. The Concentration Law is intended to reduce the lvel of concentration in the Israeli economy through several central processes which will enter into effect gradually in the coming years, including, inter alia, the imposition of restrictions on incorporation through a pyramid structure (control by a reporting corporation of one or more reporting corporations), and the imposition of increased corporate governance rules on pyramid companies; separation between holding of significant real operations and significant financial operations, as defined in the law; and the establishment of a mechanism for an "insurer with no controlling shareholder", and establishment of provisions regarding the appointment, tenure and discontinuation of tenure of directors in the aforementioned insurer;

Presented below are details regarding the main provisions of the Concentration Law which may affect the group:

- Restrictions on control of reporting corporations through a pyramid holding structure - The provisions of the Concentration Law impose restrictions on the holding of "tier companies", i.e., of companies which constitute reporting corporations (as this term is defined in the Companies Law) through a pyramid structure. As of the present date, IDB Development is considered a "first tier company", the company is considered as "second tier company", and Clalbit Finance - a reporting corporation controlled by Clal Insurance - is considered an "other (third) tier company", as these terms are defined in the Concentration Law.
- Prohibition against control and restrictions on cross-holding of a significant real corporation and a significant financial entity -
  - As of the reporting date, in accordance with the list which was published by the committee to reduce concentration, the company is considered a concentration entity, and by virtue of the fact that it is controlled by IDB Development, which is a significant real corporation, the company is also considered a significant real corporation. Clal Insurance, Clal Provident Funds and Atudot are also considered concentration entities, and significant financial entities. Therefore, in accordance with the transitional provisions which were determined in the Concentration Law, beginning in December 2019, the continued control by IDB Development of real corporations may affect the ability of IDB Development to hold the control of the company or to hold more than 10% of a certain type of means of control in the company (or more than 5% of a certain type of means of control in the company in case the company is considered an insurer with no controlling shareholder). Additionally, due to the status of IDB Development as a significant real corporation, the foregoing affects its ability to appoint joint directors in the company and in institutional entities in the group and affects its ability to hold the control of Clal Insurance or to hold the means of control therein, as stated above, beginning in December 2019. 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. The company is working to implement the provisions of the

Concentration Law, inter alia, in light of the Commissioner's directives in connection with the appointment of a trustee for the holding of the means of control of the company by IDB Development, and the Commissioner's letters in this regard, as specified in Note 1 to the financial statements.

- In accordance with the provisions of the Concentration Law, the holder of a permit for control of a managing company of provident funds, and the holder of a permit for control of an insurer which also manages a provident fund (which is not an annuity paying provident fund) will not receive an additional permit for the control of a managing company of provident funds except in accordance with the rules which were determined by the Commissioner. In January 2016, a circular was published which specifies the rules for the provision of a permit for control of a managing company of a pension fund, or a managing company of a provident fund, to an entity which already holds a permit for a managing company of this kind. The circular includes an exception regarding the requirement to receive a permit for control of a managing company only regarding old funds or managing companies of branch-based provident funds only. Accordingly, Clal Insurance is not required to merge the managing companies which it holds.

10.2.6. Amendment to the Income Tax Ordinance (Update to the Corporate Tax Rate), 2016

The Economic Efficiency Law, which was approved in December 2016, includes an amendment to the Income Tax Ordinance, inter alia, such that the corporate tax rate will be gradually reduced, from a rate of 25% to a rate of 23%, from 2017 to 2018.

In the absence of a legislative amendment, the foregoing is expected, on the one hand, to reduce the tax amount which the company will pay with respect to its profits; while on the other hand, to reduce the balance of the company's tax reserve on a one-time basis. For additional details, see Note 23(b) to the financial statements.

10.2.7. Proposed amendment to the Class Action Law

In July 2016, the Class Action Law (Amendment No. 10) (settlement and withdrawal arrangements), 2016, was amended, in a manner which included several amendments to the Class Action Law, 2006, which primarily include the regulation of the issue of withdrawal from a motion to approve a class action or from a class action, a settlement with respect thereto, and the filing of objections. Inter alia, the amendment specified considerations which the Court is required to take into account in its approval of benefits from a plaintiff, for a class action plaintiff, or for a plaintiff's representative, and to determine that the Court, in its approval of a settlement before its the claim's approval as a class action, will evaluate whether the claim fulfills, prima facie, the conditions for the approval of a class action.

According to the company's estimate, some of the changes which are proposed within the framework of the proposed law were implemented in the past by the courts and in general, these provisions may impose difficulties on withdrawal proceedings and/or settlement arrangements in class actions.

For details regarding class actions which were filed against the company, see Note 43(a) to the financial statements.

The information presented on all matters associated with the amendment to the Class Action Law 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, depending, inter alia, on the interpretation which will be given for the provisions of the amendment, and the method of its implementation in the future by the courts.

10.2.8. The Equal Rights for People with Disabilities Regulations (Notice of Insurer Regarding Different Treatment for a Person or Regarding Refusal to Insure)

In February 2016, The Equal Rights for People with Disabilities Regulations (Notice of Insurer Regarding Different Treatment for a Person or Regarding Refusal to Insure), 2016, were published, which primarily included provisions regarding the wording of the notice given by an insurer to people with disabilities, regarding their refusal to insure a person, or to treat the policyholder differently. For details regarding a class action which is being conducted against Clal Insurance on this matter, see Note 43(a3)(4) to the financial statements.

10.2.9. Reform in connection with the implementation of insurance plans

In January 2015, **Amendment No. 28 to the Control of Financial Services (Insurance) Law, 1981** entered into effect (hereinafter: the "**Amendment to the Law**"). In accordance with the amendment to the law, an insurer wishing to introduce an insurance plan or to implement a change to the insurance terms, the insurance premiums, or another matter as instructed by the Commissioner, must give notice to the Commissioner 30 working days the requested before the requested date to implement the plan or the change (hereinafter: the "**Requested Date**"), and insofar as the Commissioner has not expressed her objection before the requested date, the insurer will be entitled to implement the insurance plan or the change to the insurance plan, beginning on the requested date. In accordance with the amendment to the law, the Commissioner is entitled to determine exceptions to all of the foregoing, including, inter alia, to order, with respect to certain insurance branches, with respect to certain insurance plans, or with respect to certain changes in insurance plans, that express advance written approval from the Commissioner will be required before implementing them. Additionally, the Commissioner will be entitled to order an insurer to stop implementing the insurance plan, or to order an insurer who has implemented a change to an insurance plan, for special reasons which will be recorded, after having considered the possible harm to the insurer as a result of the foregoing, and after having given the insurer an opportunity to bring its claims, and in consultation with the committee, provided that she has found that the insurance plan or a condition therein is discriminatory, or causes substantial or real harm to the interests of the policyholders, in consideration of the entire set of policy terms and the circumstances of the matter, including the circumstances at the time of engagement in the insurance contract. The aforementioned provision will not apply to policies which were approved prior to the amendment to the law, and will not apply to regulations of pension funds and provident funds. However, it was determined that any provision in the regulations of provident funds which contradicts a provision of the Provident Funds Law, or which contradicts any other provision of the law, will not be followed.

In July 2013, a circular was published specifying the Commissioner's position regarding the principles for phrasing of insurance plans, which was replaced in August 2015 with an insurance circular regarding "instructions for the phrasing of insurance plans", and with the Commissioner's position regarding "principles for the phrasing of insurance plans" (jointly: the "**Circular**

Regarding Principles for the Phrasing of Insurance Plans"). These circulars included provisions which should or should not be included in insurance plans, and additionally, the exceptions in the policies were restricted.

In March 2017, an amendment was published to the circular regarding principles for the phrasing of insurance plans, which included, inter alia, various provisions and restrictions on the terms of coverage, exclusions which can be included in insurance plans, and claim settlement conditions, which signify an expansion of the insurance coverage, and reduction of the policyholder's responsibility.

During the last three years, Clal Insurance has worked to update its products in accordance with the aforementioned provisions, and in accordance with additional regulatory directives which involve the unification, or increasing the uniformity, of different products. The publication of the amendment to the circular regarding principles for the phrasing of insurance plans will require new changes to the aforementioned products. Additionally, the amendment to the circular regarding the principles for the phrasing of insurance plans is expected to have an impact on the scope of insurance coverage which is given in insurance policies to which the amendment applies, and the expansion thereof, in a manner which could have implications on the need to re-price the pricing, which corresponds to the insured risk, and with appropriate backing of reinsurers, which is uncertain to be given. Additionally, the aforementioned amendment may result in an increase in the obligations which apply to the insurer, on all matters associated with its conduct vis-à-vis the policyholder.

The circular regarding principles for the phrasing of insurance plans, together with additional regulatory directives pertaining to the scope and content of insurance coverage in the policies, and increasing the uniformity between the companies with respect to them, has an effect on the insurance branches on all matters associated with the product pricing method, and engagements with reinsurers which are affected by the uncertainty and the risk assessment on the one hand, and the competitive conditions in the market on the other hand. Additionally, following regulatory changes which were implemented in recent years, in connection with the insurance products, the company discontinued or changed its insurance products, including service letters, and the competitive conditions in the segment currently focus on price and service, and to a lesser degree, on the scope of insurance coverages, and the thereof.

At this stage, the company is unable to estimate the entire impact of the circular. For additional details regarding the implications of the reform in connection with the implementation of insurance plans, see Note 43(a4)(2) to the financial statements.

The information presented on all matters associated with the possible implications of the amendment to the circular regarding provisions for the phrasing of insurance plans constitutes forward looking information, which is based on the company's estimates and assumptions, and actual results may differ significantly from the forecast, due, inter alia, to the interpretation which will be given for the provisions of the circular, in light of the policy of the company and of reinsurers with respect to the required amendments, and in accordance with the conduct of competing entities in the market.

10.2.10. Circular regarding the addition to insurance plans

In July 2015, an addition to insurance circular was published, which was replaced in August 2015 (hereinafter: the “**Addition To Insurance Circular**”), in which the Commissioner set forth provisions regarding the regulation of the conduct of insurance companies and insurance agents when adding a potential policyholder to an insurance plan. The provisions of the circular will apply to the motor, apartment and business insurance branches, as well as illness and hospitalization insurance (excluding foreign workers and international travel), personal accidents and risk of death insurance (without the savings component), and loss of working capacity insurance, which were sold through channels other than pension savings.

The addition to insurance circular determined that the insurance company and insurance agent will evaluate the needs of the potential policyholder before adding them to the insurance, and will offer them insurance in accordance with their needs, inter alia, including reference to the existing insurance policies which are available to the potential policyholder, for the various types of insurance policies which are available from the insurance company, and for the various types of products marketed by the insurance agent (hereinafter: the “**Adjustment Process**”). Provisions were also established regarding the method used to perform the adjustment process in cases where it is found that an insurance applicant has other relevant insurance. The circular also formalizes the method used to market the insurance plans, including receipt of the potential policyholder’s consent for marketing in case of initiated marketing by the insurance company or agent, as well as the sale process, and the information and details which an insurance company and insurance agent are required to submit to the potential policyholder in the various stages of the sale process.

In March 2017, an amendment was published to the addition to insurance circular, in which an annex was added specifying practices which should not be used when adding to insurance. The annex determined, inter alia, that an insurance company will not accept a policyholder for insurance in a policy which provides compensation when they have another policy which provides compensation for a similar insurance event at the same insurance company, unless they have requested to cancel the existing policy, or have given their express consent for the foregoing (after having received an explanation of its significance). Arrangements were also determined regarding the transition of a policyholder from collective insurance to individual insurance, with respect to disclosure and collection.

The addition to insurance circular and the amendment thereto, as stated above, resulted in changes to the sale process of insurance products, both within the framework of the direct sales channels and through agents, due, inter alia, to the need to ascertain the needs of the insurance applicant before the sale process.

The information presented on all matters associated with the possible implications of the addition to insurance circular constitutes forward looking information which is based on the company’s estimates and assumptions, and actual results may differ significantly from the forecast, due, inter alia, to the uncertainty regarding the interpretation which will be given for the provisions of the circular with respect to the insurance companies, the insurance agents and the reciprocal relationship between them, and with respect to the manner of its implementation by the distributing entities.

10.2.11. Cancellation of insurance policies

In February 2017, the final version of the circular regarding the cancellation of insurance policies was published, which determines a uniform provision regarding the obligation of the insurance companies to allow policyholders to cancel the insurance policies which they hold, by various means, and determines provisions with respect to the actions which are required to effect the cancellation. Inter alia, the circular determines that in case a policyholder wishes to cancel an insurance policy via telephone, the company is required to specify for them all policies which they have in the company.

The circular may result in an increase in the scope of requests for the cancellation of insurance policies.

The information presented on all matters associated with the circular regarding the cancellation of insurance policies constitutes forward looking information, which is based on the company's estimates and assessments, and actual results may differ significantly from the forecast, inter alia, due to the preliminary nature of the arrangement, and its impact on the conduct of policyholders.

10.2.12. Circular regarding the collection of statistical information and the service level indicator in insurance companies

In March 2011, an institutional entities circular was published on the subject of "Collection of statistical information and the method used to handle claims for the withdrawal and transfer of funds", according to which an institutional entity is required to submit a report to the Commissioner, on an annual basis, regarding the data of claims and requests which were handled in the past year, both with respect to the speed of service and with respect to the claim settlement method. In January 2015, the Commissioner published draft clarifications, which were intended to clarify her position regarding the method used to calculate the time period for handling of requests for withdrawal and transfer of funds, and the start date from which the handling period should be counted.

Beginning in May 2015, once per year, the Commissioner has published, on the website of the Capital Markets, Insurance and Savings Division, comparative figures regarding the service level indicator of insurance companies in each of the main insurance products in Israel, and which was based, in 2016, on four components - the claim payment indicator (40%); the customer satisfaction indicator (30%); the handling of public inquiries indicator (20%); and the telephone response time indicator (10%). After the reporting year, in February 2017, the Commissioner published an update to the data which insurance companies are required to submit for the purpose of preparing the annual audit.

Additionally, in June 2015, the Commissioner published, on her website, the findings of an industry-wide audit regarding service which was prepared by the Division of Capital Markets in 2014, and which focused on the evaluation of customer satisfaction from the service which is given to them directly by the institutional entities in the pension savings segments. The findings were published as a service level indicator for pension savings products for 2014, which is intended to reflect the satisfaction level of customers in pension funds, in provident funds and in life insurance combined with savings, with respect to the institutional entity's handling of such inquiries, and the degree to which the customers would recommend the institutional entity. In 2016, the indicator calculation method was updated based on three components - the handling of inquiries indicator (70%); the handling of public inquiries indicator (20%); and the telephone response time indicator (10%).

The Commissioner intends to continue doing so each year in order to increase transparency and competition in the segment, and in order to cause policyholders to choose products in institutional entities, also in consideration of the service level. For details regarding the inclusion of additional parameters in the service level indicator, pertaining to the integration of digital service tools, see section 10.10.3.3 below.

The company estimates that the publication of the aforementioned information affects the competition in the relevant branches, and constitutes an additional measurement tool in the selection of insurance products by policyholders and members, and a marketing tool for the insurance companies.

The information presented on all matters associated with the circular regarding the collection of statistical information and the service level indicator of insurance companies 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, due to the uncertainty regarding the conduct of the various institutional entities in the market, and the conduct of policyholders and members.

10.2.13. Annex to the circular regarding the investigation and settlement of claims and the handling of public inquiries

In September 2016, most of the provisions of the annex to the circular regarding the investigation and settlement of claims and the treatment of inquiries September (hereinafter: the "**Annex**" and the "**Claim Settlement Circular**", respectively). The annex, which constitutes an inseparable part of the claim settlement circular, includes detailed provisions regarding claim settlement, which are required for implementation during the claim settlement process.

The annex determines provisions regarding the method for settlement of policyholder claims, and determines, inter alia, that an institutional entity will act to obtain relevant information regarding claim settlement if the data in its possession indicate that such information exists. Provisions were also determined regarding explanations and reasons which must be given to policyholders in connection with a refusal notice; restrictions were imposed on the ability of an insurer to raise a claim in connection with non-disclosure, in certain circumstances; and offsetting from payment to a third party upon the payment of a claim was made conditional upon the presentation and specification of the facts and circumstances which substantiate the claim of third party contributory negligence. In the annex, provisions were determined in connection with claim settlement in long term care insurance, including a provision which determined that a policyholder who, due to poor bladder response which is reflected, for example, in urgency or frequency of urination, and who, due to mobility problems, is incontinent, will be considered incapable of independently performing a significant part (at least 50% of the action) of the "continence" action, and that a policyholder who suffers from imbalance or instability, which cause repeated falls, will be considered incapable of independently performing a significant part (at least 50% of the action) of the "mobility" action, as defined in the long term care circular. Additionally, provisions and restrictions were established regarding the method used to evaluate the policyholder's functioning situation upon settlement of a long term care claim.

In March 2017, an amendment was published to the annex, including provisions according to which, as part of the approval regarding the receipt of documents in claims for insurance benefits, the insurer must specify, to the policyholder, the additional policies which the policyholder holds at that insurer. It was further determined that the institutional entity will not influence, directly or indirectly, the professional judgment of a physician or nurse on their behalf.

Additionally, in February 2017, a position of the Commissioner was published regarding clarification with respect to the re-evaluation of eligibility pertaining to certain provisions with respect to the re-evaluation of eligibility, which were determined in the claim settlement circular (hereinafter: the "**Position Paper Regarding Re-Evaluation**"). For additional details regarding the annex to the claim settlement circular, and regarding the Commissioner's position - clarification regarding re-evaluation of eligibility, see Note 43(d)(5) to the financial statements.

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 evaluate where the deficiency is systematic, and 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.

Some of the aforementioned amendments to the claim settlement circular are expected to have an impact on the claim settlement process in its entirety, both from the operational perspective, and on all matters pertaining to claim settlement, inter alia, in light of the increased obligations which apply to the insurance company with respect to the collection of information, with respect to the response of policyholders, and with respect to the dealing with the claims and their effect on the claim settlement method with respect to the relevant population group, both specifically and systematically. At this preliminary stage, the company is unable to estimate the entire impact of the aforementioned amendments.

The information presented on all matters associated with the possible implications of the aforementioned amendments 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 amendments which were published, and due to the uncertainty regarding the method of actual implementation, and its implications on the claim settlement process, with respect to insurers and policyholders, and cumulative costs.

For details regarding a class action which was filed on the matter, see Note 43a(a2)(22) to the financial statements.

10.2.14. Insurance circular regarding the marketing of service letters

In June 2016, a circular entered into effect regarding the marketing of service letters (hereinafter: "**Circular Regarding The Marketing Of Service Letters**"), which is intended to establish rules regarding the implementation and marketing of service letters.

The circular provides that the implementation of a service letter is subject to the fulfillment of several conditions, including a condition stipulating that service by virtue of a service letter may be given with respect to the insurance case specified in the insurance plan only (except with respect to the following service letters: (1) a service letter which provides road services for vehicles, alternative vehicle services, or windshield repair services; or (2) a service letter which provides medical consulting and accompaniment in a medical center, for the purpose of diagnosing a medical condition, or medical consulting and support after the identification of a critical illness, or medical consulting and support after a determination regarding the need for surgery, or medical consulting and support during hospitalization; that the service letter may not include the provision of maintenance services, periodic service, preventive service or product repairs; and that there is a direct link between the service given by virtue of the service letter and the insurance plan. The circular also includes various provisions regarding the service letter and the method for the marketing thereof, including provisions which restrict the option to cancel the service letter (including in case of the termination of the insurer's engagement with the service provider), and providing an opportunity for agents to directly sell service letters without the involvement of an insurance company.

The adoption of the circular led to a restriction of the services which are provided within the framework of service letters, and to the discontinuation of the marketing of some service letters which were marketed in the past by the company, or to the inclusion of the services in the policy. The circular affected both the method of marketing of service letters, and their content, and allowed an expansion of the entities in the market who are authorized to market service letters; however, as of the present date, the company is unable to estimate the whether the foregoing will result in a significant increase in such entities. Restriction of the possibility of canceling the service letter in case of termination of the insurer's engagement with the service provider requires the insurer to prepare for the provision of alternative service in case of termination of the service provider's work, for any reason.

The information presented on all matters associated with the possible future implications of the provisions of the draft circular regarding service letters 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 from the forecast, and is dependent, inter alia, on the company's ability to adjust the framework of the service letters to the provisions of the circular, on the conduct of service providers, insurance agents and competing companies, and on the conduct and choices of policyholders.

10.2.15. <u>The Insurance Contract Law</u>

In November 2016, an amendment to the Insurance Contract Law was approved, which increased the special interest rate 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**").

The aforementioned amendment also expands the types of insurance policies regarding which the Court must order special interest, in such cases, also for illness and hospitalization insurance (including long-term care insurance) and compulsory motor insurance.

In January 2017, a proposed law was published, according to which the Insurance Contract Law will be amended in a manner whereby the special interest rate 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 amendment to the Insurance Contract Law, as well as the proposed amendment thereto with respect to long-term care insurance, may affect both the claim settlement process and the results thereof, and may result in an increase in claim settlement costs.

The information presented on all matters associated with the possible implications of the aforementioned amendment to the Insurance Contract Law, and the proposed additional amendment thereto, 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, and the final wording of the proposed amendment with respect to long-term care insurance.

10.2.16. Circular regarding principles for the preparation of medical underwriting

In April 2016, a circular regarding principles for the preparation of medical underwriting entered into effect, in which principles for the performance of the medical underwriting process of an insurance applicant were set forth, before accepting him into insurance or a pension fund. In the circular it was determined, inter alia, that an institutional entity must act in a fair, professional and appropriate manner, in consideration of its underwriting policy at the time of the performance of the medical underwriting, and at the time of the determination of the insurance acceptance conditions, and additionally, provisions were determined regarding the contents of the questions, the phrasing thereof, the documentation of answer, and the time period required to provide notice to the applicant regarding the results of the underwriting. In accordance with the circular, the institutional entity is required to inform the applicant of the underwriting terms, and to receive their consent to the foregoing, and additionally, the institutional entity is required to note the medical consideration of the insurance applicant, in cases where it has decided not to insure the insurance applicant. An annex was attached to the circular which includes appropriate and inappropriate practices, within the framework of the medical underwriting process.

The circular resulted in an orderly underwriting process, and resulted in expansion of the information given by an insurance applicant, and accordingly, improved the determination of insurance conditions and the pricing of policies.

The information presented on all matters associated with the circular regarding principles for the preparation of medical underwriting constitutes forward looking information, which is based on assumptions and estimates made by the group as of the publication date of the report. Actual implementation may differ significantly from the forecast. At this stage, in light of the fact that the circular has not yet entered into effect, it is not possible to estimate and predict its full implications.

10.2.17. Digitization

For details regarding the "digital vision" document, which specifies the vision of the Capital Markets, Insurance and Savings Division on the subject of digitization of the branch, and the circulars which were published regarding the obligations of institutional entities in connection with digitization, see section 10.10.3.3 below.

10.3. Barriers to entry and exit

10.3.1. Presented below are details regarding the main barriers to entry in the company's main operating segments:

10.3.1.1. **Licensing obligation and permit requirement**

The engagement in insurance requires a license, in accordance with the Insurance Law and the Provident Funds Law, and is overseen by the Capital Markets, Insurance and Savings Authority in the Ministry of Finance. The insurers and the managing companies of pension funds and provident funds in the group are obligated to receive a license from the Commissioner.

A company managing an annuity-paying provident fund is required also to receive an insurer license according to the Insurance Law, and the said insurer licenses will be regarded as a managing company license for all of the provident funds managed by it. As part of the products reform, it was determined that a managing company to which an insurer license has been given, as stated above, is currently entitled to manage all types of provident funds (both paying and non-paying), excluding insurance funds. A managing company may manage one comprehensive new pension fund which is entitled to designated bonds, one new general pension fund which is not entitled to designated bonds, one old pension fund and provident funds. In the Concentration Law, it was determined that any entity which has a permit for the control of a managing company which is entitled to manage a pension fund or provident funds and study funds, will not be given an additional permit to control a managing company other than in accordance with the rules determined by the Commissioner. A managing company is also entitled to engage in another segment which pertains to a pension product that was approved by the Commissioner, subject to the approved terms, provided that the engagement is regulated in accordance with the provisions of the Provident Funds Law, the Insurance Law or the Pension Advice Law. Additionally, any provident fund which is managed by a managing company requires approval for the management of a provident fund, which must be renewed annually. For details regarding the provisions of the Concentration Law and the circular regarding rules for the issuance of a permit for control of a managing company, see section 10.2.4 above.

Clal Pension and Provident Funds and Atudot Havatika hold an insurer license in the pension fund branch, in accordance with the Insurance Law, as well as approvals for the management of the provident funds which are managed by it.

The holding of more than five of a certain type of means of control of an institutional entity is conditional upon the receipt of a permit for the holding of means of control from the Commissioner, and the control of an institutional entity or insurance agency also requires a permit from the Commissioner, inter alia, in accordance with the provisions of the policy document regarding control of an institutional entity, from December 2014, which were published by it. For details on this subject, see Note 1(b)(2) to the financial statements. Following the transfer of the control shares in the company to the trustee and the debt settlement in IDB Holdings, the control of the company is regulated in accordance with the Commissioner's letters, as specified in Note 1(b)(3) to the financial statements.

For details regarding the restrictions on control and holding which were determined by virtue of the Concentration Law, inter alia, regarding the separation between the holding of significant real operations and significant financial operations, and the imposition of restrictions on the holding of more than one insurer or more than one managing company, see section 10.2.4 above.

10.3.1.2. **Capital requirements**

For the purpose of engagement in insurance operations, member companies of the company's group are required to fulfill minimum capital requirements. For details regarding the regulatory capital requirements which apply to member companies in the group, and the companies; fulfillment thereof, and regarding capital requirements which are expected to apply in the future, see Notes 16(e) and 16(f) to the financial statements. For an update regarding the status of an undertaking of the shareholders in Clal Pension and Provident Funds and Clal Credit Insurance to maintain and supplement equity, see Notes 16(e)(6) and 16(e)(7) to the financial statements.

10.3.1.3. **Minimum size**

The company is required to maintain the minimum scope of policies and managed assets required to cover the high fixed operating costs, that are involved in managing the financial assets.

10.3.1.4. **Additional barriers**

The ability to acquire adequate protection from reinsurers.

Organizational, automational and operational infrastructure, in consideration of the complexity of the products and of their operation, as well as regulatory changes.

A broad and skilled distribution network.

In the non-life insurance segment, a company which is active in the credit and foreign trade risks insurance branches must engage in that branch exclusively.

During the reporting year, the Commissioner performed several actions in an effort to lessen the barriers to entry in the segment. For additional details, see section 6.2.1.4(a) above, with respect to the default pension fund, and section 8.1.2(1) above for details regarding the 2015 Economic Arrangements Law.

10.3.2. <u>Presented below are details regarding the main barriers to exit in the company's various operating segments:</u>

10.3.2.1. In the life insurance branch, in some of the products in the non-life insurance branch, in the long term care branch and in some of the products in the illness and hospitalization branch, the discontinuation of operations in long tail claim policies may take many years, until all of the claims are settled with respect to policies which were sold in the period prior to the discontinuation of the operation, and until all of the rights of policyholders and/or members have been exercised (run off), or until the operation has been sold.

10.3.2.2. The Commissioner has the authority to order an insurer that wishes to liquidate or dissolve its insurance business operations to act in a certain way regarding the dissolution of its business operations, and also has the authority to petition the Court with a motion requesting that the liquidation be implemented by the Court or under its supervision.

10.4. **Critical success factors**

Success factors which are common to all of the group's operating segments

According to the group's estimate, the critical success factors which are common to all of the group's operating segments include:

- The mix of the policyholder portfolio, retention of the portfolio and recruitment of new policyholders and members, while maintaining profitability:
- The ability to adjust to changing market conditions, regulatory changes, competitive conditions and reduced profitability, including by way of changes in products, marketing, service, pricing and the amount of management fees, and adjustment of systems and of automation and operation processes;
- The quality and professionalism of underwriting and claim settlement;
- Service quality, including as regards claim settlement and the option to provide, on the level of the group, combined solutions for all of the customers' needs, while creating a synergy between the group's member companies;
- Efficiency of operations and quality of IT and automation systems;
- Investment income, returns in managed portfolios, the state of the capital market and interest conditions;
- The capital management ability in the various operating segments, and efforts to improve it;
- Actuarial ability to support the business policy, to perform high-quality, current pricing, and to conduct high-quality calculations regarding the required reserves;
- Retention and development of high-quality human resources;
- The ability to recruit and maintain high-quality agents, at a reasonable commission level, and to develop an independent sales arm;
- The quality of reinsurance contracts, and the stability of the system of relationships with the reinsurers over the years;
- The quality of risk management and internal monitoring and control;
- The ability to provide services to agents, employers and the company's customers, through advanced digital tools.

10.5. Investments

10.5.1. Assets managed in the group

Presented below are details regarding the types of assets which are managed by institutional entities in the group:

(A) The nostro assets of the institutional entities in the group (Clal Insurance, Clal Pension and Provident Funds, Atudot Havatika, Clal Credit Insurance, as well as the assets of Clal Holdings) - (A) Assets held against equity and other liabilities; (B) Assets held against liabilities in non-life insurance; (C) Assets held against liabilities in non investment-linked life insurance; and (D) Assets held against non investment-linked liabilities in long term care and health insurance.

The insurance companies in the group bear the risks associated with the nostro assets. However, some of the liabilities in life insurance with respect to guaranteed return policies are backed by designated bonds. See section 6.1.1.1 above.

(B) Assets of investment-linked liabilities in Clal Insurance - Assets held against liabilities in life insurance and in long term care insurance with respect to various types of various types. The business results in connection with these assets are included in the calculation of the liabilities to these policyholders. In general, the calculation of policyholders’ rights is performed net of management fees, in accordance with the policy provisions. For details regarding the company’s income from management fees, see Note 31 to the financial statements.

The nostro assets and the investment-linked liabilities of the insurance companies in the group which are managed by the group are listed in the balance sheets of the insurance companies.

(C) Provident funds and pension funds - Assets of pension funds and provident fund members which are managed by the group’s managing companies (Clal Pension and Provident Funds and Atudot Havatika) - assets of members of provident funds and pension funds are managed in trust by the managing companies. Net results, after deducting management fees and expenses, in connection with the assets of the pension funds and provident funds are charged to the members. The assets of pension funds and provident funds are not listed in the balance sheets of the managing companies, except for the assets of Bar Gemulim Provident Fund Ltd., which includes a guaranteed return track (“Bar A”) whose returns are guaranteed by Clal Insurance. See Note 43(f)(2)(a) to the financial statements. Some of the assets of members in the comprehensive pension fund which is managed by Clal Pension and Provident Funds and Atudot Havatika are backed by designated bonds. For details on this matter, see section 6.1.1.1 above.

For details regarding the distribution of managed assets in each of the institutional entities in the group, see section 10.5.6.1 below.

(D) Managed assets in the group which include guaranteed returns or a guarantee regarding the amount of nominal deposits

Some of the group's savings products include a commitment to guaranteed returns. Presented below are details regarding the material guaranteed return liabilities of the group's member companies, as stated above:

- In policies which were sold until the end of 1990, returns for policyholders in life insurance policies with a savings component were determined as a guaranteed rate ("**Guaranteed Return Policies**"). The rate was changed according to the policy type and issuance date. The commitment to a rate of return is primarily backed by designated bonds, the balance of invested assets in accordance with the restrictions specified in the Investment Regulations.

- In most of the savings policies which were sold by Clal Insurance since 1991, the returns are credited to the policyholder in accordance with the results of the investment portfolio, after deducting management fees and expenses ("**Investment-Linked Policies**"). However, in a small part of the policies, returns are guaranteed at a rate which is guaranteed to policyholders, without the backing of designated bonds.

- As part of the acquisition of the provident fund Bar A, Clal Insurance accepted an obligation to minimum guaranteed annual returns for all assets invested in Bar A (real net returns of 5.5%, in accordance with the terms specified in the fund regulations). This undertaking is backed by an undertaking of the Accountant General to CPI-linked guaranteed returns, plus interest at a rate of 5.95% per year, on 89% of the assets, while the other assets are invested in accordance with the Investment Regulations.

- Additionally, in some of the funds which are managed by Clal Pension and Provident Funds, Clal Insurance and/or Clal Pension and Provident Funds provided guarantees with respect to members who joined the funds by certain dates and with respect to deposits which were deposited by those members by certain dates, as specified in the fund regulations, guaranteeing that the amount which will be paid to members will be no less than the amount of deposits which were paid by those members, or on their behalf, subject to the terms set forth in the regulations of the aforementioned funds. Over the years, the aforementioned guarantees were discontinued with respect to funds which were deposited, from a certain date and thereafter. Significant negative returns may result in paid charges by virtue of the guarantee.

  Most of the assets which are held against guaranteed return liabilities are managed within the framework of the nostro portfolio.

10.5.2. Total managed assets for the nostro portfolio and for members/policyholders of the group's institutional entities, as of December 31, 2016 (NIS millions):

Institutional entity	**Nostro**	**Investment-linked funds**
The company	101	
Clal Insurance	31,159	57,890****
Clal Credit Insurance	230	-
Clal Pension and Provident Funds - pension funds*	135	44,618

Clal Pension and Provident Funds - provident funds*		34,124**
Atudot Havatika ***	29	9,330
Total	**31,654**	**145,962**

* Data regarding the equity of the aforementioned managing companies of provident funds and pension funds are audited.

** Including provident funds owned by Clal Insurance, and including guaranteed return provident funds.

*** The data refer to all of the fund assets, and are not audited.

**** Including funds managed for the health funds Leumit and Maccabi Health Services, within the framework of the policyholders fund, as specified in section 8.1.2(2) above, in the amount of NIS 2,804 million, as of the publication date of the report.

10.5.3. Investment management of institutional entities

(A) Investment management companies

The investment activities of the group's institutional entities are primarily performed through Canaf - Clal Financial Management Ltd. ("**Canaf**"), which is a subsidiary of Clal Insurance. Canaf manages the nostro funds of the insurance companies and the managing companies in the group, and manages the investments of assets of investment-linked liabilities and assets of members of pension funds and provident funds in the group.

Canaf has separate (designated) investment teams for the management of nostro funds and the management of members' funds, which are assisted by the various adjunct units in the group: research, strategy, legal, private credit and infrastructure, alternative assets, private investments, real estate, treasury, middle office, control and investment accounting.

Additionally, some of the foreign investing activities are performed with the assistance of external consultants and investment managers.

(B) Investment management policy

The funds of the group's institutional entities are managed subject to the provisions of the Investment Regulations and the Commissioner's directives, as applicable, in accordance with the general investment policy which is determined by the board of directors of the insurer and/or the managing company, and in accordance with the instructions and supervision of separate, independent investment committees for each type of managed funds. The company's board of directors approves the general investment policy for the managed portfolios. As part of the above, the board of directors approves exposure frameworks to the various investment channels, in each of the managed portfolios, as well as the hierarchy of authorities for the approval of various investments. As part of the general investment policy, the board of directors instructs the investment committees to determine a specific investment policy in accordance with the general investment policy which is determined by the board of directors, for each of the various institutional entities and investment tracks, in consideration of, inter alia, the restrictions which apply to the track in accordance with the law and/or in accordance with the policy terms and/or in accordance with the provident fund regulations, and in consideration of the specific characteristics of the tracks, including the expected development of the assets portfolio, expected cash flows and average lifetime, early redemption risks, and more. The investment committees establish the detailed investment policy, as stated above, for each fund and track separately.

As part of the investment policy, the board of directors and investment committees also approve a credit policy for the purpose of managing the credit assets of the managed portfolios. The credit policy includes the determination of work processes, hierarchy of authorities and exposure policy in the credit portfolio, with reference, inter alia, to the maximum exposure limits to a single borrower, to a group of borrowers, to a particular branch, etc.

The investment policy for managed portfolios is evaluated on a routine basis as part of the discussions of the investment committees. Additionally, the middle office, control and risk management units routinely supervise the investing activities, with an emphasis on the scopes of activities and the exposure rates in each type of investment channel, and the fulfillment of the restrictions of the investment and credit policy, and the provisions of the law.

The nostro portfolios are managed in a manner which will allow guaranteeing the company's undertakings, in consideration of, inter alia, the average lifetime of the liabilities, the timing of cash flows, the linkage basis, the currency and the accounting reporting rules. The investment policy is based on an evaluation of the overall correspondence and management of the risk, relative to the company's capital and capital surplus.

The members' portfolios are managed, inter alia, in light of long term considerations, in order to achieve maximum returns for members, in consideration of the risk level of the various investment assets, and considerations involving the portfolios' liquidity.

A high growth rate in the portfolio, along with a long average lifetime and a relatively low risk of repayment (particularly with respect to pension and insurance members) allows activity in accordance with an investment strategy which is based on long term allocation targets, with the aim of achieving maximum returns over time. Insofar as the average lifetime of the liabilities is shorter and/or the portfolio is reduced in scope, the flexibility level in the management of the portfolio is reduced, and investment considerations in shorter ranges should be taken into account. In the provident fund portfolios, for example, withdrawal and transfer risks and liquidity risks which are derived from the characteristics of the products, as reflected in the volatility of the level of redemptions and the transition between the tracks in recent years, are taken into account.

During the reporting period, the company continued developing its portfolio of non-marketable investment, and entering additional branches, such as foreign credit, equity and debt for infrastructure in Israel and abroad, inter alia.

For details regarding the distribution of managed assets in each of the group's institutional entities as of December 31, 2016, see section 10.5.6.1 below.

In accordance with the Commissioner's directives, the group's institutional entities publish their declarations regarding the investment policies of members and policyholders funds on their websites.

Declarations regarding the specific investment policy for 2016 and 2017 were published in January 2016 and January 2017, respectively, on the company's website, at:

https://www.clalbit.co.il/clalins/channelsdonation/Pages/default.aspx.

(C) Investment committee, credit sub-committee and internal credit committee

Investment committees - In accordance with the Insurance Law, Clal Insurance has two investment committees: an investment committee for the investment of funds to cover investment-linked liabilities, and an investment committee for the investment of the equity and other liabilities of the insurer, and for the investment of funds to cover insurance liabilities which are non-investment-linked liabilities ("**Nostro**"). Clal Credit Insurance has a separate nostro investment committee.

Each of the managing companies in the group (Clal Pension and Provident Funds and Atudot Havatika) has an investment committee for the management of members' funds and a nostro investment committee.

The investment committees each determine, separately and independently, an investment policy as part of the overall investment policy which was approved by the board of directors, approve transactions in accordance with the hierarchy of authorities which was determined by the board of directors, and fulfill additional roles, in accordance with the provisions of the law. As part of the foregoing, the investment committees determine the strategy and the specific investment policy in the asset portfolios. Additionally, the investment committees supervise the implementation of the policy, and adjust the structure of the portfolio in accordance with market conditions, within the framework of the investment policy.

The implementation of the guidelines of the investment committees and the actual performance of investments is performed in a separately and distinct manner by the relevant investment managers.

As of the publication date of the report, the investment committee of Clal Insurance in the nostro portfolios is comprised of Board members of Clal Insurance and the CEO of Clal Insurance, and convenes at least once per month. The investment committees in members' portfolios include a majority of external members, and convene at least once every two weeks.

Additionally, in accordance with the provisions of the law, members may not be appointed, and may not serve, as investment committee members, if their positions or other engagements create, or may create, a conflict of interest or which could adversely affect their ability to serve as a member, as stated above, and with respect to participation as an external representative in investment committees, anyone who is a relative of the controlling shareholder, and anyone who has, or whose relative, partner, employer, direct or indirect manager, or corporation of which they are as controlling shareholder has, on the appointment date, or during the two years which preceded the appointment date, an affinity with the company, with the company's controlling shareholder, or with a relative of the controlling shareholder, on the appointment date, or with another corporation ("affinity" - as defined in section 240(b) of the Companies Law).

Credit sub-committee: In accordance with the Commissioner's directives, the investment committees, with the approval of the boards of directors of the group's institutional entities, appointed a joint credit sub-committee for the group's institutional entities (the "**Credit Sub-Committee**").

The credit sub-committee is comprised of members who have proven expertise and experience in the credit segment. The credit sub-committee includes external representatives only.

The credit sub-committee is responsible for overseeing the implementation of the policies determined by the board of directors and the investment committees regarding the provision of credit, for approving the provision of credit in accordance with the hierarchy of authorities, and for reaching decisions regarding the methods used to handle troubled debts, in accordance with the hierarchy of authorities.

Internal credit committee - In accordance with the Commissioner's directives, the institutional entities in the group appointed an internal credit committee which is comprised of managers in Canaf, whose functions include: providing recommendations regarding the provision of private loans, and the handling thereof ("**Adjusted Loan**"), and approval of immaterial amendments to adjusted loans, in accordance with the hierarchy of authorities.

10.5.4. Restrictions, legislation, standardization, circulars and special constraints which apply to investment management in the institutional entities

The investment management of institutional entities is subject to the provisions of the law which apply to insurers and to pension funds and provident funds, including the Commissioner's directives, as published from time to time.

As part of the above, the investment activity is primarily subject to the Investment Regulations, to Chapter 4 of the consolidated circular - management of investment assets (the "**Consolidated Circular**") and to the provisions of the circular regarding investment rules which apply to institutional entities (in this section: the "**Circular Regarding Investment Rules**"). The Investment Regulations, the consolidated circular and the circular regarding investment rules regulate most of the provisions of the law which apply to the investments of an institutional entity.

10.5.4.1. The Investment Regulations, the consolidated circular and the investment rules (in this subsection: the "Provisions Of The Law") -

The provisions of the law establish the regulatory framework which applies to the investments of an institutional entity, and refer, inter alia, to the following subjects: **A.** Restrictions on exposure to a single corporation and a group of corporations, cumulative exposure to the five largest corporations and the five largest groups of corporations, as defined in the Regulations. **B.** Foreign investment in countries with a credit rating of (BBB-) or higher, or in OECD member countries. **C.** Restrictions regarding the holding of the means of control of a corporation - up to 20%, excluding partnerships and real estate corporations, regarding which permission is given for a holding rate of up to 49%, subject to certain restrictions. **D.** A quantitative restriction regarding investment in land rights, out of the total assets of the institutional entity - up to 15%; **E.** A restriction regarding the rate of holding in marketable bond series - up to 25% of each series. **F.** Definition of related parties to the institutional entity, and imposition of restrictions on investments in such entities; **G.** Regarding nostro portfolios - a requirement for the establishment of rules pertaining to the management of assets held against liabilities, including regarding the degree of correspondence between the average lifetime, liquidity rate and linkage terms of the investment assets, and the characteristics of the liabilities. **H.** Establishment of rules to correct active and passive exceptions from the provisions of the investment regulations, reports and sanctions.

10.5.4.2. **Restrictions on holding -**

In accordance with various laws, the group’s holdings in various corporations - both holdings in the nostro portfolio, and holdings for other parties (such as funds of investment-linked policies, provident funds and pension funds) - are included together with the holdings of the group’s controlling shareholders, directly and/or indirectly, in those corporations (hereinafter: “**Aggregate Holding**”). Due to the current restrictions on holding in the law, with respect to corporations with certain operating segments (such as banking corporations, insurers, communication companies) and/or with respect to holdings in corporations which are related parties of the group, the aforementioned aggregate holding may be restricted, and the group may sometimes be prevented from increasing its holdings in the securities of those corporations, and may sometimes also be required to sell existing holdings, including out of the group’s hodlings on behalf of other parties.

Additionally, in accordance with the provisions of the Law to Promote Competition and Reduce Concentration, 2013, an institutional entity’s holdings in a certain type of means of control of a significant real corporation may not exceed 10%. Notwithstanding the foregoing, the transitional provisions of the law determine that an institutional entity which, prior to the publication date, legally held the means of control of a significant real corporation, at a rate exceeding the rate specified in the law, will be entitled to continue holding the aforementioned means of control until December 10, 2019. According to the company’s estimate, and in light of the restrictions which apply to the activities of the group’s institutional entities, by virtue of the Investment Regulations, this provision does not significantly affect the investment activities of the group’s institutional entities.

10.5.5. <u>Presented below are details regarding the final material provisions of the law which were published during and after the reporting year, as well as the summary of material drafts which were published by the Commissioner, which apply to institutional entities in connection with the management of their investments:</u>

10.5.5.1. **Transition to investment management through ETF’s**

In May 2016, an amendment was published to the circular regarding investment management through ETF’s (hereinafter in this section: the “**Circular**” and the “**ETF’s**”, respectively). Within the framework of the amendment, provisions were established regarding the creation of ETF’s for marketable assets and the management thereof, and the use of ETF’s for the management of non-marketable investments (such as real estate) was permitted.

The group began the process of creating ETF’s for marketable assets in the last quarter of 2016. According to the company’s estimate, investment management through ETF’s is expected to increase the efficiency of investment management with respect to members’ assets.

The information presented on all matters associated with the possible implications of investment management through investment baskets constitutes forward looking information, which is based on assumptions and estimates made by the group as of the publication date of the report. The actual impact may differ from the forecast, and is dependent, inter alia, on the manner of implementation of the circular.

10.5.5.2. **The Insolvency and Economic Rehabilitation Law Memorandum, 2016**

In March 2016, the **Insolvency and Economic Rehabilitation Law Memorandum, 2016** (the "**Memorandum**") was published, which is intended to re-formalize laws regarding insolvency and rehabilitation and recovery proceedings. The provisions of the memorandum formalize, inter alia, the following subjects: (1) the definition of a corporation's insolvency; (2) The opportunities for entry into processes involving the rehabilitation and/or liquidation of a corporation; (3) The distribution of considerations between the various creditors; (4) Restriction of the power of floating charge holders, in a manner whereby they will be entitled to receive repayment of only 75% of the debtors which are subject to the floating charge, such that the unsecured creditors wil receive greater repayment of the debt to them; (5) Prospective cancellation of some of the obligations.

Insofar as the memorandum will be published as a binding document, it may have implications on all matters pertaining to loans which are given by institutional entities in the group, primarily including loans secured by pledges, due, inter alia, to the prejudice caused to the rights of secured creditors in favor of unsecured creditors, within the framework of the provisions of the memorandum.

The company's estimate in connection with the implications of the memorandum 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, due, inter alia, to the final version of the memorandum, if and insofar as it will be published, and the decisions which will be reached in the group's institutional entities regarding the provision of credit.

10.5.5.3. **Draft position paper of the Commissioner regarding the collection of fronting fees with respect to loans**

For details regarding a draft of position paper of the Commissioner regarding the collection of fronting fees with respect to loans, see Note 43(d)(3) to the financial statements.

10.5.5.4. Amendment to the investment rules circular -

In February 2016, an amendment to the investment rules circular was published, which includes, inter alia, an update regarding the cumulative restriction on the investment in real estate corporations and partnerships, and cancellation of the "sufficient collateral" rule (hereinafter in this section: the "**Amendment** "). The amendment included the implementation, inter alia, of the following changes: (1) The cumulative restriction on investments in real estate corporations and partnerships, according to which the holding rate is 20% to 49%, was raised from 4% of the total assets in the fund / track to 6%; (2) Two exceptions were added with respect to the provision of adjusted unrated loans: (A) Loans guarantees by the State of Israel; (B) Loans given through third parties, in which the underwriting model of the third party may be relied on, whose principles were approved by the investment committee, and in which the loan amount does not exceed the amounts determined in the circular; (3) The exception which allowed the provision of unrated loans, at a rate of up to 3% of the assets, was amended in a manner whereby there will no longer be the need for "sufficient collateral", and it will be sufficient to rely on the determination that the institutional entity will evaluate the need to receive collateral against the loan. (4) With respect to loans of an institutional entity to a policyholder or member, it was determined, inter alia, that a policy should be established regarding the provision of loans to policyholders or members. The policy must include principles for underwriting with respect to loans to policyholders or members.

In September 2016, an additional amendment was published to the investment rules circular, which includes a transitional provision which is in effect for a period of two years, in which an additional exception was determined with respect to the provision of adjusted unrated loans, for the financing of residential construction projects, in collaboration with a bank, and subject to the additional terms which were determined in the transitional provision.

According to the group's estimate, the increase of the cumulative restriction regarding investments in real estate corporations and partnerships from 4% to 6% will expand the group's possibilities of performing leveraged transactions through partnerships. Additionally, according to the group's estimate, the easements in the credit provision segment will facilitate the performance of credit transactions and the entry into additional credit segments.

The company's estimate in connection with the implications of the investment rules circular constitutes forward looking information, based on information which is available to the group on the date of the report. Actual results may differ from the estimated results, due, inter alia, to the manner of adoption of the circular, and the investment choices of institutional entities in the group, which are affected, inter alia, by changing market conditions.

10.5.5.5. **Circular regarding work with split accounts -**

In August 2016, a circular was published regarding work through split accounts (in this section: the "**Circular**"). The circular included provisions regarding the method of action of institutional entities with respect to split accounts, as well as proviisons regarding the splitting of transactions with non-marketable assets between several institutional entities. In the circular, it was determined, inter alia, that: **(1)** A "splitting index" should be determined in a policy, with respect to the splitting of transactions with marketable securities; **(2)** Transactions may be split in a manner which deviates from the splitting index which was determined, provided that the splitting method has been defined in advance, and documented; **(3)** Periodic reporting requirement to the investments committee; **(4)** A policy should be established regarding the splitting of transactions with non-marketable assets.

10.5.6. <u>Managed investments</u>

For details regarding the impact of investment income on the company's profits, see Part B - board of directors' report, section 3.1.

10.5.6.1. **Distribution of managed assets in Clal Insurance as of December 31, 2016:**

	Nostro - assets held against liabilities in non-life insurance, health and equity[53]	**Assets held against investment-linked insurance liabilities**	**Nostro - assets held against liabilities in life and health insurance (long term care and critical illness)**
Cash and cash equivalents	5.63%	5.07%	2.93%
Marketable government bonds	20.18%	22.77%	5.87%
Marketable corporate bonds	9.97%	13.69%	5.28%
Stocks and other marketable securities	13.58%	38.24%	3.98%
Designated bonds (*)	0.00%	0.00%	60.62%
Deposits and loans	31.28%	6.42%	9.76%
Other	19.35%	13.81%	11.56%
Total assets	**100.0%**	**100.0%**	**100.0%**

Distribution of managed assets in Clal Credit Insurance as of December 31, 2016:

	Nostro - assets held against liabilities in non-life insurance and equity	**Assets held against investment-linked insurance liabilities**	**Nostro - assets held against liabilities in life insurance**
Cash and cash equivalents	8.11%	-	-
Marketable government bonds	57.60%	-	-
Marketable corporate bonds	26.85%	-	-
Stocks and other marketable securities	2.72%	-	-
Deposits and loans	3.61%	-	-
Other	1.11%	-	
Total assets	**100%**	-	-

[53] Not including long term care and critical illness.

<u>Distribution of assets of pension funds managed by the managing companies (Clal Pension and Provident Funds and Atudot Havatika) in the group as of December 31, 2016:</u>

	Meitavit Atudot New Fund	Meitavit Atudot Supplementary Fund	Atudot Havatika
Cash and cash equivalents	3.20%	3.72%	2.48%
Marketable government bonds	7.28%	32.39%	12.57%
Marketable corporate bonds	9.04%	17.29%	11.73%
Stocks and other marketable securities	36.33%	39.05%	16.00%
Designated bonds (**)	29.48%	0.00%	36.82%
Deposits and loans	5.46%	3.77%	7.33%
Other	9.20%	3.78%	13.08%
Total assets	**100.00%**	**100.00%**	**100.00%**

* Designated bonds which were issued until December 1, 2003 bear guaranteed interest of 5.05%, plus the consumer price index, and bonds which were issued beginning on January 1, 2004, bear guaranteed interest of 4.86%, plus the consumer price index.

** Designated bonds of the "Meiron" type bear guaranteed interest of 5.57%, plus the consumer price index.

<u>Distribution of assets of pension funds managed by the Clal Pension and Provident Funds as of December 31, 2016, by fund types:</u>

	Provident fund for compensation and severance pay	Study funds	Central provident funds
Cash and cash equivalents	4.04%	5.53%	4.79%
Marketable government bonds	25.19%	26.65%	31.87%
Marketable corporate bonds	13.38%	14.35%	19.33%
Stocks and other marketable securities	30.42%	36.53%	30.87%
Deposits and loans	15.91%	9.26%	2.04%
Other investments	11.06%	7.67%	11.10%
Total assets	**100.00%**	**100.00%**	**100.00%**

10.5.7. <u>Investments in investee companies</u>

The company had no material investments in investee companies and/or partnerships and/or enterprises which are not subsidiaries during the reporting year.

10.6. Reinsurance

Reinsurance is a means used by an insurance company to hedge its risks and to protect capital. Through reinsurance, the insurance company distributes its risks among additional insurance companies, reduces its exposure and allows the expansion of the scope of insurance liabilities which it can accept upon itself.

Protection which is acquired through reinsurance is against two main types of risks: risk of a single case and/or risk of an event (which may include several damages). A catastrophic event may affect a large number of cumulative risks which are insured by the group, and generally involves natural disasters such as earthquake, fire, hail, flood, etc.
The main types of reinsurance contracts include:

1. **Treaty -** An agreement with a reinsurer in which the reinsurer undertakes to participate in the risks, generally in a particular branch.

2. **Facultative insurance -** An agreement with a reinsurer with respect to specific business (mostly at large business customers), in which the liability limits exceed the limits of the treaty, or where, for other reasons, it is not possible to prepare it in this framework.

The aforementioned agreements can be with one reinsurer or several reinsurers.

Additionally, reinsurance contracts can be segmented according to the risk distribution method:

1. Proportional reinsurance - The reinsurer's participation in the risk is defined in advance, according to its relative share in the premiums, and it participates according to its proportional rate in the payment of damages. There are two main types of proportional reinsurance:

- **Quota share treaty**: A proportional reinsurance contract in which the reinsurers agree to accept a fixed rate of all insurance of a certain type which the direct insurers have accepted upon themselves. The reinsurer receives a proportional part of the premiums received by the direct insurer, and divides all of the damages and expenses by the same ratio, up to the determined amount.

- **Surplus treaty**: A proportional reinsurance contract in which the direct insurer bears a fixed amount which it determines (retention), and the reinsurer bears the multiplies of the fixed amount up to an agreed-upon limit. The company's participation rate is determined according to the proportion of the retention out of the insurance amount, and accordingly, the premiums and claims are divided between the company and the reinsurer.

With respect to a proportional reinsurance contract (treaty or facultative), a commission is received from the reinsurers according to an agreed-upon rate of the premiums to the reinsurers.

2. XOL (Excess of loss) non-proportional reinsurance - A non-proportional reinsurance contract according to which the reinsurer accepts responsibility for the level which was agreed upon in advance, and participates in the payment of the damages only if the damage has reached the level at which it participates. In agreements of this kind, the division of risk is non-proportional, and the participation of the reinsurer is conditional upon the amount of damages, up to the limit which was determined, if any.

The **catastrophe risk** of Clal Insurance is a non-proportional reinsurance contract which Clal Insurance purchases in order to protect its retention (in addition to the existing coverage in proportional reinsurance), based on an evaluation of the expected damage on retention, of a given probability, to which Clal Insurance may be exposed due to a catastrophic event.

With respect to non-proportional reinsurance contracts, a commission is generally not received from reinsurers, excluding in facultative insurance policies of the XOL ("Excess Of Loss") types.

10.6.1. Policy regarding reinsurance

In accordance with the Commissioner's circular on the subject of "Management of the exposure to reinsurers" from December 7, 2003, at least once per year, the board of directors is required to discuss and determine the policy regarding exposure and the insurer's preparations to manage the exposure and the control thereof, to a single reinsurer and to a group of reinsurers which are economically linked (hereinafter, jointly: "**Reinsurers**"). The board of directors is required to hold the discussion after having ascertained the quality of the tools which are available for the insurer to manage and control the exposure to reinsurers.

The policy regarding the exposure to reinsurers will include, inter alia, the policy regarding the management of exposure to reinsurers in the life, non-life and health branches, as well as the definition of the maximum framework for exposure to reinsurers, according to the parameters which will be determined by the board of directors. The aforementioned parameter may be a qualitative parameter, such as the reinsurer's international rating.

The board of directors will oversee the implementation of the policy which determined and will handle exceptional events.

The boards of directors of the group's institutional entities approve, once per year, the reinsurance policy in accordance with the group's operating segments, based on the recommendations which were formulated by the management of each institutional entity / division, and the recommendations of the risk management unit. With respect to the exposure to reinsurers, the policy of the group's insurance companies include minimum demands for the selection of reinsurers which address, inter alia, the financial rating and other qualitative parameters, including with respect to past experience, where in the insurance branches in which the exposure to reinsurers is long term, a higher minimal financial rating is required. The policy also includes a maximum exposure framework, which determines the maximum rate of exposure to a single reinsurer and/or to a rating group of reinsurers, out of the company's capital. Additionally, the policy establishes restrictions on potential exposures to reinsurers and to groups of reinsurers, in case of an earthquake event, by MPL[54]. The policy establishes mechanisms for the management and control of the exposure to reinsurers, including reports to the boards of directors of the relevant institutional entities, regarding the fulfillment of the aforementioned restrictions.

In non-life insurance business operations, the group's reinsurance contracts in the various insurance branches are generally prepared on an annual basis with different reinsurers. The relative share of each reinsurer in each one of the reinsurance branches may change from

[54] Maximum probable loss, with the determined probability, calculated using models.

year to year and from branch to branch, in accordance with the group's business policy and the characteristics of the business which it aims to insure.

However, in **life insurance and health insurance business operations,** which cover risk of death, loss of working capacity, disability, critical illness, long term care and medical expenses, and which are characterized by long term policies, the engagement with reinsurers is done throughout the entire period of the policies which were sold during the reinsurance contract period, excluding catastrophe risk agreements, which are prepared on an annual basis.

During the reporting year, the group did not enter into any exceptional reinsurance transactions.

For details concerning the risk factors arising from the entry into agreements with reinsurers, see section 10.16b(4) below.

10.6.2. Reinsurance in the non-life insurance segment

10.6.2.1. **Main types of reinsurance arrangements in the segment**

In the compulsory motor insurance branch and in the liabilities insurance branches, such as employers' liability, professional liability, product liability and third party liability, protection against exposure is implemented by means of non-proportional reinsurance contracts, to protect against large claims.

In general, the exposure of Clal Insurance in the property and loss of profit branches and in the guarantees activity (including sale and performance guarantees), is protected through proportional reinsurance contracts. In the property and loss of profit branches, a non-proportional reinsurance contract is also acquired for catastrophe coverage (shared by all of the property branches), which provides protection for the share of Clal Insurance on self retention in the damages due to a catastrophic event (including an earthquake). See section 10.6.7 below.

In certain insurance branches, specific (facultative) reinsurance is acquired instead of, or in addition to, the coverage under the treaty, while maintaning fulfillment of the retention levels determined by the company.

A significant part of the operations of Clal Credit Insurance is protected by proportional reinsurance. Additionally, Clal Credit Insurance acquires non-proportional reinsurance as coverage against default by a group of debtors.

10.6.2.2. **Commission structure in the non-life insurance segment**

Commissions are not received from reinsurers in non-proportional insurance, except for excess of loss facultative reinsurance.

In proportional insurance, commissions are received from reinsurers. These commissions are primarily calculated according to a certain rate of the premiums to reinsurers. There are two main types of commissions: fixed commissions, according to a flat rate of the premiums, or sliding scale commissions, according to the profitability in the portfolio. Additionally, in single contracts, there is a profit commission based on the reinsurer's profitability rate in the specific contract.

Reinsurers whose share in premiums in the segment constitute more than 10% of total reinsurance premiums in the segment in the years 2015 and 2016

Name of reinsurer	S&P rating as of the date of as of the publication date of the report	Premiums recorded in favor of the reinsurer (NIS in thousands) in 2015	Proportion of total premiums to reinsurers for the operating segment in 2015	Premiums recorded in favor of the reinsurer (NIS in thousands) in 2016	Proportion of total premiums to reinsurers for the operating segment in 2016
Swiss Re	AA -	86,108	12.9%	93,482	14.5%
Munich Re	AA -	67,897	10.2%	63,897	9.9%

10.6.2.3. **Changes to reinsurance arrangements in the non-life insurance segment**

During the reporting year, no material changes occurred with respect to the reinsurance arrangements in the non-life insurance segment.

10.6.3. <u>Reinsurance in the long term savings segment</u>

10.6.3.1. **Main types of reinsurance contracts in the long term savings segment**

(A) Proportional contracts of various types protect the exposure of Clal Insurance in most business segments in the life insurance branch.

(B) A non-relative contract of the Excess of Loss type that protects the group's member companies against catastrophic events relating to coverage for death, loss of work capacity and disability.

10.6.3.2. **Description of the commission agreements in the long term savings segment**

With respect to a proportional reinsurance contract in life insurance, the reinsurers pay the company a commission according to the rate of the premiums which was transferred to the reinsurer in the first year after the sale of products in the segment.

In addition to the reinsurance commissions which are paid out of the premiums, as stated above, the reinsurers pay to the company, in life insurance, a profit commission which is calculated as a proportional part of the profit from the insurance business operations which are covered through reinsurance.

Reinsurers whose share in premiums in the segment constitute more than 10% of total reinsurance premiums in the segment in the years 2015 and 2016

Name of reinsurer	S&P rating as of the publication date of the report	Premiums recorded in favor of the reinsurer for 2015 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2015	Premiums recorded in favor of the reinsurer in 2016 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2016
Swiss Re	AA-	78,074	47.7%	79,778	47.4%
Munich Re	AA-	56,157	34.3%	59,007	35.0%
Gen Re	AA+	23,051	14.1%	22,428	13.3%

10.6.3.3. **Changes in reinsurance arrangements in the long term savings segment**

During the reporting year, no material changes occurred in the reinsurance arrangements in the long term savings segment. However, during the reporting year, the catastrophe contracts in the personal accidents and international travel branches, and the catastrophe contract in life insurance, were unified and expanded to include also long term care policies and disability coverages (hereinafter: the "**Combined Catastrophe Coverage**"). The maximum coverage limit of combined catastrophe coverage was expanded according to the updated exposure, in accordance with studies which were performed by the company.

10.6.4. <u>**Reinsurance in the health insurance segment**</u>

10.6.4.1. **Main types of reinsurance in the health insurance segment**

Illness and hospitalization branch

Some of the group's exposures in health policies which were sold until December 31, 2004, with respect to certain coverages, such as transplants, also in policies which were sold until 2008, are protected by quota share proportional reinsurance contracts.

The exposure in critical illness coverage, and beginning in the reporting year also in drug coverage, is covered under quota-type proportional reinsurance contracts. The group also has protection for accumulated damages, in non-proportional contracts, with respect to personal accidents policies and international travel personal accidents, within the framework of combined catastrophe coverage. The scope of the acquired protection is based on internal studies conducted by the company.

Long term care branch

With respect to long term care insurance products, quota share proportional reinsurance is available for individual policies which were sold until July 2004, and beginning in June 2014.

For policies which were sold from July 2004 to May 2014, there was no reinsurance, except for proportional quota share reinsurance contracts which were acquired in connection with the Maccabi transaction, and which are still in effect (see section 8.1.2(2) above), and in connection with a transaction to cover the member of Leumit Health Fund, the reinsurance for which was not acquired until June 2014, and beginning in July 2016.

The group also has protection for accumulated damages in long-term care policies, within the framework of the combined catastrophe coverage.

10.6.4.2. **Description of the commission structure in the health insurance segment**

In some insurance contracts, a commission is paid by the reinsurers to the group with respect to health insurance products of various kinds, which are covered by proportional reinsurance, which is calculated as a rate of the premiums transferred to the reinsurer. In most cases, this commission is paid only in the first year after the sale.

In addition to the reinsurance commissions which are paid out of premiums, as stated above, in some of the reinsurance contracts, the reinsurers pay the group with respect to the aforementioned reinsurance, a profit commission which is calculated as a proportion of the profit from the insurance business operations which are covered by the reinsurance.

In excess of loss non-proportional insurance contracts, a commission is not received from reinsurers.

Reinsurers whose share in premiums in the segment constitute more than 10% of total reinsurance premiums in the segment in the years 2015 and 2016

Name of reinsurer	S&P Rating Correct As of the publication date of the report	Premiums recorded in favor of the reinsurer for 2015 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2015	Premiums recorded in favor of the reinsurer in 2016 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2016
Partner Re Sa	A+	74,190	39.7%	85,518	40.3%
Scor	AA-	74,769	40.0%	86,282	40.6%

10.6.4.3. **Changes in reinsurance arrangements in the health insurance segment**

During the reporting year, the company acquired quota share reinsurance for drug coverages and non-proportional catastrophe coverage in long-term care, within the framework of the combined catastrophe coverage.

10.6.5. Coverage restrictions and limits

10.6.5.1. **Restrictions or limits on coverage in the non-life insurance segment**

In most proportional insurance contracts in property branches, the reinsurers restricted the cumulative scope of coverage to determined events, and particularly, to earthquakes. In the property contracts of most reinsurers, the limit per earthquake event is 4% to 5% of their proportional part in the insurance amount, and with respect to the total exposure limit which was determined in the contracts. For additional details, see section 10.6.7 below.

In excess of loss contracts, the company did not reach the determined limits in the reporting periods, and it has no oustanding claims in a scope which comes close to the determined limits.

10.6.5.2. Restrictions or limits on coverage in the long term savings segment

There are no significant restrictions or limits on coverage with respect to the reinsurer's participation in quota share proportional contacts, excluding: restrictions on the insurance amount per event in reinsurance contracts with respect to critical illness insurance products, and restrictions on the insurance amount in case of death in reinsurance contracts of the "insurance for all" type.

It is noted that as of the preparation date of the reports, in cases where coverage limits were determined in reinsurance contracts, in general, the company does not cover amounts which exceed the coverage limit without facultative coverage.

In a contract which protects the group's retention against catastrophe events in the long term savings segment, there is a coverage limit, and damages above this limit are returned to the company's responsibility.

10.6.5.3. **Restrictions or limits on coverage in the health insurance segment**

_______In some quota share proportional insurance contracts in the long term care and critical illness branch, there is a coverage limit regarding the participation of the reinsurer in claims, in a cumulative amount per policyholder. It is noted that, in general, policies which are issued by the company are within the framework of the aforementioned coverage limits.

10.6.5.4. **Restrictions by virtue of laws and/or treaties**

For several years, the reinsurers have been trying to include in the reinsurance contracts a clause which makes their contractual debts subordinated to legal restrictions by virtue of various state and/or international laws and/or treaties, which will be in effect from time to time, such as sanctions on Iran, avoidance of financing of terrorism, etc. (hereinafter: the "**Sanctions Clause**").

Clal Insurance clarified to the reinsurers that it objects to the inclusion of a sanctions clause in the sanctions contracts in a manner which reduces their obligation to pay in branches wherein it cannot include a corresponding clause vis-à-vis the policyholders. As of the preparation date of the report, the contracts with reinsurers do not include the aforementioned sanctions clause in branches where the company cannot include corresponding coverage vis-à-vis the policyholders. However, the reinsurers repeatedly clarify that a restriction on payment may materialize as a result of the aforementioned legal restrictions.

10.6.6. <u>Material changes in reinsurance arrangements which pertain to the period after the reporting date</u>

No material changes occurred in the reinsurance arrangements during the period subsequent to the reporting date.

It is noted that, from time to time, the company implements adjustments to the details of insurance arrangements, including with respect to the amount of commissions, the coverage limits and the retention amounts, based on an analysis of past results and risk assessment.

10.6.7. **Exposure of reinsurers to an earthquake in Israel**

The main catastrophe event to which the group is exposed is an earthquake in Israel, and the main exposure to this risk exists with respect to the property branches which constitute a part of non-life insurance.

As of December 31, 2016, the amounts of property insurance in Israel, which include earthquake coverage, amount to approximately NIS 412 billion (gross). Clal Insurance is covered, with respect to the aforementioned property insurance, by proportional reinsurance on a quota share or surplus basis. Some of the relative reinsurance contracts include coverage limits for individual events (see details below).

With respect to catastrophic events, Clal Insurance purchased, or the property branches, beyond the coverage under the proportional reinsurance contracts (contractual and/or facultative) with respect to the cumulative retention, reinsurance on an excess of loss basis, in a defined amount with respect to the exposure due to such event, based on the estimate of Clal Insurance regarding the damage which is expected to occur due to a catastrophe with a certain probability.

The acquisition of reinsurance policies in respect of a catastrophe event is based on risk estimates, which rely on a database containing detailed and current information concerning the exposures of Clal Insurance through international programs designated for this purpose, which employ quantitative models to estimate catastrophe risks. According to this evaluation, which was last performed in 2016, the scope of coverage acquired by Clal Insurance protects it from events whose estimated probability of occurrence, according to some of the models, is lower than once every 250 years, and is even lower than once every 1,000 years, according to some of the models.

Based on the aforementioned analysis, Clal Insurance bases the acquisition of catastrophe protection on a maximum probable loss (MPL) rate of 1.5% of the non-life insurance amount in apartment insurance, and 2.5% of the non-life insurance amount in business insurance. With respect to the reporting year, Clal Insurance purchased protection for the cumulative retention against catastrophe with a weighted MPL of approximately 2.2% of the non-life insurance amount in apartment and property insurance.

As a result of the aforementioned reinsurance arrangements, in case of a catastrophe event in Israel, which causes gross damage to insured property in Clal Insurance in a gross amount of up to NIS 8.64 billion (which is the expected damage, in accordance with the estimate described above), the maximum damage amount borne by Clal Insurance on retention (including the purchasing cost of reinstatement) will be approximately NIS 62.7 million. If the damage amount is higher than the aforementioned amount, Clal Insurance will bear part of the damages above the aforementioned amount, in accordance with the quota share contracts and the relevant surpluses.

It is noted that the group also acquired catastrophe reinsurance with respect to **life and health insurance**, and an earthquake in Israel may activate this reinsurance as well. The scope of coverage which was acquired with respect to these products is based on internal studies which were performed by the company regarding the effects of various scenarios, including an earthquake in Israel, insurance liabilities covering cases of death, loss of working capacity, disability, long term care, personal accidents and international travel. It is noted that the exposure to earthquake risk in Israel, as estimated with respect to this insurance, is in significantly lower scopes relative to the exposure with respect to insurance in the property branches referred to in the data presented in this section and in Note 40(e2) to the financial statements.

The reinsurers of Clal Insurance which participate in the exposure, in non-life insurance, to an earthquake event in Israel are rated according to the following table:

Exposure of reinsurers to an earthquake (NIS in thousands) for 2016:

S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
A- and higher	2,094,468	6,961,303	9,055,771	99.5%
BBB- to BBB+	20,282	22,524	42,806	0.5%
Lower than BBB- or unrated	0	0	0	0.0%
Total	**2,114,750**	**6,983,827**	**9,098,577**	**100.0%**

Reinsurers whose exposure to earthquake risk exceeds 10% of the total exposure to earthquakes (NIS in thousands) for 2016:

Name of reinsurer	S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
Swiss Re	AA-	515,086	1,202,193	1,717,279	18.9%
Munich Re	AA-	405,648	682,671	1,088,319	12.0%

Exposure of reinsurers to an earthquake (NIS in thousands) for 2015:

S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
A- and higher	**2,194,400**	**7,077,578**	**9,271,978**	99.6%
BBB- to BBB+	**21,600**	**19,214**	**40,814**	0.4%
Lower than BBB- or unrated	**0**	**0**	**0**	0.0%
Total	2,216,000	7,096,792	9,312,792	**100.0%**

Reinsurers whose exposure to earthquake risk exceeds 10% of the total exposure to earthquakes (NIS in thousands) for 2015:

Name of reinsurer	S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
Swiss Re	AA-	537,850	1,003,530	1,541,380	16.6%
Munich Re	AA-	422,000	667,434	1,089,434	11.7%

* The amounts presented in the above tables include exposure in lower amounts with respect to insurance for international businesses ("**Incoming Business**") which are covered by Clal Insurance.

10.6.8. Summary reinsurance results in non-life insurance for the years 2014 to 2016:[55]

Reinsurance premiums in 2016 (NIS in thousands)	Compulsory motor insurance branch	Motor property insurance branch	Other property and others insurance branch	Liabilities insurance branch	Total
Earthquake and natural risks	-	443	208,839	-	209,282
Reinsurance, proportional	-	-	292,914	35,578	328,492
Reinsurance, non-proportional	15,572	2,313	28,264	61,714	107,863
Total premiums	**15,572**	**2,756**	**530,017**	**97,292**	**645,637**
Reinsurance results	(18,042)	3,248	282,331	(97,643)	169,894

Reinsurance premiums in 2015 (NIS in thousands)	Compulsory motor insurance branch	Motor property insurance branch	Other property and others insurance branch	Liabilities insurance branch	Total

55 Profit / loss results of reinsurance only, according to operating segments in non-life insurance, including credit insurance, as reflected in the company's reports to the Commissioner.

Earthquake and natural risks	-	1,080	204,343	-	205,423
Reinsurance, proportional	-	(1)	317,126	40,630	357,755
Reinsurance, non-proportional	17,389	3,367	23,107	58,109	101,972
Total premiums	**17,389**	**4,446**	**544,576**	**98,739**	**665,150**
Reinsurance results	16,654	(3,856)	47,681	70,525	131,004

Reinsurance premiums in 2014 (NIS in thousands)	Compulsory motor insurance branch	Motor property insurance branch	Other property and others insurance branch	Liabilities insurance branch	Total
Earthquake and natural risks	-	1,159	227,842	-	229,001
Reinsurance, proportional	-	(1)	348,703	81,711	430,413
Reinsurance, non-proportional	20,030	1,474	27,787	30,522	79,813
Total premiums	**20,030**	**2,632**	**604,332**	**112,233**	**739,227**
Reinsurance results	21,321	810	307,735	28,635	358,501

Explanations regarding the reinsurance results in non-life insurance:

- **Compulsory motor insurance branch** - The decrease in profitability of reinsurers was primarily due to the negative development in several large claims, and the increase in the company's insurance liabilities as a result of the expected impact of the Winograd committee and the amendment to the Discounting Regulations. For details, see section 7.1.1.1(d)(2) above.

- **Motor property insurance branch** - The increase in the profitability of reinsurers was primarily due to the positive development of claims.

- **Other property and others insurance branch** - The decrease in premiums is due to the optimization of the portfolio. Profitability during the reporting year returned to 2014 levels, as compared with the decrease in profitability in 2015, primarily due to the negative development in several large claims.

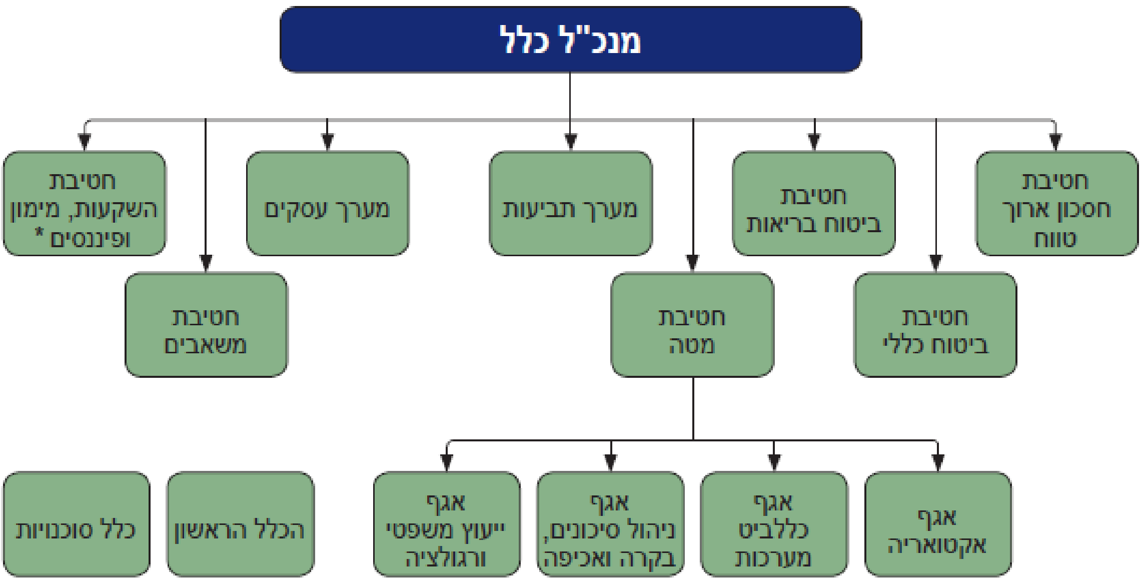
- **Liabilities insurance branch -** The decrease in profitability was due to the deterioration in claims experience and the increase in the company’s insurance liabilities, due to the expected impact of the Winograd committee and the amendment to the Discounting Regulations. For details, see section 7.1.1.1(d)(2) above.

10.7. Human capital

10.7.1. Diagram of the group's organizational structure

The diagram presented below reflects the functional-organizational relationships, as of the date of this report, of the various senior position holders, which is not necessarily identical to legal relationships.

	CEO of Clal							
Long term savings division	Non-life insurance division	Health insurance division	Headquarters division	Claims unit	Business unit	Resources division	Investments, finance and credit division*
	Actuarial department	Clalbit Systems department	Risk management, control and enforcement department	Legal counsel and regulation department	HaClal HaRishon		Clal Agencies



* In 2016, the monetary division was made subordinate to the investments, finance and credit division. The monetary division is comprised of two divisions: the monetary division and the comptrollership division.

The group's organizational structure is based on operations through eight units / divisions whose managers, together with the managers of the information systems, risk management, legal counsel, actuarial, marketing, strategy and spokesmanship divisions, constitute the management of Clal Insurance, as follows:

A. Three implementation groups: (1) the business unit, which concentrates the sales and operation activities vis-à-vis the group's agents; (2) the investments, finance and credit division, which concentrates the investment, finance and credit provision activities in the group; (3) the claims unit, which concentrates the handling of claims by policyholders and members in all insurance and pension branches;

B. Three business divisions: (1) long term savings division; (2) non-life insurance division; and (3) health insurance division; which are professional divisions that guide the implementation entities in their segments. The long term savings division and the health insurance division also include the units which are engaged in direct sales of the group's products. Subsequent to the reporting date, on January 1, 2017, the long term savings division was split into two divisions: the life insurance division and the pension, provident and financial products division.

C. Three headquarters units: (1) The resources division, which concentrates the management of human resources, logistics and the service and public complaints unit in the group; (2) The headquarters division, which includes the following departments: information systems, actuarial, legal counsel and regulation, and risk management, control and enforcement. The activities in the risk management, control and enforcement department is active cross-company, and is implemented through unit-based control departments which are defined as responsible for the management of operational risks and for the implementation of controls over central processes which were defined as exposed in the organization; (3) The marketing, strategy and spokesmanship division.

D. The group owns insurance agencies in the long term savings segment and in the non-life insurance segment.

E. The internal audit division, which is subordinate to the Chairman of the Board.

The organizational structure is intended, inter alia, to strengthen the CEO's control in an effective manner which will allow adequate supervision; To increase profitability following the increased efficiency and concentration of the group's core activities "under one roof". To improve service to agents through the business unit which concentrates all of the sales functions through agents, the operation and collection activities, most of the collection activities, as well as service to end customers by unifying the call center, the organization and methods department, and the public appeals unit, under the service division; To increase the efficiency of claim management in the group, by means of the cross-organizational claims unit which is separate from the underwriting activity and from the professional divisions; To increase the efficiency of headquarters work, and to focus the activities of the business divisions by establishing the group's insurance policy and developing products.

In June 2016, an organizational change was implemented to the monetary division. The division was split into two divisions: the monetary division and the comptrollership division, and its organizational subordinacy was changed, from the headquarters division to the investments, finance and credit division.

10.7.2. The group's workforce

Presented below are data regarding the group's workforce as of December 31, 2016 and 2015, in accordance with the organizational structure:

Units	Number of employees as of December 31, 2016	Number of employees 31.12.2015
Headquarters and central service entities [1]	1,194 [2]	1,403
Health division [3]	428 [4]	390
Long-term savings division [5]	2126	186
Non-life insurance division	136	133
Claims unit	420	428
Business unit	1,048 [7]	1,143
Investments, finance and credit division [8]	428 [7,2]	141
Clal Agencies	4269	400
Total [10]	**4,292**	**4,224**

1- Mostly employees of the headquarters division, resources division and internal audit unit.

2- The change in workforce was primarily due to the transition of 204 employees of the monetary division and the SOX unit, from the headquarters division to the investments, finance and credit division, and the transition of 19 employees of the beneficiaries and members identification team, from the resources division to the long term savings division.

3- Including the direct sales activity through HaClal HaRishon.

4- Increase of 38 employees the hotline unit, due to the increase in sales activities.

5- Including the direct employers channel.

6- The increase was primarily due to the transition of 19 employees of the beneficiaries and members identification team, from the resources division to the long term savings division, and the intake of new customer relations managers in the division.

7- The change was primarily due to the transfer of some of the collection department units from the business unit (71 employees) to the investments, finance and credit division.

8- Including the monetary division and the comptrollership division, Canaf, Clal Mortgages and Clal Credit Insurance.

9- Increase in the agencies' workforce of 26 employees, due to the increase in the activities of agencies.

10- Of which, approximately 213 and approximately 244 were outsourced workers in the years 2016 and 2015, respectively.

* The explanation presented above regarding the changes in status refer to most of the changes which occurred during the reporting year.

Out of the workforce described above, the group’s senior management (primarily division and unit managers) includes 16 managers, as well as the company’s CEO (who also serves as the CEO of Clal Insurance) and the group’s internal auditor.

The divisions / units are managed by corporate officers with a rank of Executive VP. Most of the corporate officers serve in their positions in Clal Insurance, which serves as the group’s central business arm. Additionally, in each of the companies and institutional entities in the group, managers and corporate officers are responsible for their operations.

For details regarding corporate officers in the company, see Part D of the periodic report - Additional Details Regarding the Corporation, section 18.

For details regarding the replacement of corporate officers during the reporting year, see Part B - board of directors’ report, section 6.5.

The company has no material dependence on any particular employee.

10.7.3. Benefits and terms of employment agreements

Types of agreements and compensation method -

On January 2, 2014, Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems and Clal Finance signed a collective agreement between them and the Histadrut New General Federation of Labor (the “**Histadrut**”), the employees committee in the group. On December 22, 2015, the collective agreement was amended in a manner which applied its provisions also to some employees of Canaf (the agreement, including the addendum to the agreement, shall hereinafter jointly be referred to as: the “**Collective Agreement**”). The collective agreement, including the addendum thereto, applies to most of the employees of the aforementioned companies, except for employees in specific positions which were defined in the agreement, and managers of a rank which was defined in the agreement. For additional details regarding the agreement, see Note 24(d) to the financial statements. The agreement period is until December 31, 2016, and industrial peace was agreed upon until March 31, 2017. The parties are conducting negotiations towards the renewal of the collective agreement, against the background of significant and ongoing business and regulatory changes which occurred during the period of the collective agreement, and which have a significant impact on the company’s operating environment, on the competitive conditions and on profitability.

On December 13, 2016, the Histadrut notified the companies which are party to the collective agreement regarding a labor dispute in accordance with sections 5A and 5B of the Resolution of Labor Disputes Law, 1957. The announcement included, inter alia, assertions by the employee committee regarding actions performed by management without negotiating with the employee committee, as well as assertions in connection with the conducting of negotiations towards a new collective agreement between the Histadrut, Clal Insurance and the employee committee. According to the aforementioned announcements of the Histadrut, the employees of the companies which are party to the collective agreement will be able to take organizational action beginning on December 28, 2016. During the period proximate to the publication of the report, the employees of the group who are party to the collective agreement initiated organizational steps, including disruption of work proceedings and partial strikes in specific units of the organization, in light of gaps between the positions of the parties to the negotiations.

Employees to whom the collective agreement does not apply (approximately - 1,173 employees), including senior management, are employed in accordance with personal work agreements, which define their employment terms, including the base salary, social benefits and fringe benefits.

Provisions with respect to termination of employer - employee relationships -

With respect to the employees to whom the collective agreement applies - an arrangement applies in accordance with section 14 of the Severance Pay Law, 1963, for their entire employment period. The severance pay amounts in the employees’ funds which are included in the agreement were supplemented, as of the date when the collective agreement applies to them, to the entire amount of severance pay which would have been owed to them by law had they been dismissed, and accordingly, the company is exempt from supplementations of seniority debt, also in case of employee dismissal.

For additional details regarding the provisions with respect to the termination of employer - employee relationships, see Note 24 to the financial statements.

Additional terms and benefits -

The practice of the group’s member companies is to provide, from time to time, arrangements for the acquisition of insurance products and services for their employees, including, inter alia, elementary insurance, pension products and health and life insurance.

The company has a collective health insurance policy for employees who chose to join this insurance for payment.

The group allows employees to receive loans in accordance with defined internal policies and in accordance with the provisions of the law, in consideration of, inter alia, the employee’s seniority and salary.

For details regarding the employment terms (including compensation) of the five highest compensation recipients among the executive corporate officers in the group (including the Chairman and the company’s CEO), and the highest compensation recipients during the reporting year, and for details regarding the salary which was paid to the directors in the company, see Part D of the report - Additional Details Regarding the Corporation, section 11.

10.7.4. Investments by the corporation in continuing education and training

As part of the group’s overall strategy regarding the development of human capital as a central asset, the group invested, in 2016, a great deal of resources in professional education and training activities, and in the development of managerial skills in the organization. This year as well, the group focused on improving service quality and skill services to the company’s customers and agents, in improving professionalism and insurance knowledge, and in establishing implementation processes for the information systems which support the business core and improving middle management skills.

The training program included training sessions, workshops, courses and professional and managerial conferences, while developing advanced digital learning infrastructures which are intended to train new and current employees on new knowledge domains, to improve and instill existing knowledge, and to increase the level of skill, service and customer experience, in order to adjust the performance of the group's employees and managers to market changes and developments, to an advanced service standard, and to regulatory requirements.

Additionally, in light of the entry into effect of the new Payment Regulations, during the year, professional and operational training sessions were conducted for the employees of the collection and operation units on this subject.

The training program involved a variety of positions in the group, and included courses and continuing education in the fields of non-life insurance, life insurance, pension insurance and health insurance, in the information systems, in the enforcement and compliance domain, in the management domains and in behavioral domains, with an emphasis on business position perception and partnership between senior position holders in the group and external interfaces.

Professional training activities in the group included the certification of new employees for designated and required professions, including business development managers, production, customer relations managers, and more, and additionally, an insurance orientation course was given for employees of the headquarters units to learn about the group's main insurance segments.

In 2016, a cross-company training activity was continued in the group, in order to implement the new information system in the pension segment.

Additionally, a one-day seminar was conducted for the directors, as well as a one-day seminar on the subject of enforcement, compliance and continuing education for directors, corporate officers and managers in the group, in which regulatory and professional issues were reviewed.

In 2016, the Clal College Online system, a learning management system (LMS), went online. The system allows permission management of employees, support for position entry processes, provision of educational sessions on regulatory subjects, and self-learning possibilities through technological means like video, educational software, simulators, and more. In addition to the foregoing, and in accordance with the group's strategy, which views human capital as a central asset in the group, the company's value during the year surveyed employee positions, whose results reflect the positions of employees with respect to various considerations regarding the functioning of the organization, as well as an intra-organizational service survey. The results of the surveys were submitted to managers and employees, and the company is conducting processes with respect to the implementation of the recommendations.

10.7.5. Executive salary and compensation policy

Beginning in September 2013, the company is required to approve, once every thee years as a minimum, a compensation policy for corporate officers in accordance with the Companies Law (Amendment No. 20), 2012. Additionally, the institutional entities in the group are subject to the Commissioner's circular regarding the compensation policy in institutional entities from April 2014, as amended in October 2015 (the "**Compensation Circular**").

The company's compensation policy is intended to help realize the company's objectives and work plan in the long term, inter alia, in order to recruit and maintain high-quality executives with specific and unique specializations, who are capable of leading the company to business success and of dealing with the successes which the company faces, to employ motivated corporate officers, to achieve a high level of business performance without taking unreasonable risks, and to create an appropriate balance between the various compensation components, fixed vs. variable, short term vs. long term, and cash compensation (including fringe benefits) vs. capital compensation. The compensation policy establishes rules, criteria and benchmarks which will be used to determine the terms of tenure and employment of the company's corporate officers, in accordance with the specific characteristics of the operation for which the relevant corporate officer is responsible, and in accordance with their experience, qualifications and performance in the position, and in accordance with the legal restrictions specified above and below.

A. The compensation circular and the compensation policy in institutional entities

The compensation circular determines, inter alia, that an appropriate ratio will be determined between the fixed compensation component and the variable compensation component, in a manner whereby the rate of the annual variable component will not exceed 100% of the annual fixed component, subject to the exceptions which will be determined (which pertain to a one-time business event which is not repeated each year, and which does not apply to a broad group of senior position holders), according to which it will be possible to determine that the rate of the annual variable component will not exceed 200% of the fixed component, save with respect to the CEO. It was also determined that any payment of a variable component will be subject to deferral arrangements, such that at least 50% of the variable component will be deferred and distributed according to the straight line method over a period of no less than three years. The circular sets forth various arrangements in connection with the allocation of shares or stock-based instruments, in connection with retirement bonuses and other issues. The circular entered into effect in July 2014 (hereinafter: the "**Application Date**"), and established transitional provisions regarding the adjustment of compensation agreements which were approved prior to the publication date of the draft circular (December 25, 2013), and after that date.[56]

It is noted that, upon the approval of the compensation policy for institutional entities in June 2014, the company's board of directors resolved, with respect to corporate officers who are joint corporate officers in the company and in Clal Insurance, that the company will act in accordance with the more stringent among the two compensation policy documents of the company and of Clal Insurance, as stated above. For details regarding the updated compensation policy from 2016, see section 10.7.5(d) below.

In October 2015, an amendment was published to the compensation circular, in which supplementary provisions to the compensation circular were determined, which determine, inter alia, restrictions regarding the compensation of directors who are not outside directors, a prohibition against the payment of a variable component to directors, and provisions regarding the method used to determine the compensation paid to the Chairman of the Board. Additionally, the provisions of the amendment determine that an institutional entity may not bear the employment costs of an employee due to his tenure in another corporation, and will ensure that an employee does not receive compensation due to his employment in the institutional entity from another entity, and also expand the circumstances for the repayment of variable compensation which is given to a senior position holder. The amendment entered into effect on the date of its publication,

[56] It is noted that the employment agreement of the company's CEO is in effect until October 2017 (see Note 41(b)(5)(a) to the financial statements).

excluding a provision stipulating that each entity will bear the salary costs of employees due to employment in the same entity, which entered into effect on April 7, 2016. The amendment includes the specification of a transitional provision according to which agreements which were approved until the date of its publication will be adjusted in accordance with the provisions of the circular by December 31, 2017.[57]For details regarding the adjustment of agreements, see section D below.

B. Executive Compensation Law

In April 2016, the Compensation of Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expense for Tax Purposes Due to Extraordinary Compensation), 2016, was published (hereinafter: the "**Executive Compensation Law**"), which is intended to restrict and reduce the salary of senior corporate officers in financial entities.

The law establishes a corporate mechanism for the approval of an engagement involving the provision of compensation to an employee in a financial corporation (financial entity or corporation controlled by or holding control of a financial entity), for which the projected expense, calculated as of the approval date in accordance with generally accepted accounting principles, is expected to exceed NIS 2.5 million, and determines that an engagement of this kind will not be approved unless the ratio between the projected expense due to the aforementioned compensation and the projected expense with respect to the lowest compensation paid by the corporation to an employee of the corporation (including a contract employee), directly or indirectly, during the year preceding the date of the engagement, is less than 35 (the "**Limit Ratio**").

In accordance with the mechanism specified in the law, the employment terms of the aforementioned employee will be presented for approval to the compensation (or audit) committee and the board of directors, by a special majority of outside directors, as well as the general meeting of that company, and in a public company, also by a special majority of minority shareholders in the general meeting. Additionally, the cost of salary of an employee in a financial corporation which exceeds NIS 2.5 million will not be permitted for deduction for tax purposes by the company. The aforementioned cost is after deducting accounting expenses recorded due to the allocation of shares or the right to receive shares, and after deducting the "excess cost of salary" (the difference between the cost of salary and NIS 2.5 million, if the cost of salary exceeds NIS 2.5 million).

In accordance with transitional provisions, six months after the publication date of the law, i.e., beginning on October 12, 2016, its provisions apply to engagements which were approved before the publication of the law. Such engagements which were not approved in accordance with the Executive Compensation Law will not be valid.

[57] The transitional provisions were applied to senior position holders who, in accordance with their employment terms, could be reasonably expected to continue benefiting from the current employment terms, including as regards the rate of the annual bonus, and the method for its payment. It is noted, with respect to senior position holders whose employment terms have been amended, that the transitional provision was applied in accordance with the compensation circular only regarding employment terms which existed before the change. Beginning on the publication date of the amendment to the compensation circular, and with respect to senior position holders whose employment terms are significantly changed beginning from this date, the provisions of the amendment to the compensation circular will apply beginning from the date of the aforementioned change.

In June 2016, The Association of Banks in Israel and the Israel Insurance Association, each separately, petitioned the Supreme Court, in its function as the High Court of Justice, against the law (hereinafter, jointly: the “**Petitioners**”). In September 2016, the Supreme Court dismissed the claims regarding the legality of the provisions of various sections of the Law. However, the Supreme Court determined that senior employees in financial corporations who announce resignation from their position by January 1, 2017, will not lose their eligibility to receive all rights which would have been owed to them with respect to the termination of employer - employee relationship or the completion of their tenure, had such relationship concluded within the aforementioned period.

C. Compensation policy for 2016

On November 7, 2016, the board of directors of Clal Insurance and the board of directors of the company approved, following the recommendation of the compensation committee, a compensation policy, in accordance with the provisions of the compensation circular, the amendment thereto, amendment 20 to the Companies Law, and the Executive Compensation Law. The compensation policy was approved by the shareholders’ meeting in December 2016. This policy replaced the compensation policy of the company and the compensation policy of the group’s institutional entities, which were in effect until the aforementioned date.

Within the framework of the updated compensation policy, the principles of the company’s compensation policy were consolidated with the compensation policies of the group’s institutional entities, and various provisions were updated, including with respect to the following subjects: Determination of a restriction regarding compensation in accordance with the provisions of the Executive Compensation Law, and the interpretation for it, compensation of directors (including the Chairman of the Board) via fixed compensation only, balancing between variable components and fixed components, minimum conditions for the payment of variable compensation, minimum conditions for the release of variable compensation whose payment was deferred, payment of a variable component which is not contingent upon minimum conditions, conditions for the repayment of variable bonuses, provisions with respect to the provision of exemption, indemnification and insurance.

It is noted, with respect to certain provisions which are required by virtue of the compensation circular, that principles only were determined in the company’s compensation policy, and such provisions were regulated in the compensation policies of the group’s institutional entities, according to its effective version from time to time.

It is noted that the compensation committee, board of directors and shareholders’ meeting approved, on the approval date of the updated policy, a easement update to the conditions for release of the variable component which is paid in cash, with respect to parts of the variable bonus which were distributed in the past, but which have not yet been paid, to corporate officers, including the company’s CEO (and excluding the Chairman of the Board), and the provision of letters of exemption to directors and corporate officers who are serving in the company and/or who will serve in the company from time to time, and who are not the controlling shareholders, including the company’s CEO. It is hereby clarified that the aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.

For the avoidance of doubt, the compensation policy will not prejudice the rights which have accrued with respect to periods before the date of its approval, and that subject to the transitional provisions which were determined in the compensation circular and in the amendment to the compensation circular, so long as they remain in effect, the compensation policy will not adversely affect any engagements and/or other rights of the employees in connection with their tenure and employment in the company.

For details regarding the main differences between the company’s previous compensation policy and the current compensation policy, see the immediate meeting convention report which was published by the company on November 8, 2016 (reference number 2016-01-074181).

D. Adjustment of the existing agreements to the compensation policy

The company worked to adjust the compensation agreements in the company to the current compensation policy, and to the provisions of the compensation circular, subject to the relevant transitional provisions and to the compensation policy. Accordingly, previous employment agreements between the company and its corporate officer were adjusted and will be adjusted accordingly and on the required date, in accordance with the relevant provisions of the law, including as specified below.

On October 9, 2016, following the entry into effect of the Executive Compensation Law, the company notified its CEO and additional corporate officers (who are subordinate to the CEO) that beginning from the application date of the Executive Compensation Law, on October 12, 2016, the compensation to which they are entitled will be reduced in a manner which complies with the provisions of the Executive Compensation Law.

On May 26, 2016, the general meeting of the company’s shareholders approved a new agreement with the Chairman of the Board which corresponds to the company’s compensation policy (see Note 41(b)(4) to the financial statements).

With respect to the CEO - the company’s board of directors notified the CEO that until the end of the period of the set agreement with him, his compensation terms will be adjusted in accordance with the provisions of the Executive Compensation Law in a manner whereby, beginning on October 12, 2016, fixed compensation only will be paid to him, which will be restricted in a manner whereby he will not be entitled to compensation for which the annual projected expense, in accordance with generally accepted accounting principles, exceeds NIS 2.5 million, plus the provision for severance pay and for compensation, as required by law. It was clarified that the change to the aforementioned conditions will not adversely affect any rights which accrued prior to that date. On November 7, 2016, the company’s CEO notified the Chairman of the Board that he accepted the company’s letter, while reserving his rights in accordance with the law and the agreement.

It should also be noted that the group has many position holders who are not considered senior position holders, as defined in the compensation circular, whose annual bonus is dependent on their fulfillment of personal, predetermined compensation benchmarks each year.

E. Implications

According to the company's estimate, the entry into effect of the compensation circular and the amendment thereto, the Executive Compensation Law and the updated compensation policy of the company and of the institutional entities in the group, as updated with respect to them, affected the compensation structure of corporate officers and managers in the group; however, during the majority of reporting year, the aforementioned arrangements had no significant impact, inter alia, in consideration of the transition period which was determined for the application of the compensation circular and the provisions of the Executive Compensation Law on existing agreements, in consideration of the performance-dependent compensation method which was practiced in the company prior to the publication of the circular and the amendment thereto, and in consideration of the fact that, in accordance with the company's previous compensation policy, during the years 2014 and 2015, with respect to all of the managers who hold office in the company, from the rank of VP and above, at least 25% of the variable bonus with respect to those years, was deferred to the subsequent year (with respect to senior position holders who began working in the company after the entry into effect of the compensation circular, 50% of the annual bonus was deferred). According to the company's estimate, the compensation circular and the amendment thereto and the compensation policy of the institutional entities may have an impact in the coming years, primarily beginning in 2017, including with respect to the CEO, and with respect to the recruitment and retention of managers and corporate officers in the company over the long term. During the reporting year, the aforementioned changes had no significant effect on the company's financial statements.

At this stage, the company is unable to estimate the entire effect of the aforementioned arrangements in connection with the compensation, including with respect to their combined impact on the continued tenure of the company's corporate officers, including with respect to the company's CEO, who has an agreement set for a period of five years, until October 2017.

The company's estimate in connection with the aforementioned arrangements regarding compensation constitutes forward looking information based on information available to the group on the date of the report. Actual results may differ from the estimated results.

For the employment terms of the CEO and the Chairman of the company's board of directors, see Notes 41(b)(5) and 41(b)(4) to the financial statements.

10.7.6. The previous and current compensation policies of Clal Insurance were published on the company's website and are attached as an annex to this part of the periodic report.

For the link to the company's website where the policy documents are available, see https://www.clalbit.co.il/clalins/reward_policy/Pages/default.aspx.

10.7.7. Capital compensation plan for employees

- On March 11, 2007, the company's board of directors adopted a compensation plan for employees and corporate officers for 2007 (hereinafter: the "**2007 Plan**"), according to which the company will be entitled to provide to employees and corporate officers in the group up to 2,000,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each.

As of the publication date of the report, the balance of the warrants which were allocated (and which are held by the trustee for specific employees) which have not yet expired and have not yet been exercised out of the 2007 plan is 25,000 warrants. For additional details regarding the 2007 plan, see Notes 42(a)(1), 42(b) and 42(c) to the financial statements. During the reporting year, no allocations according to the 2007 plan were approved. On June 22, 2015, the company's board of directors resolved not to allocate to employees, in accordance with the aforementioned plan, all of the unregistered warrants which are held in the register of warrants (470,000 warrants), and to erase them from the company's register of securities.

- In accordance with the employment agreement of Mr. Izzy Cohen, the company's current CEO, the company's board of directors approved, on December 6, 2012, the allocation of 600,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each to the company's CEO.As of the publication date of the report, all of the warrants vested and are exercisable.

  For additional details regarding the CEO's compensation plan, see Note 41(b)(5) to the financial statements.

- On December 6, 2012, the company's board of directors adopted a compensation plan for employees and corporate officers (hereinafter: the "**2013 Plan**"), according to which the company will be entitled to allocate to employees and corporate officers in the group up to 2,400,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each.

  As of the publication date of the report, the total amount of warrants which were allocated according to the 2013 plan (to specific employees, including the Chairman and excluding the CEO) is 2,575,000. 1,700,665 warrants are held by the trustee for specific employees, and 244,668 warrants are held in the register of warrants, and may be designated, in the future, to specific employees, approximately 268,000 warrants expired and can no longer be allocated, and approximately 361,666 warrants were exercised into company shares.

  As of December 31, 2016, approximately 2,323,998 warrants are exercisable.[58]On December 17, 2015, the company's board of directors resolved not to allocate to employees, in accordance with the 2013 plan, 35,000 unregistered which are held in the register of warrants, and to delete them from company's register of securities. For additional details, see Notes 42(a)(2), 42(b) and 42(c) to the financial statements.

- In accordance with the employment agreement of Mr. Danny Naveh, the company's Chairman of the Board, the company's board of directors approved, on June 5, 2013, an allocation of 175,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each to the Chairman of the company's board of directors. For additional details regarding the CEO's compensation plan, see Note 41(b)(4) to the financial statements.

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58 Including warrants which were granted to the company's CEO.

- On March 24, 2015, the company's board of directors adopted a performance-dependent compensation plan for employees and corporate officers for 2015 (hereinafter: the "**2015 Plan**"), according to which the company will be entitled to allocate to employees and corporate officers in the group warrants for the acquisition of ordinary company shares with a par value of NIS 1 each.

  On June 22, 2015, the company's board of directors resolved to adopt several amendments to the plan, and to publish an outline referring to the allocation of up to 435,000 warrants, which will be offered by virtue thereof, in accordance with a performance-dependent plan, to employees and corporate officers of the company and/or of companies under its control. All of the warrants according to the aforementioned outline were allocated.

- On December 17, 2015, the company's board of directors resolved to publish an additional outline pertaining to the allocation of up to 35,000 warrants which will be offered by virtue thereof, in accordance with a performance-dependent plan, to corporate officers in the company and/or in companies under its control. The warrants were allocated according to the aforementioned outline.

- As of the publication date of the report, the total number of warrants which were allocated according to the 2015 plan (to specific employees) is 313,333 warrants. 313,333 warrants are held by the trustee for specific employees, and 156,667 warrants are held in the register of warrants, and may be designated, in the future, to specific employees.

For additional details regarding the 2015 plan, see Notes 42(a)(3), 42(b) and 42(c) to the financial statements.

10.8. Marketing and distribution

Presented below is the organizational structure of the marketing and distribution systems in the company during the reporting year:

- **Business unit** - This unit concentrates the group's entire activity in the long term savings segment and in the health segment vis-à-vis the insurance agents in the sale, service and operations segments, in order to concentrate, in a single unit, the entire set of relationships vis-à-vis the insurance agent, and the associated activity.

  As part of the above, the company operates through three regions: the Haifa and Northern region, the Central region and the Jerusalem and Southern region.

  The activities of the business unit include, beyond the marketing and distribution activities, also the operations activity, maintenance of the long term savings and health insurance segments, and collection activities.

- **Direct activities** - The group's direct sales activities are performed through agencies which are under the company's control, through HaClal HaRishon Ltd. ("**HaClal HaRishon**") and through the long term savings division - vis-à-vis employers which, in general, do not work vis-à-vis the group through an insurance agent.

10.8.1. HaClal HaRishon

HaClal HaRishon, an auxiliary corporation wholly owned (100%) by Clal Insurance, which concentrates the direct sales activity of Clal Insurance, and operates by virtue of a permit received from the Commissioner. HaClal HaRishon works to sell insurance through telephone salespeople (telemarketing) and salespeople working in the field, and is engaged in the sale of life insurance (risk) and health and long term care insurance, to customers who, in general, do not work with the group through insurance agents.

10.8.2. Clal Agency Holdings

Clal Agency Holdings (1998) Ltd. ("**Clal Agencies**") is a wholly owned subsidiary of the company. Clal Agencies concentrates the group's holding of insurance agencies, which, in general, are under the control of Clal Agencies (the "**Group's Agencies**").

The group's agencies are engaged in the provision of insurance business agency services in all operating segments, and in the performance of transactions with pension and provident products, and some are specialized in specific insurance branches on which their activities are focused.

Most of the activities of the group's agencies are concentrated in two agencies: Tmura Insurance Agency (1987) Ltd. ("**Tmura**"), which operates in the long-term savings and health branches, and Batach Thorne Insurance Agency Ltd., which is primarily engaged in non-life insurance.

During the reporting year, an agreement was signed for the sale of shares of Batach Thorne Insurance Agency Ltd. in Trans Betach Marine Insurance Agency (1991) Ltd., to a third party. The completion of the transaction is subject to the Commissioner's approval.

In March 2017, a draft circular was published on the subject of "sale-supporting involvement in processes for the marketing and sale of insurance products" (hereinafter: the "**Draft**"), which is intended to regulate the operation of entities, which are not agency license holders, and which perform actions as part of the sale of insurance products on behalf of an insurer or insurance agent. The draft expands the obligations which apply to insurers or insurance agents which employ sale supporters, including the obligation to obtain the customer's initiated approval for the addition to insurance (in addition to approval during the sale conversation); provision of the option for the customer to cancel the addition to a policy which was sold through a sale supporter, and to receive the premium which was paid for 6 months after the addition date; listening to all marketing conversations in which sales by agents were performed, and correction of the sale process vis-à-vis the customer in case of a flaw in the conversation; prohibition against the provision of compensation to sale supporters as derived from the sold premiums or from the characteristics of the sold policies. The draft does not apply to sales in the pension insurance branch and in the non-life insurance branch (excluding policies which are sold through mortgages), to collective insurance and to sale conversations initiated by the customer. The draft circular requires the insurance companies not to accept requests for addition which were made by sale supporters without receiving a recording of the sale conversation.

Insofar as the draft circular becomes binding, it is expected to impose difficulties on the process of performing telephone sales, both direct sales of the company and sales through agents, to expose the company to demands for the repayment of premiums with respect to future sales which will be performed, and for a period of six months after the sale date, and to impose on the group's institutional entities an operational burden; however, at this stage, it is not possible to estimate its impact on the sale process and on the company's sales volume.

The company's estimate in connection with the implications of the aforementioned draft circular constitutes forward looking information which is based on information that is available to the group on the date of the report. Actual results may differ from the forecasted results, inter alia, with respect to the final wording of the circular, and the conduct of distributing entities.

10.8.3. Marketing and distribution methods and commission structure in the various segments:

10.8.3.1. **Long term savings**

Marketing and distribution methods in the long term savings segment

The distribution of products in the segment is implemented by insurance agents, including by the group's agencies, and through pension advisers in the banks, and directly.

A. Sales through agents and agencies

- During the reporting year, the trend of combined marketing (life insurance, pension and provident) through insurance agents continued, as did marketing through "arrangement managers", including Tmura, which are large insurance agencies which also provide clearing services for employers, in connection with the separation of pension provisions for institutional entities, and for the various products. The insurance agents receive support, operation and business development services from the group's institutional entities.

- Changes in the long term savings segment may have an impact on the activities of agents and arrangement managers in the coming years, inter alia, due to the following: **(1)** The combination of the intense competition in the markets and various reforms which have taken place and continue taking place over the years in the segment, and which have caused a gradual decrease in management fees. For details regarding the reforms which are expected to have an impact on the management fees which are collected by the group's institutional entities, see section 6.2.1.4(f)(3) above; **(2)** Regulatory encouragement of pension products (with respect to trends in supply and demand during the reporting year, see section 6.1.4 above); **(3)** Changes in the compensation arrangements which are paid to agents by the institutional entities, including the reform regarding the disconnection of the link between distribution commissions and management fees (for details regarding the amendment to the Control Law regarding the calculation of the distribution commission from management fees, see this section 10.8.3.1 below. For details regarding the Commissioner's position with respect to the payment of an institutional entity to a license holder, see this section 10.8.3.1 below, and for details regarding a class action, see Note 43(a2)(15) to the financial statements); **(4)** Regulation of the engagement between agents and employers, in several respects, including: **(A)** Establishing the possibility, for those engaged in pension marketing or a related party thereto, to provide operating services to an employer for whose employees it provides pension marketing, by requiring the employer to pay operating fees, and the possibility for employers to receive operating services through a third party which is not a license holder; **(B)** The customer's right to choose the agent; **(C)** The possibility for the agent to receive compensation from the institutional entity or from the customer only - all of the above may result in a decrease in the number of policyholders, with respect to which the arrangement managers will receive power of attorney for information and the performance of actions. For details regarding the amendment to the Pension Advice Law, see section 6.2.1.4(e)(4) above; For details regarding the draft position of the Commissioner regarding the obligations of a license holder, see section 10.8.3.1 below, and For details regarding the Commissioner's circular regarding the performance of actions by an institutional entity on behalf of an employer, see section 6.2.1.4(e)(3) above; **(5)** Expansion of the activities of the pension clearing house, including the clearing of funds and the provision of feedback, over the long term, may facilitate the activities of agents, inter alia, in connection with the provision of service, the sale of additional products and the performance of transfers, and may reduce the power of the arrangement managers, which are specialized, inter alia, in pension automation systems which allow clearing and separation of funds and management of pension arrangements vis-à-vis various insurers, and may cause, as a result, a decrease in the need of employers to receive services from the arrangement managers. On the other hand, insofar as more agents will be appointed with respect to the employees of a certain employer, the necessity of the arrangement manager may increase, due to its status as a centralizing factor providing service to the employer (for details regarding the expansion of the activities of the clearing house, see section 6.2.1.4(c)(1) above).

- In November 2016, a circular was published regarding power of attorney for a license holder, which updated the provisions of a previous circular on the same subject, from 2015. The power of attorney circular includes a standard structure for the power of attorney form which is used by a customer to grant power of attorney to the license holder to receive information regarding the pension savings which are managed on their behalf in an institutional entity, and to issue orders regarding the performance of actions. The circular applies to pension savings products, individual risk insurance and loss of working capacity, and includes provisions which allow contacting customers by various means. The updated circular includes the addition of facilitated ways to verify a power of attorney for a license holder. It was further determined in the power of attorney circular, as updated in November 2016, that a license holder who issues a request, on behalf of a customer, for the purpose of handling a transaction through a permission which was given to it before was given 1, 2013, it will not be necessary to re-sign the customer on the wording of the power of attorney in the circular, unless the customer has demanded it.

  The circular regarding power of attorney to license holders is expected to facilitate the receipt of information by license holders regarding their customers through the central pension clearing system, and as a result, may result in a decrease, over the long term, in the number of requests made to the company's service channels. Likewise, the fact that the power of attorney can be given by both an employer and by the policyholder requires the institutional entity will need to operate with a number of distribution entities with respect the same product, and to prepare for the provision of different information to employers and/or others acting on their behalf, compared with the information given to the client's agent. Additionally, operational difficulties may arise in the receipt and transfer of information between the institutional entities and the agents. The amendment to the circular regarding power of attorney is intended to facilitate matters for license holders, with respect to the signing of a power of attorney in accordance with the framework which was determined in the circular with respect to customers who were added by them to insurance before the entry into effect of the circular regarding power of attorney. The application of the circular to individual risk and loss of working capacity policies may result in increased competition with respect to these policies as well.

- In June 2015, an explanatory document circular was published which replaced an old circular on the subject from 2009, requiring the license holder to submit to the customer an explanatory document when providing a recommendation regarding their pension savings. The circular is intended to establish a standard structure for the explanatory document, and to allow the automation and transfer of data through the pension clearing house. The circular expands the obligation to perform an explanatory process for a series of actions, also in the stage after joining the pension product. The scope of debt was determined according to according to the type of action. The circular includes a disclosure obligation in cases where the product recommended to the customer participates in a sales promotion campaign on the part of the institutional entity. Most of the provisions of the circular will enter into effect on July 1, 2017.

  The provisions of the explanatory document circular expand the requirements which apply to the distribution entities, also during the stage following the addition to the pension product, and accordingly, may impose difficulties on the marketing, sale and customer service processes, and may expand the responsibilities of the advising, marketing and distributing entities, with respect to actions for which filling out a explanatory document is required, as stated above, and may also increase the company's operational burden in connection with the performance of actions for which the explanatory document is required.

  The information presented on all matters associated with the possible implications of the aforementioned changes constitutes forward looking information, which is based on assumptions and estimates made by the group as of the publication date of the report. Actual implications may differ from the estimated implications. The implications are largely dependent upon all or some of the following factors: the final version of the regulatory directives, changes in the mode of action of the arrangement managers, the competitive conditions in the market, the preferences of policyholders and employers, and the conduct of agents and competing entities.

- As of the publication date of the report, the group operates in the segment through approximately 2,017 insurance agents[59]. Most of the insurance agents engage with other insurance companies, and Group companies do have a single agent whose operational scope in this segment exceeds 10% of the scope of Group operations in the segment.

- Approximately 11.9% of all the premiums collected by Clal Insurance in the life insurance segment during the reporting year originate from the operations of the group's agencies, compared with approximately 11% in 2015.

- During the reporting year, the group continued marketing risk policies to mortgage buyers, through insurance agencies owned by banks, and also through insurance agents, and continued marketing such policies to support mortgages from Clal Mortgages.

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59 Including agents who made sales in 2016 in an amount exceeding NIS 10,000.

B. Sales through pension advisors

- During the reporting year, most of the banks continued distributing provident funds and pension funds. Clal Pension and Provident Funds is engaged in distribution agreements with most of them.As of the publication date of the report, the banks have not yet begun advising regarding insurance products.

- As of the publication date of the report, there is significant consulting activity regarding provident products through banks; however, on all matters associated with the distribution of pension funds, the bank's activities are immaterial.

C. Direct sales

- Some of the products in the segment are marketed through direct sales to customers and employers by the group's employees who hold pension marketer licenses, or by the group's agencies.

- The company has a direct sale channel, both through HaClal HaRishon, as specified above, and through the customer relations managers, who are primarily engaged in sales of pension products, and who focus on marketing pension arrangements in organizations which are generally not lenders in agents on their behalf. The direct sales channel also includes a unit which is engaged with the banking system in the pension advice segment, primarily with respect to provident products. During the reporting year, HaClal HaRishon focused on telephone sales of risk products.

- Engagements for the sale of products in the segment to salaried employees in the workplace are mostly signed vis-à-vis the employer, the employers organization or the employees organization and/or professional union, subject to the provisions of the legislative arrangement regarding the customer addition method. The engagement for the sale of products in the segment to self-employed members is performed on an individual basis.

- The company operates a customer service center which provides direct support to customers, as well as a customer retention unit.

- The company works vis-à-vis external consultants who are recruited by public companies and entities, for the purpose of publishing tenders and conducting negotiations regarding the selection of the pension insurer and determining the terms of the pension arrangements of their employees.

D. Mortgage banks - risk

- The company engaged in agreements for the provision of insurance services through mortgages with some of the mortgage banks which are under their control of agencies, as stated above.

- In June 2015, the **Draft Amendment to the Control of Financial Services Regulations (Insurance) (Maximum Brokerage Fees in Life and Building Insurance Through Housing Loans), 2015**, was published, which determined a maximum limit for agent fees which are paid in life insurance through mortgages, similarly to the current limit on the payment of brokerage fees to agents in building insurance through mortgage loans. This amendment, insofar as it will be passed, is expected to reduce the fees which are currently paid to the bank's agencies and to agents marketing risk insurance through mortgages. Additionally, the Draft Regulations, in combination with the provisions of the draft tariff calculator which allows, inter alia, a comparison of the prices of risk policies through mortgages, in any manner whereby they will lead, on the one hand, to increased competition in the segment, and on the other hand, to a reduction of the distributing entities which will engage in the marketing of insurance policies of this kind.

The company's estimate in connection with the implications of the draft amendment to the Control of Financial Services Regulations (Insurance) (Maximum Brokerage Fees in Life and Structure Insurance Through Housing Loan), 2015, 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 are dependent, inter alia, on the final version of the aforementioned regulations, and on the conduct of competing entities and distributing entities.

<u>Commission structure in the long term savings segment</u>

(A) Insurance agents

Presented below are details regarding the structure of commissions paid to agents during the reporting year.

- **Life insurance branch**

The commissions which are paid to agents in the life insurance branch with respect to policies which were sold until 2004, are as follows:

- **Routine commissions**: Commissions at a fixed or variable rate of the paid premiums, which are paid for a limited period, on an ongoing basis.

- **Collection fees**: Commissions at a fixed rate of the paid premiums which are paid throughout the entire lifetime of the policy as fronting fees.

- **Special commissions - First year commissions**: Upon the sale of the policy, a one-time payment in cash and/or in cash equivalent may be paid for it, in accordance with specific agreements with agents, which are generally dependent upon the new output with respect to the first year of the policy sale.

Beginning in 2004, the commission structure in the life insurance branch is as follows:

- **Routine commissions**: The commission is generally paid with respect to the sale of risk products and certain profile policies which were sold until the reporting year, at a fixed or variable rate of the paid premiums, which are paid for a limited period, on an ongoing basis. In risk products, after a period of 15 years, the commission rate decreases significantly.

- o **Commissions for management fees from deposits**: A commission which is paid with respect to the savings component in the policy, throughout the entire policy lifetime, at a rate which is derived from the management fees which are collected from the premium, and in accordance with the product type.

- o **Commissions for management fees from accrual**: A commission derived from the management fees which are collected from the balance of savings in the policy. In general, the company discontinued paying commissions for management fees from accrual with respect to policies which were sold during or after 2013, in most products.

- o **Special commissions: first year commissions** - Commissions which are paid on a one-time basis, with respect to new output, in the first year of the policy lifetime, in cash and/or cash equivalent, whose rate or amount is determined according to specific agreements with agents, and at times, for fulfillment of sales targets, and **management commissions** - commissions derived from the premiums and paid with respect to new output in the first years of the policy lifetime, as stated above.

  It is noted that in certain cases, particularly with respect to arrangement managers, commissions are paid which are determined as a rate of the cumulative savings in the policy, and which may be dependent upon new sales. Between the company and some of the arrangement managers, discussions are being held, including within the framework of legal proceedings, in connection with the validity of old agreements for which such commissions are paid.

  With respect to some of the commissions, the group paid, from time to time, advance payments to its agents.

  During the reporting year, the company continued working to collect debts from agents with respect to payments which were paid in advance for policies which were then canceled. For additional details, see Note 11 to the financial statements.

In collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately, in accordance with the law. The commission rate paid by an insurer to an insurance agent with respect to a collective life insurance policy may not exceed 5% of the gross premiums.

Commission rates to third parties in the life insurance branch

The average commission rate during the reporting year, out of the total premiums in the life insurance branch in the various products, which are attributed to agents, amounts to approximately 11.02%, including commissions paid for collective insurance, as compared with 10.89% in 2015.

The average rate of a commission from a new annualized premium in the life insurance branch, with respect to the different products, during the reporting year, amounts to approximately 35.9%, as compared with approximately 35.4% in 2015.

- **Pension funds branch**

- **Current commissions from contributions -** Clal Pension and Provident Funds pays commissions to insurance agents with respect to pension product sales. In the comprehensive pension fund, these commission are generally paid as a rate of the contributions, according to a specific agreement between the agreement and the company.

- For details regarding the payment of special commissions with respect to new annualized first deposits of contributions to the comprehensive pension fund, see the description of special commissions in the life insurance branch above.

Commission rates to third parties in the pension fund branch[60]

In 2016, the rate of commissions paid to insurance agents with respect to pension products was 2.6% of the total contributions attributed to agents in the pension funds.

Provident funds branch

- **Commissions for management fees from accrual -** The commissions with respect to provident product sales are generally paid to the insurance agents as a rate of the accrual of members.

- For details regarding the payment of **special commissions** with respect to new first deposits (including one-time deposits which are due to the transfer of accrued balances) of contributions to provident funds which are managed by Clal Pension and Provident Funds, see the description of special commissions in the life insurance branch above.

Commission rates to third parties in the provident fund branch [61]

In 2016, the rate of commissions from managed assets in the provident funds which were paid to the insurance agents with respect to provident products amounted to 0.36% of total provident assets attributed to agents in provident products.

- Presented below is a description of the regulatory provisions which were published in the reporting year and in the preceding year, and which may affect the payment of commissions to pension marketers, agents and arrangement managers:

  - For details regarding the draft amendment to the distribution regulations, which refers also to the compensation of a license holder, and which determines that it will be implemented by way of a monetary payment only, see section 10.8.3.1 below.

  - In January 2015, the Commissioner published an industry-wide position regarding payment by an institutional entity to a license holder (the "**Position Paper**"). In accordance with the position paper, the Commissioner objects to the situation whereby institutional entities will pay to license holders brokerage fees which are derived from the management fees that are paid by the member or the policyholder, in accordance with which the brokerage fees

[60] Not including payment to a license holder in accordance with the Distribution Regulations.
[61] Not including payment to a license holder in accordance with the Distribution Regulations.

which will be paid to the license holder will be higher, insofar as the management fees are higher. The insurance companies have contacted the Commissioner in connection with the position expressed in the position paper, and the legality thereof. In March 2015, the Commissioner issued a notice and clarification stating that the position paper does not constitute a new positive arrangement regarding the method used to calculate the brokerage fees, that the Commissioner does not intend to exercise the enforcement authority which is available to her in accordance with the provisions of the law on all matters associated with the actions of institutional entities and insurance agents in the pension segment with respect to customers who were added to the institutional entities before the publication of the position paper, and also during the period shortly thereafter, according to the series of contracts which was in effect as of the date of its publication. In June 2015, the Israel Insurance Association petitioned the District Court with a claim for declaratory relief, in which the Court was requested to declare and to determine that compensation which is derived from management fees, in itself, is not prohibited by law, and that the engagement of institutional entities in agreements which include compensation which is derived from management fees does not constitute a breach of legal duty, and in February 2016, the District Court decided that the authority to hear the claim belongs to the Supreme Court, and accordingly, ordered the summary dismissal of the claim, due to absence of material jurisdiction. In March 2016, the Israel Insurance Association filed with the Supreme Court an appeal against the aforementioned decision.

In January 2017, an amendment to the Control of Financial Services (Provident Funds) Law (Amendment No. 20), 2017, was passed in the Knesset, in which it was determined that a distribution commission should not be calculated in connection with the rate of management fees which are collected from the member (the "**Legislative Amendment Regarding The Calculation Of Distribution Commissions**"). The amendment regarding the collection of distribution commissions will enter into effect on April 1, 2017.

Further to the legislative amendment regarding the collection of distribution commissions, in February 2017, the Israel Insurance Association requested that the aforementioned appeal be struck out, and the Supreme Court approved the motion.

Further to the above, the Commissioner published, in February 2017, a consultation paper to the public, in which several example principles were specified, which may serve, in themselves or together with additional principles, as the basis for a compensation model to license holders which fulfills the condition according to which the distribution commission is not calculated in connection with management fees (the "**Consultation Paper**"). The consultation paper includes the following principles: (A) A commission which is paid to the license holder directly by the customer, as a one-time amount or as a fixed payment from their private account; (B) A commission which is determined between the license holder and the customer, and is paid out of the management fees collected by the institutional entity; (C) A commission which is paid to the license holder by the institutional entity as a fixed rate out of the total accrual and a fixed rate of the total deposits, and according to a uniform rate from all institutional entities, which is lower than the maximum rate prescribed in the Control of Financial Services Regulations (Provident Funds) (Management Fees), 2012, but regardless of the amount of management fees; (D) An update to the commission for license holders with respect to customers which they added will apply to the reduction of the commission only, with respect to future commissions only, at least three years after the addition to the pension product, in accordance with an evaluation of all transactions which were made in accordance with the agreement during the evaluated period, and according to criteria which are not based on the average management fees. The company is studying the consultation paper.

The position paper and the amendment to the law with respect to the calculation of the distribution commission 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 ability to link income and expenses. The institutional entities in the group are preparing for the creation of a new compensation model.

The information presented on all matters associated with the possible implications of the position paper and the amendment to the law regarding the calculation of the distribution commission constitutes forward looking information, which is based on assumptions and estimates made by the group as of the publication date of the report. Actual implications may differ significantly from the estimated implications, and are largely dependent upon the supplementary regulatory arrangements which will be determined, in light of the publication the consultation paper, the compensation model which will be adopted by the institutional entities in the group, competitive conditions in the market, and the conduct of competing entities and of distributing entities.

For details regarding a class action which was filed regarding the position paper, see Note 43(a2)(15) to the financial statements.

- In February 2017, the Commissioner published a draft industry-wide position paper regarding the obligations of a license holder (the "**Draft Position Paper**"). In accordance with the draft position paper, it was determined, inter alia, that in cases where an employer is engaged in a business partnership with a license holder, and the employer's employees are customers of the license holder, such cases place the license holder in a conflict of interest towards the customers, which is reflected in a reduction of the license holder's interest to provide beneficial conditions their customers. In accordance with the draft position paper, the license holder is obligated to disclose to the employee that it has a conflict of interest, and to receive their advance written consent, before implementing the transaction with respect to its pension product. Additionally, according to the Commissioner's position, preference of the employer's interests over their employees' interests, with respect to the selection of pension products, and the receipt of beneficial conditions therein, is inconsistent with the fiduciary duty by which a license holder is bound towards its customers.

  The institutional entities and insurance agencies in the group are studying the implications of the position paper, and its relevance to them.

(B) Payment to pension advisors

- The distribution commission rate paid to pension advisers, is stipulated in the **Control over Financial Services Regulations (Provident Funds) (Distribution Commissions), 2006** (the "**Distribution Regulations**"), which stipulate that pension advisers – and in relation to study funds, investment consultants – are entitled, in general, to receive a distribution commission from the institutional entity in respect of distributing provident fund, pension funds and study funds, which derives from deposits to a provident fund, at a rate of up 0.25% of the total sums to the credit of the customer in the provident fund, with the exception of accrued funds deriving from deposits made up to December 31, 2005 into provident funds defined in these Regulations, in which case the commission permitted to be collected by the consultant from the institutional client being at a rate of 0.1% instead of 0.25%, on condition that the pension adviser enjoys uniform remuneration from all of the product producers.

In November 2016, a draft amendment to the distribution regulations was published, in which it was proposed to determine that a pension adviser will be entitled to receive a distribution commission also with respect to the distribution of managers’ insurance policies and with respect to provident funds for investment. The draft amendment to the distribution regulations also determines that compensation to a license holder will be given by way of monetary payment only, and not by way of other benefits.

_In March 2017, a second draft of the distribution regulations was published, in which it is proposed to allow a pension adviser to sign distribution agreements with a managing company under different conditions with respect to give different product groups (annuity paying provident fund and provident fund for savings; provident fund for compensation; personal provident fund for severance pay; study fund; and provident fund for investment).

_Insofar as the provisions of the draft amendment to the distribution regulations will be accepted and will become binding, the possibility of compensating license holders in the pension products with non-monetary benefits, such international travel, will be disallowed.

_Additionally, insofar as the draft amendment to the distribution regulations, according to its current version, becomes binding, it may, on the one hand, result in the opening of an additional marketing channel for insurance products and provident funds for investment, while on the other hand, it may result in changes to the scope of producers’ acquisition expenses, and may affect the profitability rate of the products, including products which were sold in the past, due to the fact that the structure of distribution commissions which will be paid to pension advisors (primarily in banks), with respect to each product group, does not distinguish between products which were sold in the past, and new products. As a result, an impact on profitability is expected in cases where the insurance product was marketed previously by an insurance agent, in light of the structure of the commissions which were paid to the insurance agents, which is based on the increased payment of commissions in the first years of the policy’s lifetime, and reduced payment in later years, and in light of the agreements vis-à-vis insurance agents with respect to the portfolios which they manage. Additionally, the draft does not take into account, with respect to insurance products which were sold in the past, the rate of management fees which the policyholder effectively pays to the institutional entity, as determined with it in the agreement.

_The information presented on all matters associated with the draft amendment to the distribution regulations constitutes forward looking information, which is based on assumptions and estimates made by the institutional entities in the group, as of the publication date of the report. Actual implications may differ significantly from the estimated implications, and are largely dependent upon the final version of the regulations, as published.

10.8.3.2. **Non-life insurance**

Marketing and distribution methods in the non-life insurance segment

The group markets its products in the non-life insurance segment both through insurance agents, including the group's agencies, and directly.

(A) Insurance agents

The insurance agents are the central distribution channel in the segment to end customers, i.e., policyholders. Insurance agents generally engage with several insurance companies. As of the publication date of the report, the group operates in the non-life insurance segment through approximately 1,432 active insurance agents[62].

The group has no insurance agent whose scope of activities in this segment exceeds 10% of the scope of activities in the non-life insurance segment.

The proportion of sales through insurance agents in this segment out of total sales in the non-life insurance segment during the reporting year was approximately 91.5%, compared with approximately 89% in 2015.

Out of the total premiums in the non-life insurance segment in Israel, approximately 4.68% are due to activities of the group's agencies, as compared with approximately 4.7% in 2015.

(B) Direct sales

Some of the products in the segment are marketed through direct sales, without going through insurance agents. The direct activity is primarily vis-à-vis large business customers. The company directly markets, inter alia, compulsory motor and motor property insurance policies (to large business customers and to some of the leasing companies), other property insurance policies, liabilities policies and guarantee policies, and also, through Clal Credit Insurance, credit and foreign trade risks insurance.

The rate of direct sales in this segment out of total sales in the non-life insurance segment in 2016 is approximately 8.5%, as compared with approximately 11% in 2015.

(C) Sales in digital channels through insurance agents

In the period the reporting year, the company continued marketing, in digital channels through insurance agents, compulsory motor and motor property insurance to individual customers.

(D) Mortgage banks

The company engaged in agreements for the provision of insurance services through mortgages with some of the mortgage banks which control agencies, as stated above.

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62 Including agents who made sales in 2016 in an amount exceeding NIS 50,000.

Commission structure in the non-life insurance segment:

(E) Commission structure

For insurance agency services, Clal Insurance pays to the insurance agents commissions in cash and/or cash equivalents. The commission amount is generally determined as a rate of the net premium (excluding fees), and is fees conditional upon the scope of the agent's sales, activity and/or profitability.

In general, in collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately.

With respect to some of the aforementioned commissions, advance payments are made to agents from time to time.

(F) Average commission rate

The average commission rate out of total gross premiums in the non-life insurance segment[63] during the reporting year amounted to approximately 14.5%, as compared with approximately 14.8% in 2015.

For details regarding the amendment to the law with respect to the calculation of distribution commissions, see section 10.8.3.1 above.

10.8.3.3. **Health insurance**

10.8.4. Marketing and distribution methods in the health insurance segment

The distribution of products in the segment is performed by both agents and insurance agencies, including the group's agencies, and directly.

A. Distribution through agents and agencies

During the reporting year, individual health insurance policies of Clal Insurance were mostly marketed by insurance agents.

There are also collaborations with selected agents, in which the company's employees sell to the agent's customers, in his name and with his permission, health products of the company.

As of the publication date of the report, the group operates in the segment through approximately 1,300 insurance agents. Most of the agents are also engaged with additional insurance companies.

The group does not have any insurance agent whose scope of activities in this segment exceeds 10% of the group's scope of activities in the health insurance segment.

63 Not including commissions which were paid by Clal Credit Insurance or premiums which were collected by it.

Out of the total premiums in the health insurance segment which were collected by the company during the reporting year, approximately 3.6% are due to the activities of the group's agencies, as compared with 3.5% in 2015.

B. Direct distribution

Some of the products in the segment, primarily collective insurance products, are marketed through direct sales to customers and employers. Sales are sometimes performed through a competitive process, through the submission of bids to participate in collective health insurance settlements.

During the reporting year, the company also worked vis-à-vis external consultants who are recruited by public companies and entities for the purpose of publishing tenders and conducting negotiations regarding the selection of an insurer and the determination of the terms of their employees' collective health insurance.

The distribution of products in the segment is also perfoemd through HaClal HaRishon and through the company's collaborations with selected agents, in which the company's employees sell to the agent's customers, in his name and with his permission, health products of the company.

Commission structure in the health insurance segment

In long term individual insurance, the commissions are generally paid as follows:

- **Routine commissions -** Commissions which are derived from the premiums and paid throughout the entire policy lifetime, on a routine basis, and generally at a fixed rate.
- For details regarding the payment of **special commissions** with respect to new annualized premiums in health insurance, see the description of special commissions in the life insurance branch above. Advance payments were made to agents with respect to some of the commissions.

The average commission rate during the reporting year, out of the total gross premiums in the various products of the segment, amounts to approximately 29%, as compared with approximately 29% in 2015.

In collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately.

10.8.5. Dependence on distribution channels

The company is dependent on the direct distribution channel and on the distribution channel through agents and arrangement managers. However, the company is not dependent on any particular distribution entity (any particular marketer or agent) in either of the aforementioned distribution channels.

10.9. Suppliers and service providers

The group's member companies acquire products and services from a large number of suppliers and service providers. Expenses in connection with suppliers and service providers include, inter alia, the following:

A. Direct expenses in connection with claims which are directly charged to the cost of insurance claims, including payments to assessors, loss adjusters, legal service providers, investigators, damage repair services, medical services, etc., as well as payments to entities which provide associated coverages to policyholders ("**Riders**").

B. Expenses in connection with insurance agents, pension advisors, portfolio managers, marketers and financial advisers.

   For details regarding marketing and distribution, see section 10.8 above.

C. Expenses in connection with operating services for the operation of provident funds which are managed by Clal Pension and Provident Funds. For additional details, see Note 44(b) to the financial statements.

D. General expenses of the company to various suppliers, including: rent and office maintenance, payroll processing services, vehicle leasing services, advertising services, telecommunication and postal services, operating services, legal collection, audit services, communication and data communication services, professional consulting, maintenance, licensing and leasing of hardware and software, automation services and depreciation. These expenses are charged to indirect claim settlement expenses, marketing expenses, other acquisition expenses, and other general and administrative expenses. For additional details, see Note 36 to the financial statements.

E. There are also additional expenses which are discounted for assets in the financial statements, and which include, inter alia, automation, construction and equipment expenses.

For details concerning Clalbit Systems, a wholly owned subsidiary of the company which is responsible for providing computer services to most of the group's member companies (and which acquired services in the fields of automation), and concerning the group's expenses in respect of automation during the reporting year, see sections 10.10.3.1 and 10.10.3.2 below and Note 36 to the financial statements.

There is no primary supplier upon which the company is unambiguously dependent, save for Sapiens Technologies (1982) Ltd. ("**Sapiens**"), with whom Clal Pension and Provident Funds engaged in an agreement for the acquisition of a system for the management of members' rights in pension funds, and for the provision of development and maintenance services for the system. During the reporting year, the group paid to Sapiens a total of approximately NIS 32 million with respect to the aforementioned development and maintenance services, as compared with a total of approximately NIS 40 million in 2015. (For additional details, see section 10.10.3.1 below and Note 44(c) to the financial statements.) However, due to the nature of circumstances, within the framework of the work done by suppliers in the group, in certain cases, the suppliers gain unique know-how, or provide services which sometimes create a dependence on them for the company, for a short period, due, inter alia, to the need to create the projects and/or to perform services in the determined timeframe in accordance with regulatory requirements. For details regarding suppliers, as stated above, with whom the company engaged, see Note 44(d) to the financial statements. For details regarding the aforementioned suppliers with whom Clal Pension and Provident Funds engaged, see Note 44(b) to the financial statements.

10.10. Property, plant and equipment

Presented below are data regarding the company's property, plant and equipment which primarily includes rented and owned buildings, vehicles, furniture, office equipment and IT equipment.

10.10.1. Data regarding rented and owned buildings for self use, in square meters, for the years 2016 and 2015

		As of December 31, 2016		As of December 31, 2015	
Company / Unit	**Location**	**Owned area (square meters)**	**Rented area (in square meters)** [6]	**Owned area (square meters)**	**Rented area (in square meters)** [6]
Clal Insurance	Tel Aviv [1]	-	33,832	-	33,970
	Petach Tikva [2]	-	2,769	-	2,834
	Haifa [3]	2,862	-	2,862	-
	Jerusalem	-	1,403	-	1,403
	Beer Sheva	-	829	-	829
	Herzliya [2]	-	250	-	250
Clal Credit[4] and Finance	Tel Aviv	-	1,185	-	1,339
Clal Pension and Provident Funds	Tel Aviv	-	4,861	-	5,096
	Petach Tikva	-	897	-	1,051
	Jerusalem	-	73	-	73
	Beer Sheva	-	735		-
HaClal HaRishon	Petach Tikva	-	2,877	-	2,658
	Haifa			-	135
Clalbit Systems	Tel Aviv	-	8,336	-	8,295
Agencies under control [5]	Throughout Israel	1,027	3,214	1,027	3,214
Clal US	New York	-	93	-	93
Total		3,889	61,354	3,889	61,240

* Excluding parking lot areas.

1 Including area of Canaf.

2 Including backup sites for the group's IT systems. 3 sites (2 sites in Israel and one in Greece, with an immaterial area).

3 78 square meters, leased to Clal Pension and Provident Funds.

4- Including Clal Credit Insurance and Clal Mortgages.

5- Including Batach and Tmura.

6- Excluding properties which were vacated in 2014, and regarding which the company is still obligated to pay rent.

In 2016, the company rented an area of 735 square meters in Beer Sheva to operate the pension and provident funds support center.

In November 2016, addenda to the rental agreements in Jerusalem were signed, according to which the leased area will increase in 2017 by approximately 190 square meters.

During February 2017, an agreement for the sale of approximately 244 square meters in the property in Haifa was signed. The agreement is subject to suspensory conditions which, as of the publication date of the report, have not yet been fulfilled.

Regarding buildings which are held through rentals, the rental periods vary from building to building, where the largest rental period is until 2030, with respect to the company's offices in Kiryat Atidim. In some of the rental agreements, the company has the option to extend the rental period.

The company is working to fill the occupancy of areas which were rented by it and are unoccupied, by renting them out to sublessees, or by assigning the rental rights to alternative lessees. As a result of the foregoing, the company is expected to pay rent which it is required to pay according to the rental agreements in areas which were not rented out by it through sublets, and also with respect to the difference, if any, between the rent which it is required to pay under the rental agreements and the rent which is paid by the alternative lessees. As of December 31, 2016, the company has an obligation to pay rent for properties which were vacated by it at a scope of approximately 10,935 square meters, of which 10,449 were subleased. For additional details in connection with the rent payments which are paid by the company, and which are paid to it, see Note 28 to the financial statements.

<u>Data concerning buildings which constitute a part of the nostro investment portfolio of Clal Insurance, in m², for 2016 and 2015</u> *

Location	Designation	As of December 31, 2016	As of December 31, 2015
Gush Dan area	Offices	37,333	37,333
North	Trading	3,108	3,108
Germany	Offices	5,954	9,400
HaSharon area	Offices	18,271	18,271
Haifa	Offices	3,096	3,096
England and Scotland	Offices	12,569	12,569 **
Jerusalem	Offices and	6,110	6,110

	commercial		
United States	Offices, commercial and multifamily	53,213	23,618
Total		**139,654**	**113,505****

* Additionally, there are holdings in these assets and/or other assets, out of funds managed for others (members and/or policyholders) in the group - see Note 10 to the financial statements.

** The data for 2015 were restated.

10.10.2. Leasehold improvements, furniture and office equipment

In general, the leasehold improvements, furniture and office equipment which are used in the main site and in the end units are owned by the group.

10.10.3. IT equipment and peripheral equipment

10.10.3.1. **IT systems of the group in Israel**

The group's information systems are critical to the management of its business affairs, and the group considers some of them as strategic assets. The group's member companies own a wide variety of IT equipment, including servers, infrastructure and communication equipment, terminals and other peripheral equipment. The company also has a wide variety of ownership rights and/or usage rights with respect to various software programs, including self-developed software programs.

For the purpose of its various operations, the group uses the IT systems, inter alia, for the purpose of fund management (including funds of the group's customers), management of customers and their rights, as well as back office systems, organizational systems and decision support systems.

The activities in the IT department are done through Clalbit Systems, which is a wholly owned subsidiary of the company. Clalbit Systems Ltd. is responsible for the provision of automation services to the majority of the group's member companies, and as of the reporting date, does not provide services to any companies outside of the group. Clalbit engages with external suppliers for the performance some services.

the group has a backup site which is intended to allow the continued activity of the group's critical IT systems in times of emergency. There is also a third site abroad, which is used for data backup only.

The group's core systems:

Presented below are details regarding the main core systems which are used by the group for the purpose of managing its business activities in the various operating segments:

- **Life insurance and long-term savings –** The majority of business activities in life insurance are managed by means of an MSS system and an ALIS which connect, inter alia, to systems used for the management of cash, collection and payments. The business activities in the pension branch are managed through the Nissan system, which is a designated system acquired from Sapiens Ltd. in 2013, and which replaced, beginning in January 2015, the Atudot system which was jointly owned by Clal Pension and Provident Funds and Atudot Havatika. During the reporting year, the activities of Atudot Havatika were performed through an external operator, based on its systems. In the provident branch, activities are performed through external operators, as specified in Note 44(b) to the financial statements.

- **Non-life insurance -** Most of the business activities, including the product production and development, are performed using the TOGO production system, as well as several other self developed systems. The claims unit in non-life insurance is managed through the insurance claims management system of SAP, which underwent adjustments for the group's purposes. Credit insurance activities are performed through the Hotam system, which is a self developed system of the group.

- **Health insurance -** The company's business activities are performed through a self developed system (BariNet) which is used to manage its products, policyholders and suppliers.

- **Investments -** The operational system (back office) is based on a system of Danel Ltd., and is used to concentrate and revaluate the group's investment assets. There is also a self developed system, the metro system, which is used for planning, registration and monitoring of the trading orders, and which allows preventive monitoring in order to identify deviations from the investment restrictions and regulations.

Auxiliary systems:

- **Systems to support insurance business operations -** The core insurance and business systems are supported by various auxiliary systems, including, inter alia, systems for the management of the group's agents, a document management system, a SAP-based CRM system, a system for the management of reinsurance and reinsurers, and systems for the management of risks and actuarial processes.

- **Systems to support headquarter operations -** The group has several systems to support headquarter operations. Some of the systems are SAP-based, including the systems for the management of human resources, financial management and budgets, finance management and purchasing.

- **Digital -** The company provides digital information services to its customers on the company's website, and provides digital solutions to agents with respect to sales, information and the performance of actions. In 2017, the company plans to continue investing in the digitization infrastructure, primarily including an expansion of the information and services to agents, and an expansion of the information and the ability to perform actions for the company's customers, through a new customer site, which will be based on a modern digital infrastructure. For details regarding circulars and regulatory directives which were published during the reporting year on the subject of the digitization of institutional entities, see section 10.10.3.3 below.

- **Engagements with suppliers**

  Clalbit Systems operates providers of software and hardware (including as regards maintenance service) which are engaged in agreements with the group's member companies. The engagements with these suppliers are of a variable nature: engagements at a fixed price per project, engagements based on actual work hours, and engagements based on a price per unit, or a combination of the above.

For details regarding the engagement with Sapiens, see Note 44(c) to the financial statements.

For details regarding the engagement with a third party in an agreement for the performance central parts of the automation road map in the life insurance segment, including upgrading and expanding the core systems in this segment, see Note 44(d) to the financial statements.

10.10.3.2. **Investments of the company in IT systems**

The group works to develop and upgrade its computing systems, from time to time, according to its needs, and with the needs of the group's member companies. Presented below is a description of the material activities which were performed in the group's IT systems, by operating segments. The described activities refer to the reporting year, and some are also expected to continue after the reporting year:

Non-life insurance division -

During the reporting year, the group continued to implement improvements and changes to the division's systems, including completing the development of a new and advanced collection system, which went live. Additionally, during the reporting year, a digital platform for the online sale of motor policies to customers was developed.

Long term savings division -

In light of the fact that the products in the long term savings segment are long term products, which are subject to frequent regulatory changes, the group deals on an ongoing basis with the need to adjust the automation systems to the changing needs. In light of the foregoing, the group acted, with respect to the automation systems in the long term savings segment, as follows:

Pension - during the reporting year, additional adjustments and improvements were performed to the Nissan system, a system for the management of members' rights, in continuation of the adjustments to the group's needs, which were performed thereto during the reporting year (including the creation of interfaces to other core systems in the organization). For additional details, see Note 44(c) to the financial statements. During the reporting year, a process of separating the combined portfolio was performed (for details, see section 6.2.1.4(c)(2) above), after which the company is working to develop a new module which will allow the calculation of first year commissions to agents with respect to sales of pension products, and wil result in an improved ability to pay controlled commissions, with a high level of transparency, to agents. Additionally, following the reform involving the separation of commissions from management fees (for details, see section 10.8.3.1 below), the company is expected to perform extensive adjustments to modules for the calculation of commissions in all segments of long term savings, for the purpose of adjusting them to the provisions of the reform.

Life insurance - In the life insurance segment, Clal Insurance works through two main core systems of a previous technological generation, which were developed many years ago. The functional duality of the aforementioned systems increases operating and maintenance costs in this segment, and places burdens on the adjustment of the systems to all of the company’s needs, including on all matters associated with external data and regulatory interfaces, the requirements for which have been expanded in recent years. For details regarding these requirements, see section 6.2.1.4(c) above. The company is working to expand and improve the core systems of the life insurance branch, in a manner which will increase the efficiency of the current core systems, and is taking supplementary control and operational actions, in order to ensure the adequacy of the supported processes.

In 2014, Clal Insurance formulated a detailed “road map” for tasks which will be performed within the framework of the expansion of the core systems in the coming years. By means of the “road map”, the company works to significantly improve its ability to serve its customers by managing their rights and by being able to represent these rights with high availability and reliability, including by completing rights calculations within the core systems, in parallel with the cleansing and calculation of data, the addition of built in structures, and with the aim of reducing the reliance on supplementary processes and compensatory controls. In light of the complexity of the automation systems, and the many layers which were added thereto over the years, the implementation of the “road map” is a complex and proceeding process, which requires a great deal of knowledge and expertise, and the scope of tasks handled therein continuously expands, as more progress is made on the project. For the purpose of implementing the “road map”, the company engaged with an external supplier, as stated in Note 44(d) to the financial statements. The company is in advanced stages towards the conclusion of the road map project, and intends to complete the entire project in the coming months, including automation of calculations in the primary core processes. The road map project improved the performance fo the systems, and accordingly, the operational ability of the using entities.

Additionally, in February 2016, the “employers interface” system went live, which is responsible for the distribution of funds which are received from employers to the accounts of the employees of those employers, in accordance with the employer’s instructions, of which a central layer is the Otzma system, which was purchased from Sapiens Ltd. For additional details regarding the Payment Regulations and the employers interface, see section 6.2.1.4(c)(2) above.

Discussions are being held between the company and the Commissioner in connection with the company’s progress regarding the automation systems in the long term savings segment, in which the road map was presented to the Commissioner, and the company’s progress in connection with its implementation is presented on a routine basis.

In recognition of the importance of having efficient and modern automation systems, the company has prioritized this issue, and in recent years, the company has invested hundreds of millions of NIS in upgrading and improving the automation systems in the pension and life insurance segment. For additional details, see Note 6 to the financial statements.

Provident funds - In the provident branch, the group received, during the reporting year, operating services (which also include automation of the activity) from third parties. Additionally, during the reporting year, Clal Pension and Provident Funds engaged in an agreement for the provision of operating services with Bank Leumi, beginning in January 2017, instead of a previous agreement. For details on this matter, see Note 44(b) to the financial statements.

______**Health division -** During the reporting year, the group continued the implementation of improvements and changes in the division's systems.

10.10.3.3. **Investments in infrastructure**

The group invests in IT infrastructure, in the IT facilities which are used by it, and in end-user units, and operates on a virtual infrastructure, both in terms of servers and in terms of the personal computer workstations of some of its employees. Through these infrastructures, the group implements disaster recovery (DR) capabilities, including on the level of telephony, which allow the ability to transition from the main site to the backup site, and vice versa. During the reporting year, the group expanded its VDI unit, which also improves the group's recovery ability upon the operation of a business continuity plan (BCP). According to the group's estimate, its current IT systems will serve the group's needs for the upcoming period. However, in recent years, a significant expansion has occurred in the application of regulatory provisions applicable to the activities of the institutional entities in the group (inter alia, as specified above), which create material changes and significant and frequent reforms in the insurance activities in general, and in the long-term savings segment in particular. The group is currently engaged in an ongoing process of adapting its computing systems to the regulatory provisions and to the changes and reforms taking place therein, upgrading of its supporting computing systems to advanced systems, and in order to ensure compatibility between the computing systems and the regulatory directives and the terms of the products offered by the company (including the insurance policies and regulations of pension and provident funds).

According to the group's estimate, the process adjusting the IT systems in accordance with the regulatory directives, and of upgrading the IT systems which support its operations, in a manner which will ensure support for all of the group's products in the long term savings segment, will continue in the coming years, and will involve significant costs and operational preparations on the part of the institutional entities in the group. The development requirements are derived both from the requirements of the business operations and regulatory directives.

For details regarding automation expenses in the group, see Note 36 to the financial statements. For details regarding the scope of acquisitions and self-development, and the amortization of software programs and computers, see Notes 6(a) and 8(a) to the financial statements.

For additional details regarding future lease fees which will be paid with respect to property, plant and equipment, see Note 28 to the financial statements.

Digital vision, circulars and provisions in the field of automation and digitization

In September 2016, the Division of Capital Markets published a document entitled "digital vision", which specified the vision of the Capital Markets, Insurance and Savings Division on the subject of digitization in the branch (hereinafter: the "**Vision Document**").

The vision document refers to three layers of digitization as a means of achieving goals: the interface between institutional entities and customers; the information systems in institutional entities; and effective supervision of the Division of Capital Markets over thr issue of digitization.

As part of the trend described above, during and after the reporting year, the following circulars and provisions were published:

- In August 2016, a circular was published on the subject of “management of cyber risks in institutional entities”, which defines principles for the management of cyber risks in institutional entities, and which requires the management of such risks with the aim of ensuring protection of the rights of policyholders by maintaining the confidentiality, completeness and availability of the information assets, information systems, business processes and proper conduct of the institutional entity.

  Since the publication of the circular, the company has begun preparations for its implementation. Continued preparation, in accordance with the timetable which was determined in the circular, will be performed in 2017.

- In October 2016, a circular was published on the subject of an internet interface which will be created by the Authority, in order to identify insurance products, which is intended to allow each policyholder to identify information regarding their insurance portfolio at all of the insurance companies, and to evaluate the terms of their insurance products.

- After the reporting year, in January 2017, provisions were published regarding the “integration of digital tools in customer service of insurance companies”, and “integration of digital tools in the customer service of institutional entities - “Pension savings”, which were intended to promote the integration of digital tools in order to improve the quality of customer service in the insurance and savings market. Within the framework of the provisions, various parameters were determined with which the digital service channels of the institutional entities are required to comply, including the option for the customer to choose among a variety of human and digital channels, provision of the option to perform a significant scope of core activities and to receive information, reliability, security, up to date information and accessibility. These parameters will be measured by the Authority within the framework of the evaluation of service given by the institutional entities to their customers. For additional details, see section 10.2.11 above.

- In February 2017, a circular was published on the subject of “retrieval of personal information”, which is intended to determine provisions which will allow the retrieval of customers’ personal information, in their online accounts on the websites of the institutional entities. The retrieval of information will allow customers access to information regarding their various insurance products, and regarding claims which were filed. The circular also allows the transfer of notices and documents by digital means.

- For details regarding the circular on the subject of “cancellation of insurance policies”, which allows, inter alia, the cancellation of insurance policies by digital means, see section 10.2.10 above.

According to the company’s estimate, the aforementioned provisions are expected to result in improved quality of customer service, and in increased transparency and availability of information for customers, and in parallel, in the investment of increased resources in digitization. Additionally, the increased use of digital channels may result in an increase in direct inquiries by customers for the purpose of performing actions and the receipt of information, and may encourage competition. The company is working to upgrade and improve the digital means, while adjusting the systems, with the aim of improving service quality and customer experience.

The group has set a goal of continuing to promote digital innovation, with an emphasis on providing information and independent actions through the company's digital channels (agents, customers, employers). The group believe that the investments in automation and digitization will result, over the long term, in increased efficiency.

The information presented on all matters associated with the possible implications of the aforementioned provisions 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 with respect to the conduct of members and policyholders, with respect to their products, and with respect to the conduct of institutional entities regarding the scope of integration of digital tools within the framework of the services which they provide.

10.11. Seasonality

10.11.1. Long term savings

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.

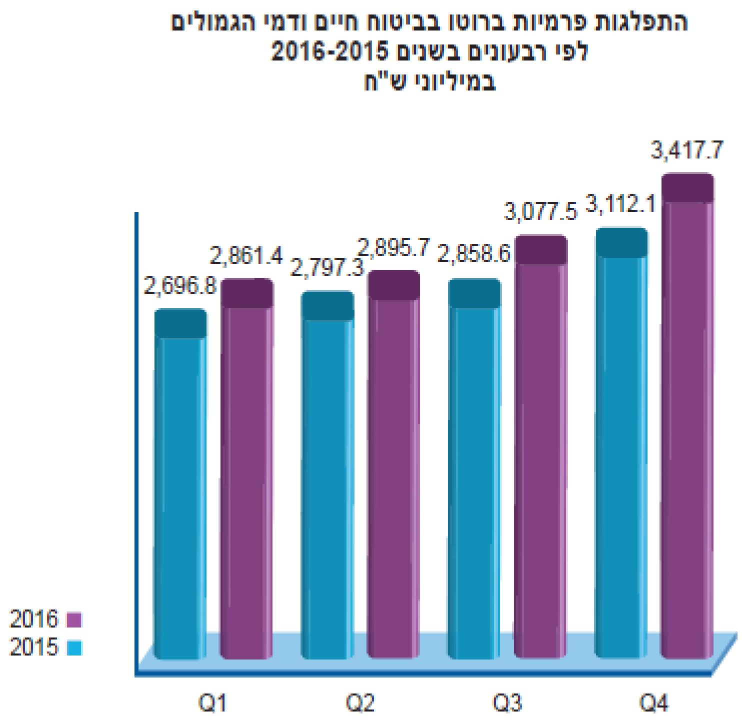
However, due to the timing of the end of the tax year, a certain degree of seasonality exists with respect to deposits from premiums/benefits contributions to pension savings products in December, since substantial amounts are deposited during that month by employees and self-employed persons who initiate deposits that are not in the framework of their salary, with the intention of making full use of the tax benefits, as well as by employers completing obligations in respect of the tax year or making one-time deposits, usually in respect of seniority severance pay debts. 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.

Presented below is the distribution of the gross premiums and contributions in the long term savings division over the last two years, by quarters (NIS in thousands):

2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums and contributions, NIS in thousands	2,861.4	2,895.7	3,077.5	3,417.7	12,252,343

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums and contributions, NIS in thousands	2,696.8	2,797.3	2,858.6	3,112.1	11,464,810

Distribution of gross premiums in life insurance and contributions
By quarters in 2015-2016
NIS in millions



10.11.2. <u>Non-life insurance</u>

In general, income from premiums in the non-life insurance segment does not feature 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.

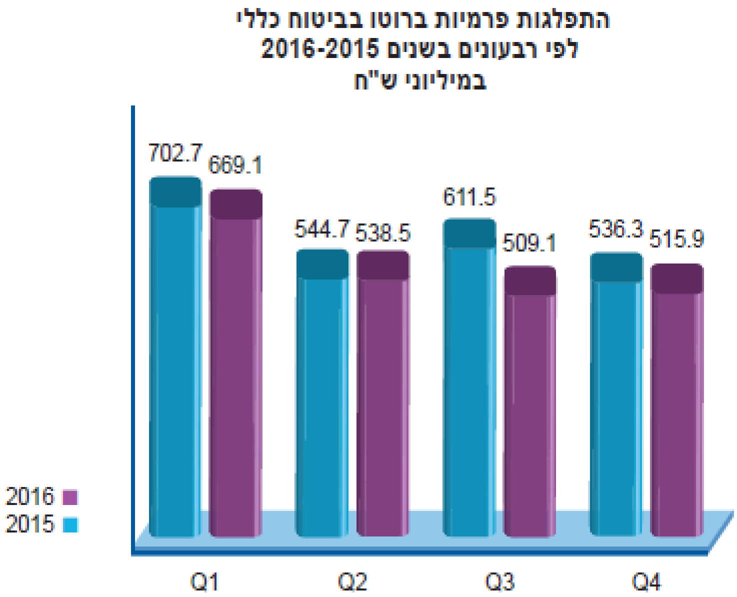
There is no clear seasonality in the other expense components, such as claims, and in other income components, such as income from investments. However, it should be noted that in the winter season, a marked increase in claims is sometimes seen in the first or fourth quarters of the year, or in both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

Presented below is the distribution of gross premiums in the non-life insurance division over the last two years, by quarters (NIS in thousands):

2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums, NIS in thousands	669,103	538,511	509,100	515,966	2,232,680

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums, NIS in thousands	702,717	544,725	611,542	536,305[64]	2,395,289

Distribution of gross premiums in non-life insurance
By quarters in 2015-2016
NIS in millions



10.11.3. Other operating segments

Income from premiums in the health insurance segment is not characterized by clear seasonality.

10.12. Intangible assets

10.12.1. Intellectual property

64 The data for the fourth quarter of 2015 were restated.

The name "Clal" is registered as a trademark under the name of IDB Development. The group uses, for the purpose of its operations, the names and logos of the group's member companies, most of which are not registered as trademarks.

The group's member companies use, for the purpose of their operations, software programs which are owned by member companies in the group and/or for which usage licenses were acquired. For additional details, see section 10.10.3.1 above.

The company develops, through its employees and through suppliers, software programs for self use to which it owns copyrights.

The company owns internet domains.

For additional details regarding intangible assets, see Note 6 to the financial statements.

10.12.2. Databases

The group's member companies have databases which include, inter alia, data regarding customers, agents and service providers, which are used, inter alia, for marketing activities, using advanced software programs (CRM), which allow segmentation of the data in various ways. The company's marketing strategy is based on the databases, which are critical to the management of the company's business affairs. Some of the databases of the group's member companies are used by several member companies in the group, while maintaining separation of information, in a manner whereby each of the companies only has access to the data which is relevant to it.

The group works on a routine basis to register all of its databases in Israel in the records of the Registrar of Databases, in accordance with the provisions of the law. Some of the databases are currently in registration processes and/or evaluation and preparation for the purpose of registration.

10.13. Legal proceedings

Material legal proceedings are currently pending against the group, including class actions in accordance with the Class Action Law, and derivative claims. For details regarding material claims whose filing as class actions was approved; pending motions to approve class action status for material claims; motions to approve class action status for material claims which were dismissed during the reporting year; material class actions which concluded during the reporting year and until the publication date of the report; immaterial class actions; derivative claims; and material claims against the group which are not in the ordinary course of business, see Note 43 to the financial statements.

For details regarding legal risk factors in connection with class actions, see section 10.16.1(b)(5) below.

For details regarding the exposure to the risk associated with class actions, see Note 43(a4) to the financial statements.

For summary details regarding the company's exposure to legal proceedings, see Note 43(c) to the financial statements.

10.14. Financing

10.14.1. Rating

For details regarding the ratings of member companies in the group and regarding liability certificates which were issued as of the publication date of the report, see Note 27(f) to the financial statements.

10.14.2. Credit

For details concerning the interest rates on loans which applied during the reporting period, see Note 27 to the financial statements, as well as Part B – board of directors' Report – section 3.5.2.

For details regarding restrictions which apply to the company regarding the receipt of credit, see Note 27(b) to the financial statements.

For details regarding credit amounts which were received during the reporting period, see to Note 27 the financial statements.

For details regarding deferred liability notes which constitute Tier 2 capital with respect to the Minimum Capital Regulations, see Note 25 to the financial statements.

10.14.3. Raising of sources to funds the operation of the company's business

The company estimates that it will not be required to raise funds in the coming year. In general, Clal Insurance may raise Tier 2 and/or Tier 3 capital and/or may replace existing Tier 2 Capital with Tier 2 and/or Tier 3 capital with a longer average lifetime, as part of the routine capital management of Clal Insurance, within the framework of the regulatory capital requirements which apply to it, and as part of the preparation for the entry into effect a Solvency II-based economic solvency regime However, according to the company's estimates regarding the capital status, in accordance with the provisions for the implementation of the aforementioned solvency regime, as specified in Note 16(e)(3) to the financial statements, the company does not expect to have the capacity to issue additional Tier 2 or Tier 3 capital in the coming year.

For additional details regarding the extension of the shelf prospectus of Clalbit Finance, see section 2.5.1.5(b) above.

The information presented on all matters associated with the raising of funds to cover the company's routine business operations in the coming year constitutes forward looking information, which is based on the company's estimates and assumptions as of the publication date of the report. Actual implementation may differ significantly from the forecast, inter alia, due to regulatory requirements which will be determined, the state of capital markets, the business position of the subsidiaries in the group, actions taken to optimize the capital and debt management in the group, and the materialization of the risk factors specified in section 10.16 below.

10.15. Taxation

For a description of the taxation arrangements which apply to the group, see Note 23 to the financial statements.

10.16. Discussion regarding risk factors

This section, which discusses the risk factors with respect to the company, also includes forward looking information. Forward looking information is uncertain information regarding the future, which is based on information which is available to the company as of the reporting date, and which includes the company’s estimates and intentions as of the reporting date. Actual results may differ significantly from the results forecasted or implied based on such information, inter alia, due to changes in the business environment any other party in risk factors, including future risk factors.

The institutional entities are obligated to appoint a Chief Risk Officer. For a description of the responsibilities of the group’s Chief Risk Officer, and for details regarding the risk management policy and regarding risk management processes and methods in the group, including a description of the work process and the methods used to identify the risks and controls which exist in the group’s member companies, see Note 40 to the financial statements.

Presented in the following table are risk factors, according distributed by macro risks, branch-specific risks and risks which are unique to the group, as well as details regarding the risk factors.

Risk factors	**Risk factor’s impact on the group**		
	Major impact	**Medium impact**	**Minor impact**
A. Macro risks			
Economic downturn in Israel	X		
Overall market risk	X		
Specific market risks:			
Interest rate risk	X		
Credit margin risk		X	
Inflation risk		X	
Exchange rate risk		X	
Stock price risk	X		
Other assets price risk		X	
International economic downturn and price drops in capital markets	X		
Credit risks	X		
B. Branch-specific risks			
Insurance risks	X		
Portfolio retention	X		
Catastrophe risks:			
Earthquake in Israel		X	

Terror attack and/or war in Israel		X	
Stability of reinsurers		X	
Strategic risks:			
Changes in legislation and regulations	X		
Competition risks	X		
Legal risks	X		
C. Risks on the level of the group			
Compliance with regulatory requirements	X		
Liquidity risk			X
risks associated with the pricing and assessment of insurance liabilities		X	
Operational risks	X		
Information system risks	X		
Reputation risk	X		
Engagements with external suppliers		X	
Realization of undertaking to indemnify			X

The impact of the foregoing risk factors is based on the judgment of group management, based on the information which is available as of the estimation date, refers to each risk independently, and takes into account the probability of the materialization of each risk and its potential results. The estimation of the extent of the risk factors' impact refers to the direct implications on the company, and does not take into account indirect effects.

(A) Macro-economic risks

(1) Economic downturn in Israel

The group is materially exposed to the state of the Israeli economy in most of its operating segments. A downturn in the Israeli economy has the potential to affect the scope of the group's business, particularly in the long-term savings segment, including: a reduction in the volume of savings made by the public, possible arrears in contributions, an increase in withdrawals, an increase in the number of people who are laid off and unemployed, and a reduction in wages, which may result in an increased number of cancellations, and in a decline in the premiums and contributions collected by the institutional entities in the group, as well as in an increase in the scope of claims. Additionally, as a result of an economic downturn, as stated above, the risk associated with the group's exposure to entities in Israel through its investments may increase (see below for details regarding the group's exposure to credit risks and market risks). A downturn of this kind may be caused by local and/or international economic factors and/or political or security developments in the region.

(2) Overall market risk

The prices of assets and returns in the capital markets in Israel and around the world very significantly affect the group's business results. The group's self investment ("**Nostro**") portfolio, as well as the asset portfolios of members and policyholders in investment-linked policies, provident funds and pension funds ("**Portfolios Managed for Others**") are invested in various financial assets, in Israel and abroad, and their value is subject to volatility which is due, inter alia, to changes in interest rates, in inflation rates, in foreign currency exchange rates, in prices of stocks and other assets, and in credit margins in the market. The group is exposed to losses with respect to changes in these risk factors, both directly and through their impact on the value of the assets in the group's nostro portfolio, and indirectly, through the impact of the returns which are achieved in portfolios managed for others on management fees.

The materialization of market risks and market conditions which are characterized by low rates of return may result in the non-fulfillment of the returns which were used to price the products, and to calculate the insurance liabilities, resulting in harm to the group's business results. The sensitivity to this risk is particularly high in cases where returns are guaranteed to policyholders / members. For details regarding the main undertakings in which guarantees of this kind have been given, see section 10.5.1(d) above.

The group is exposed to overall market risk, including as a result of the impact on the group's profits of portfolios managed for others. Within the framework of the group's activities with respect to the management of these funds, the group's member companies collect fixed management fees from the accrual, the scope of which may be harmed as the scope of managed assets decreases, as a result of negative returns and/or a decrease in the scope of deposits and/or redemptions and/or transfers.

Pursuant to the provisions of the law concerning guaranteed-return policies sold from 1991 to 2003 (herein: the "**Profit-Sharing Portfolio**"), Clal Insurance collects, in addition to the fixed management fees, also variable management fees, which are calculated as a rate of the real returns achieved by the investment portfolio, after deducting fixed management fees (hereinafter, in this section: the "**Addition**"). The addition is calculated on an annual basis, according to positive or negative values. In accordance with the provisions of the law, insurers may only collect a positive addition; however, in the calculation of each positive addition, the negative addition which accrued in previous periods will be included. Non-collection of the aforementioned addition affects the group's profitability. For details regarding the quantitative impact of the exposure to market risks which is due to the management of such funds as of December 31, 2016, see Note 40(c) to the financial statements.

Since the calculation of variable management fees in a given calendar year is conducted on a cumulative basis, management fees are collected or returned throughout the year from/to policyholders, according to the returns which were charged for the quarter, which may result in a great deal of fluctuation in income from management fees from quarter to quarter.

(3) Specific market risks

Full correspondence does not exist between the assets in the nostro portfolio and the liabilities held against them, in terms of cash flows, linkage basis and currency, and for this reason, and due to the asymmetry in the accounting treatment of liabilities and assets, the group's economic and/or reported profits are exposed to changes in risk factors, of which the primary ones are specified below. Due to the fact that the evaluation of the company's equity for the purpose of complying with the current regulatory capital requirements (see below, "risk regarding compliance with regulatory requirements"), is performed based on the financial statements, the company is also required to take into account accounting effects. A portfolio composition which is optimal from an economic perspective is not necessarily optimal from an accounting perspective, and vice versa. It is noted that the types of risks which will be specified below also exist in portfolios managed for others in Otzma, since they are not necessarily identical to those described regarding the nostro portfolios.

- Interest rate risk - From an economic perspective, the group's main exposure is to an interest rate decrease, due to the fact that the average lifetime of its liabilities is significantly longer than the average lifetime of its assets. In the current interest rate environment, the group is also exposed from an accounting perspective to losses in particular scenarios of interest rate decrease, primarily due to the impact of such changes on the discount rates which are used in the calculation of pension reserves and in the liability adequacy test (LAT), in a scope which may exceed the capital gains which will be created in that scenario with respect to assets which are sensitive to interest rates (see Note 40(e1)(d) to the financial statements). However, the group may also be exposed to certain scenarios involving interest rate increases, due to the relatively long average lifetime of the assets, in consideration of the long term nature of most of the liabilities, due to the fact that, in accordance with the currently practiced accounting method, in certain scenarios involving changes to interest rates, there is not necessarily full correspondence between the change in the market interest rate and the discount rate which is used to discount the various insurance liabilities. It is noted that, in the long term, the group's is also exposed to an ongoing low level of interest rates, with an emphasis on the index-linked interest rate, which may make it difficult to achieve the guaranteed rate of return for guaranteed-return products, and to achieve the returns that were used to price other insurance products, and to require a renewed evaluation of the actuarial assessment of the group's insurance liabilities (for details concerning the interest rate which is used in the calculation of insurance liabilities, see Note 40(e1) to the financial statements). It should, however, be noted that in investment-linked products, which constitute a significant part of the group's long term savings operations, the group does not directly bear the interest rate risk. Furthermore, against most the liabilities with respect to guaranteed-return life insurance products, the company holds supporting designated government bonds whose interest rates and average duration match those of the liabilities, which may reduce the risk.

- Credit margin risk - The group is exposed to the risk of loss due to the effects of changes in the credit margin in the market, on the value of marketable debt assets.

- Inflation risk - The group is exposed to increases in the inflation rate, due to the fact that the majority of the group's insurance liabilities are adjusted on a quarterly basis to the inflation rate, while the assets held against them are not necessarily CPI-linked. Additionally, some of the group's financial debt is CPI-linked, and increases in the inflation rate will result in an increase in the group's financing expenses. Additionally, due to the fact that the collection of variable management fees in the profit-sharing portfolio depends on the real returns which were achieved, an increase in the inflation rate may reduce the group's income from management fees.

- Exchange rate risk - The group is exposed to changes in foreign currency rates, primarily with respect to the foreign investment portfolio, which is not fully hedged against changes in exchange rates.

- Stock price risk - The group is exposed to changes in the prices of marketable stocks which are characterized by high potential volatility, both in the nostro portfolio and in portfolios managed for others. In light of the scope of the exposure of the profit-sharing portfolio to volatility, the volatility in stock prices may significantly affect the scope of variable management fees collected by Clal Insurance.

- Other asset price risk – Some of the group's assets, and those of members' assets, are invested in alternative investments, which include investments in real estate and real estate funds, investment funds, non-marketable stocks and additional investment instruments. These assets are exposed to changes in their value, which may result, inter alia, from changes in capital markets in Israel and around the world, changes in prices of commodities and real estate, and business specific risks. Due to the nature of these investments, the response time the responsibility of changes in their value may be long, and this factor may increase the intensity of price risk.

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

(4) International economic downturn and price drops in capital markets

The group is directly exposed to this risk factor, primarily through its investments in financial assets in international capital markets, and in other assets abroad. An additional risk factor that could also affect the results of Clal Credit Insurance, which insures the debts of debtors in various countries, who are affected by the economic situation in those countries. Additionally, the stability of the reinsurers with which the group engaged may be reduced as a result of price drops in international capital markets, or an economic downturn in the countries where they operate.

(5) Credit risks

The group is exposed to the possibility of financial loss as a result a decrease in credit quality and insolvency of borrowers and other debtors, both through financial assets in its assets portfolio, and through special operating segments of the group which include policies in accordance with the Sales Law and credit insurance, and as a result of its exposure to other debtors, including agents, employers and policyholders. With respect to its holdings in debt assets, the group is exposed to decreased asset value as a result harm to the debtor's financial stability (including debt settlements) and/or as a result of the increase in the credit margin in the market.

Additionally, an increase in business insolvency cases in Israel may also affect the scopes of claims in the directors and officers liability insurance branch, in which the group operates (see section 7.1.2c above), the scope of employers' debts with respect to non-transfer of payments to pension insurance for their employees, which requires the group's institutional entities to initiate collection proceedings, and the insurance risks in the operations of Clal Credit Insurance (see details below under "insurance risks").

Within the framework of its assets portfolio, the group is exposed to various market branches, of which the primary ones are the banking and finance branch (which also includes exposure through deposits), the real estate branch in Israel, and the infrastructure and energy branch. The exposure to the banking segment and to the financial segment is also due to the fact that the group holds most of its assets and of its customers' assets in accounts at banks, financial institutions and brokers in Israel and abroad, and receives clearing services through banks. Additionally, the group is exposed to reinsurers (see below under "exposure to the stability of reinsurers"). Despite the fact that the group works to diversify its assets as much as possible, the exposure to the banking branch in Israel is characterized by an exposure to a relatively low number of lenders with high ratings, as a result the concentrated nature of the branch in Israel. A deterioration in financial stability, non-fulfillment of the liabilities of those entities, or an insolvency event in any of the aforementioned entities, may have a significantly adverse effect on the group's business results.

For additional details concerning credit risks, see Note 40(f) to the financial statements.

(B) Branch-specific risks

(1) <u>Insurance risks</u>

In the insurance operations, the group is primarily exposed to risks associated with changes in risk factors, as compared with the actuarial assumptions, and to risk of a single large damage or to the accumulation of damages due to a catastrophic event.

The actuarial events used by the group's insurance companies to price products, and to assess the insurance reserves held by them, are mostly based on the assumption that previous behavior and claims patterns will also represent future occurrences. Changes in the risk factors which affect the prevalence and severity of events, as compared with the estimates in the actuarial model, may significantly affect the group's business results:

In non-life insurance business operations, the main insurance risks are due to the difference between the risk at the time of pricing and at the time of the estimation of insurance liabilities, and their actual occurrence. The gaps may be due to incidental changes in insurance business results, and to changes in the average cost of claims and/or in the prevalence of claims due to various factors. In particular, in the liabilities branches, there is significant uncertainty regarding the cost of claims, inter alia, due to the existence of time gaps between the event date, the disclosure date and the payment date (long tail claims).

In credit insurance business operations, the main insurance risks are credit risks, due to the ability of debtors to service their liabilities, and also depending on the state of the economy. Foreign trade risks insurance also involves foreign political risk. additionally, catastrophic events such as war or strike involve credit risks, due to their impact on the ability of debtors to service their liabilities. As part of credit insurance operations, Clal Credit Insurance insures debtors in Israel and abroad, through branch and geographical distribution, and this operation is subject to reinsurance arrangements.

In life and health insurance business operations, the main risk factors include demographic risks, such as changes in the mortality rates, changes in morbidity and disability, and medical developments (for sensitivity tests regarding the actuarial assumptions, see Note 40(e1) to the financial statements). In life insurance specifically, an increase in life expectancy and/or an increase in the rate of policyholders who withdraw, as an annuity, the funds which accrued in the insurance funds which are managed by the group and which have a guaranteed annuity factor, and/or changes in the choices of policyholders with respect to the annuity receipt track, among the tracks which are available in the policies, may result in the need to increase its insurance liabilities, in a manner which will have an adverse effect on its profitability, and primarily in insurance funds in which the annuity factor was determined based on mortality tables which are different from the currently known mortality tables. Additionally, there is the risk that the level of expenses throughout the lifetime of the portfolio will be higher than the estimate, inter alia, due to changes in the conduct of members or policyholders, the scope of realizations of the option to transfer the accrued amounts in the fund or in the policy, and regulatory changes. In the health and long term care insurance branches specifically, and in coverages with respect to loss of working capacity, the main risk is increase in morbidity and disability rates which affect the number of claims, the duration thereof, and the cost thereof. An additional risk factor is the realization rate of the option for continuity without underwriting in collective insurance policies, where a risk exists to an increase in this rate, including a risk of negative selection (selection of the option by less healthy policyholders).

(2) Portfolio retention level

The portfolio retention level, which depends on the cancellation, suspension and transfer rates, constitutes a significant insurance risk in the life and health insurance business operations, due to the fact that the profitability in this segment is based on a margin in premiums and the collection of management fees throughout the lifetime of the policy (for sensitivity tests regarding the company's assumptions with respect to cancellations, see Note 40(e1)(b)(4) to the financial statements). It is noted that the cancellation of the policies also causes the write off of deferred acquisition costs with respect to those policies.

(3) Catastrophe risks

The group is exposed to the risk that a single event with great impact (a catastrophe), such as an earthquake, natural disasters, war, terror attack or epidemic, will result in a significant accumulation of damages.

- **Earthquake in Israel -** The most significant catastrophic event to which the group is exposed in Israel is an earthquake. The company is exposed to an event of this kind primarily with respect to its exposures on retention in property insurance and in life and health insurance.
- **Risks of war and terror attack in Israel -** The company is exposed to an event of this kind primarily in life and health insurance.

Clal Insurance acquires partial protection against the accumulation of insurance events, including, inter alia, against earthquakes, natural disasters, and war and terrorism damages. The scope of acquired coverage is based on model-based assessments and/or on studies concerning the extent of damages expected to result from a catastrophic event, and there is no certainty regarding the materialization of the associated forecasts. In the event that actual damages are higher, the group will bear the excess damage, which may be significant. For details regarding the scope of the protection which is acquired against catastrophic events, see section 10.6 above.

(4) Stability of reinsurers

The insurance companies in the group insure some of their business operations in reinsurance, mostly through foreign reinsurers. However, the reinsurance does not release the direct insurers from their obligation towards their policyholders according to the insurance policies. The group is exposed to risks which are due to uncertainty regarding the ability of reinsurers to pay their share in the insurance to the group's member companies. Despite the fact that the exposure of the group's member companies is backed by reinsurance which is distributed between various reinsurers, and the main exposures are to reinsurers with high international ratings, the collapse of one of the large reinsurers with which the company has engaged could have a significant impact on the group. The group has very significant exposure to the materialization of a catastrophic event simultaneously with the collapse of a large reinsurer which insures the company against an event of this kind. However, the probability of the materialization of an event of this kind is estimated to be low, due to the fact that the two events have low probability, and the factor linking them is not high. For details regarding the exposure of the group's member companies to reinsurers, see Note 40(f)(8) to the financial statements.

(5) Strategic risks

The group is exposed to changes in its operating environment, which may affect its business operations, and particularly, the following risk factors:

- Changes in legislation and regulation - The group is exposed to changes in legislation and regulation which pertain to its operating segments. In particular, some of the regulatory changes which were recently performed and whci are proposed, some as non-final drafts, may constitute a threat on components in the branch's business model. Additionally, changes in legislation and in regulation, including circulars, determinations in principle, position papers and directives which the Commissioner is authorized to impose in connection with changes in policy terms, including tariffs, may affect the company also with respect to products which were sold in the past, including by way of retroactively application, and due to their impact on the interpretation of agreements which were signed in the past. For details regarding the known regulatory changes which may affect the group, see, inter alia, sections 6.2.1, 7.1.1.1(c)(1), 7.1.1.1(d), 7.1.1.2(b), 7.1.1.4(a), 7.1.2(d), 8.1.2, 10.2, 10.5.4, 10.5.5, 10.7.5, 10.8.3.1 and 10.10.3.3 above.

- Competition risks - The group is exposed to a high level of competition in all of its operating segments. The increased competition is also affected by the aforementioned regulatory changes, which may harm the group's profitability, both due to their direct effect on the profitability of the products and services in which the group is engaged, and due to increased operating, marketing and distribution costs, and increased competition in the group's operating segments.

- Legal risks - The complexity and scope of the group's operations, and particularly, the long validity period of the insurance agreements, create significant exposure to legal risks which may arise due to deficiencies in legal documents, including policies and reinsurance contracts, to operational deficiencies in the implementation of agreements, and to changes over time in interpretation, including with respect to products which were sold many years ago. Additional risks are due, inter alia, to legal precedents pertaining to the payment of claims, and which may increase the amount of claims which the group's member companies will be required to pay, and the instructions and determinations of the Commissioner. All of the above may expose the group to material claims which are not in the ordinary course of business, and which may affect the operations and/or financial results of the group's member companies, or the need to increase the insurance liabilities.

  Specifically, the group is materially exposed to class actions and derivative claims, both those in respect of which litigation has been initiated, and those where the potential exposure concerning the filing of class actions or derivative claims was brought to the attention of the group's member companies through self-disclosure and/or by way of approaches made by customers in various ways, as well as those of which the group's member companies have no such knowledge. In recent years, a trend of increase has occurred, both in the number of motions to approve class actions, and in the number of claims approved by the court as class actions. According to the company's estimate, the matter is affected, inter alia, by the change in the general approach of the courts with respect to class actions in general, and the unique characteristics of the insurance, pension and provident segment in particular. (For details regarding the exposure to class actions and derivative claims, see Note 43(a) to the financial statements.)

(C) Risks on the level of the group

Presented below are details regarding the risks which may materialize on the level of the group without materializing simultaneously in all or most the companies operating in the same branch:

(1) Compliance with regulatory requirements

Significant operations in the group are subject to specific and complex regulations. In particular, the insurance and long term savings operations are subject to various regulatory provisions, which change from time to time, with respect to products which were sold over many years, and which have long insurance coverage periods and/or savings periods. Non-fulfillment of regulatory requirements, even if done inadvertently, may result in sanctions including, inter alia, revocation of licenses and permits, and financial sanctions against the group, and orders of reimbursement, including as part of audits by supervisory entities, and may serve as the basis for lawsuits filed against it. For additional details, see Note 43(d) to the financial statements.

One central regulatory requirement is the fulfillment of minimum capital requirements. The institutional entities in the group are exposed to the risk of falling below the minimum required capital, which may lead to the initiation of regulatory measures against them. For details regarding the current and required capital of the consolidated insurance companies as of the reporting date, see Note 16(e) to the financial statements, and for details regarding the capital requirements of the managing companies, se Note 16(f) to the financial statements.

Beginning on June 30, 2017, the regulatory capital requirements of the insurance companies in the group are expected to be determined in accordance with the provisions of the economic solvency regime which is based on the principles of Solvency II, in parallel with the capital requirements in accordance with the Capital Regulations, until their cancellation, in accordance with the Commissioner's approval. The model for the determination of the capital requirements in insurance companies under the economic solvency regime is more stringent, and is intended to ensure the company's ability to absorb losses whose probability of materialization is low, and accordingly, reduces the company's solvency ratio, and therefore, may increase the risk of non-fulfillment of capital requirements. Additionally, this risk may increase in light of the figures used in the calculation of recognized capital and the capital requirements in accordance with the principles of the economic solvency regime, which is inherently more volatile. In particular, there is high sensitivity of the solvency ratio to the structure of the risk-free interest rate curve, to the composition of assets in the investment portfolios, and to actuarial assumptions, including the mortality, morbidity, cancellation rates, as well as the rate of options exercised by policyholders, where changes in the foregoing may result in changes to the may result in solvency ratio from one period to the next. However, the distribution arrangements which are expected to apply in the first years after the entry into effect of the new solvency regime moderate thr risk of non-fulfillment of the capital requirements. See section 11.5 below and Note 16(e)(3)(b) to the financial statements.

The company is subject to restrictions and terms by virtue of control permits for the institutional entities under its control, including a requirement to maintain capital (see Note 16(e) to the financial statements). Failure to comply with this requirement may result in the imposition of sanctions against the company and its controlling shareholders.

(2) Liquidity risks

The group is exposed to risks due to the uncertainty regarding the date when the group's member companies will be required to pay financial liabilities, claims and other benefits to other policyholders and creditors, relative to the scope of funds which will be available for this purpose at that time. The possible need to raise sources unexpectedly and in a short time may require significant realization of assets under pressure conditions, and the sale thereof at prices lower than the market prices. Liquidity risk also exists with respect to the activities of the company itself, which relies on dividends from its investee companies to pay its financial liabilities and guarantees, however, in consideration of the low scope of the liabilities of the company itself, and the scope of its own sources, this risk is estimated as low. For details concerning the scope of the company's financial liabilities, see Note 27 to the financial statements. In the group's insurance activities, liquidity risk is not estimated to be material due to the high scope of liquid assets in the nostro portfolio, the high scope of current incoming cash flows from premiums, and the fact that the payment of claims is conditional upon the fulfillment of insurance events. However, liquidity risk may increase upon the materialization of a significant catastrophic event.

(3) Risks associated with the pricing and assessment of insurance liabilities

The group is exposed in its insurance activities to **model risk -** The risk that the wrong model will be chosen for pricing and/or for the evaluation of insurance liabilities; **Regarding parameter risk** - the risk of the use of incorrect parameters in models, and **regarding underwriting risk** - the risk of the use of incorrect pricing due to deficiencies in the underwriting process.

(4) Operational risks

The group is exposed to operational risks, i.e., the risk of loss due to the inadequacy or failure of internal processes. people or systems, or due to external events. The group's exposure is due to processes which include, inter alia, processes involving purchasing, payroll, investment, collection, policy production, policy operation and long term savings, including the implementation of changes thereto, and the attribution of funds to the product's various components and layers, and processes involving activities vis-a-vis insurance agents, employers, salary bureaus, pension clearing house, institutional entities, claim payments, manual operations, data entry into the information systems, production of reports, contractual engagements with entities abroad, including foreign brokers and clearing houses, and engagements with reinsurers and service providers. The group is exposed, inter alia, to operating risks also in respect of negligence on part of its employees, agents, and of third parties operating on its behalf, as well as in respect of intentional malicious actions which may result in claims of material scope being filed against the group and/or damages of material scope incurred by the group. The group is also exposed to fraudulent actions on the part of its customers and additional entities with which it works. Said exposures to operating risks result, inter alia, from the complexity of the products and services which are marketed by the group, and which were marketed in the past, and from the complexity of the regulations applicable to its activities, which increases the chances that a dispute may arise with a customer concerning the interpretation or manner of implementation of the instructions of the law, or an agreement, or a malfunction in the operation of the products and services. This exposure is greater in long term products, and particularly in life insurance products, due to the high operational complexity of the products, and due to the fact that they are exposed to frequent regulatory changes. In this regard, it is noted that the implementation of the circular regarding the cleansing of data regarding members' rights, which was performed in the long-term savings segment in recent years, may lead to operational implications and to additional monetary implications, which the group is unable to fully estimate (for details, see section 6.2.1.7 above).Additionally, the implementation process of the Payment Regulations in the last year, which includes an interface with many factors, is highly complex, and is accompanied by significant operational difficulties in the short term, although, in the longer term, it is expected to reduce the operational risks involved in the relevant activity (for details, see section 6.2.1.4(c)(2) above). In light of the scope of activities of the group, which currently manages, as of December 31, 2016, assets in the amount of approximately NIS 177 billion, of which approximately NIS 146 billion are assets managed for others (see Part B - board of directors' report, section 3.3.1), and despite the steps taken by it to identify the risks and to determine adequate controls, the scope of its exposure to operational risks of the type specified above is significant.

(5) Information system risks

A significant part of the group's activities is based on various information systems. Information systems support all of the management processes, including the calculation of the rights of the group's customers. The absence of sufficient infrastructure and/or deficiencies and/or failures in the computerized information systems may cause significant damage to the group's operations. As specified in section 10.10.3.2 above, the IT systems are subject to an ongoing process of adjustment to the regulatory directives, in order to ensure the compatibility with the group's products. A malfunction in information systems and/or information systems which are not adapted to the regulatory requirements and/or a lack of full correspondence between the computing systems and the terms of the products, may expose the group to the possibility of noncompliance with regulatory requirements, to errors in data interfaces, and to errors in the operation of products marketed by the group. The group is also exposed to harm and/or unauthorized use of its information assets, as a result of information security failures and/or due to actions performed by hostile entities.

(6) Reputation risk

The group's reputation serves as a critical component in its ability to operate in all of its operating segments. Therefore, the group is exposed to risk of harm to its business position, as a result of harm to the group's image and reputation as perceived by policyholders, members, institutional entities, investors, business partner, supervision entities, agents, distribution entities, media and others, inter alia, due to the public mood, and criticism by any of the aforementioned entities regarding its method of conduct, including in connection with the settlement of claims. In this regard, it is noted that Clal Insurance and bonds which were issued by Clalbit Finance are rated by rating companies (see Note 27(f) to the financial statements) and the reduction of the rating given to Clal Insurance and/or to bonds which were issued by Clalbit Finance may significantly harm its activities. Additionally, a change in control of the company may harm the group's reputation, the availability of financing sources and the rating of Clal Insurance. The existence of clauses regarding change in control in certain agreements of member companies in the group with third parties, including reinsurers, may require, upon the fulfillment of such circumstances involving a change in control, negotiating with those third parties in order to keep the agreements in effect. According to the company’s estimate, as of the publication date of the report, events associated with the change in control in IDB and/or in the company, as specified in Note 1 to the financial statements, had no significant influence on the group’s reputation, inter alia, as a result of the appointment of a trustee for the control shares of the company, and the creation of separation between the controlling shareholders and the trustee and the company.

(7) Engagements with external suppliers

Within the framework of its activities, the group enters into agreements with various suppliers and service providers, including regarding the operation of provident funds, payroll management, loss adjusters, garages, medical service providers, legal service providers, IT service providers, and others. The group is exposed to risk of harm to reputation and profitability as a result harm to the quality of services which will be provided to it or to its customers, in case the service quality given by those suppliers is in adequate, and is also exposed to the risk associated with the difficulty in finding an alternative supplier, if necessary.

(8) Realization of undertaking to indemnify

Within the framework of transactions involving the sale of assets and/or operations by the company and/or by its subsidiaries, the selling companies made various representations regarding the sold assets and/or liabilities, and also undertook to indemnify the buyers with respect to inaccuracy of representations and/or with respect to claims which will be filed and whose grounds are due to events which preceded the sale date. The company may be required to make payments by virtue of these liabilities. (For details regarding material indemnification undertakings, and for details regarding the approval of a class action which may impose an indemnification undertaking on the company, as stated above, see Notes 27(c)(1), 43(a1)(9), and 43(b1)(2) to the financial statements.)

10.17. Material agreements and collaboration agreements

10.17.1. Presented below is a description of the material agreements to which the company is party, or which pertain to the company

- **Agreement for the rental of areas with Atidim - Science Based Industries Ltd. -** On March 12, 2013, the company engaged in a binding memorandum of understanding with Atidim - Science Based Industries Ltd., according to which the company will rent, on its own behalf and on behalf of the group’s member companies, areas in the Atidim Tower in Ramat HaHayal, Tel Aviv.

- **Collective agreement with the Histadrut employees committee in the group** - Further to the recognition by several member companies in the group of the Histadrut New General Federation of Labor (the “**Histadrut**”) as a representative organization, on January 2, 2014, Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems and Clal Finance signed a collective agreement between them and the Histadrut employees organization in the group. Additionally, further to the announcement of the Histadrut from November 30, 2014, according to which it is also the representative employees organization of employees of Canaf and Clal Amitim, on December 22, 2015, an annex was signed to the collective agreement of Clal Insurance, which applied the provisions of the collective agreement on some employees of Canaf, except for managers of a rank which was determined, and employees in specific positions which were determined, and for which arrangements were determined regarding their employment termination conditions. For additional details regarding the agreement and the annex to the agreement, and for details regarding the negotiations which are being conducted between the parties in advance of the renewal of the collective agreement, see section 10.7.3 above and Note 24(d).

- For details regarding agreements regarding the automation of systems in long term savings, see Note 44(c) to the financial statements.

For details regarding significant agreements which are immaterial and to which the company is party, or which pertain to the company, see Notes 27, 44(b) and 44(d) to the financial statements.

10.17.2. Presented below is a description of the collaboration agreements to which the company is party or which pertain to the company

- **Collaboration and shareholders agreement with Atradius Insurance Group** - Clal Insurance engaged with Atradius Group, the owner of 20% of the shares of Clal Credit Insurance, in an agreement which regulates the business collaboration with it as a strategic partner, and sets forth the relationship between the parties as shareholders in Clal Insurance (hereinafter: the "**Agreement**"). On December 29, 2015, the parties and Clal Credit Insurance signed an amendment to the agreement, and an extension thereof for an additional three years until December 31, 2018. The agreement establishes the right of Clal Credit Insurance to receive from Atradius Group professional assistance and information regarding foreign debtors and credit risks (hereinafter: "**Right to Receive Information**"), and formalizes the collaboration between the parties. Additionally, it was determined in the agreement that Atradius Group is entitled to be a leading reinsurer of Clal Credit Insurance, subject to the fulfillment of market conditions and the receipt of a minimum rating (hereinafter: the "**Reinsurance Right**"), and is also entitled to appoint a director in Clal Credit Insurance, who will have veto rights with respect to certain resolutions, as specified in the agreement. Additionally, in accordance with the agreement, Clal Insurance has right of first refusal towards Atradius Group for the acquisition of its shares in Clal Credit Insurance, Atradius Group has the right to join the sale of shares of Clal Credit Insurance by Clal Insurance, under identical conditions as those of Clal Insurance, while Clal Insurance will be entitled to add Atradius Group to the sale of all of its shares in Clal Credit Insurance to a third party, in accordance with the conditions which were determined in the agreement. The agreement is in effect for 3 years, and is renewed automatically every 3 years, unless one of the parties to the Agreement has notified the other party 6 months before the end of the relevant period, regarding its desire to terminate the Agreement, or in case of termination of the agreement by one of the parties due to a fundamental breach by the other party. In case of termination of the agreement by Atradius Group, option will have the option to acquire from Atradius Group its shares in Clal Credit Insurance at a price which reflects market value. In case of the termination of the agreement by Clal Insurance, Atradius Group will be obligated to acquire, and Atradius Group will be obligated to sell, its shares in Clal Credit Insurance, at a price which reflects market value. In case of a fundamental breach of the agreement by Clal Insurance, Atradius Group will have the option to sell to Clal Insurance its shares in Clal Credit Insurance, at a price which reflects market value. In case of a fundamental breach of the agreement by Atradius Group, Clal Insurance will have the option to acquire from Atradius Group its shares in Clal Credit Insurance at a price which reflects market value.

Additionally, it was determined that if Clal Credit Insurance cancels the right to reinsurance, without the act being considered a fundamental breach of the agreement, Atradius Group will be entitled to choose from among the following two options: (A) cancellation of the right to receive information, or (B) termination of the agreement, in which case, Clal Insurance will acquire the shares of Atradius Group in Clal Credit Insurance at a price which reflects market value. It was further determined that if Atradius Group cancels the right to receive information, then without the act constituting a fundamental breach of the agreement, Clal Insurance will be to choose from among the following two options: (A) cancellation of the right of reinsurance, or (B) termination of the agreement, in which case, Clal Insurance will acquire the shares of Atradius Group in Clal Credit Insurance at a price which reflects market value.

10.18. Goals and business strategy

For details regarding the group's business strategy, see Part B - board of directors' report, section 5.

Part V - Corporate Governance

11. Corporate governance

The following sections are provided in this part of the company's periodic report for 2016 in accordance with the Commissioner's directives regarding the description of the corporation's business for insurance companies; however, some of the information which is included herein is provided in accordance with the Securities Regulations, insofar as it is relevant.

11.1. Outside directors

During the reporting year, Ms. Shula Bandel concluded her tenure as an outside director in the company, after three terms of tenure. In her place, the general meeting appointed Mr. Sami Moualem as an outside director, out of the recommended list of candidates submitted by the company's committee regarding the appointment of directors, which was appointed by the Honorable Judge, led by Judge (Emeritus) Sarah Gadot. For details regarding the aforementioned outside directors, see section 17 of Part D of the periodic report.

11.2. Internal auditor

11.2.1. Details of the internal auditor

- Name: Eran Shachaf.
- Tenure commencement date: April 1, 2014
- The internal auditor fulfills the conditions prescribed in section 3(a) of the Internal Audit Law, 1992 (hereinafter: the "**Internal Audit Law**").
- The internal auditor complies with the provisions of section 146(b) of the Companies Law, and with the provisions of section 8 of the Internal Audit Law.
- The internal auditor has no business relations with the company or with any entity which is related thereto.
- The internal auditor is an employee of Clal Insurance and serves as an internal auditor in the company, in Clal Insurance and in additional member companies in the group.
- For details regarding the auditor's holdings in the company's securities, see section 11.2.11 below.

11.2.2. Appointment method

The internal auditor was appointed in November 2013 by the company's board of directors and Clal Insurance, further to the recommendation of the audit committee of the company and Clal Insurance, and his tenure began in April 2014. The appointment of the internal auditor was done in light of his education, and the obligations and responsibilities of the internal auditor in accordance with the law in the company and in Clal Insurance, in consideration of, inter alia, the company's size, type, scope of activities and complexity. The authorities of the internal auditor are set forth in a positions and authorities document, which was last approved on December 27, 2015 and on December 31, 2015 by the audit committee and board of directors of the company and of Clal Insurance, respectively.

11.2.3. Identity of the internal auditor's supervisor

In accordance with the provisions of section 148 of the Companies Law, the individual in the organization who supervises the internal auditor is the Chairman of the company's board of directors.

11.2.4. Work plan

- The internal audit operates in accordance with a multi-annual work plan (for a period of 4 years), and in accordance with an annual work plan which is derived therefrom.
- The determination of audit subjects significantly depends on the risk level inherent in each audited operating segment, and on the probability of the materialization of the risk. The determination of the audit subjects and the frequency of audits therein is based, inter alia, on a risk survey which was performed by the internal audit unit in 2014, in which an emphasis was placed, inter alia, on the financial scope of the activity regarding which an audit is proposed, and on the exposure to operational, regulatory and other risks which are inherent in the aforementioned operation. In 2017, the internal audit is expected to conduct an updated risk survey regarding the determination of the audit issues and the frequency of performance of the audit thereof during the years 2018-2021.
- For the purpose of determining the internal auditor's work plan, the internal auditor consults with the Chairman of the Board, the audit committee Chairman, the company's CEO and members of management.
- The internal auditor submits the work plan to the company's audit committee for approval, in accordance with the provisions of section 149 of the Companies Law.
- The work plan allows judgment for the internal auditor to deviate from the plan, in cases such as regulatory changes, specific requirements of the Commissioner, changes in work processes or changes in the organizational structures which are relevant to the activities on which an audit was planned in accordance with the work plan, as approved by the audit committee. In case of an insignificant deviation from the work plan, the internal auditor is not subject to additional approvals, but submits updates to the audit committee regarding those changes.
- The internal audit unit performed, during the reporting year, an internal audit of the processes which were implemented in the company in order to identify, evaluate and approve transactions with interested parties which constitute material transactions, as defined in the fourth addendum to the immediate report regulations. The internal audit unit also evaluated certain aspects associated with the performance of other material transactions within the framework of various audit reports.

  The was invited to all meetings and attended most meetings of the board of directors and the audit committee, including meetings in which material transactions were discussed.

11.2.5. Audit of investee companies

The work plan of the internal audit unit for 2016 also addressed the activities of subsidiaries, and particularly, material investee corporation of the company in Israel, as specified below:

Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds.

The aforementioned investee corporation did not have an additional internal auditor during the reporting year.

It is noted that Atudot Havatika has a separate internal auditor, whose activity is not associated with the group's internal audit division.

11.2.6. Scope of employment

The internal auditor is employed by the company in a full time position. The internal auditor was responsible, during the reporting year, for the internal audit departments in the company's investee companies, excluding Atudot Havatika, as stated above. The scope of the audit in the investee companies is derived from the unique characteristics of the activity of each investee company, and from the scope of its activities relative to the scope of the group's activities.

Presented below is the scope of internal audit work hours which were performed regarding the activity of the company and of its investee companies during the reporting period:

Company name	Hours worked	Additional internal auditor	Outsourcing	Total
Clal Insurance[65]	30,900		900	31,800
Clal Credit Insurance	1,000			1,000
Clal Pension and Provident Funds	11,100		300	11,400
Atudot Havatika		850		850
Agencies under the company's control	300			300
Total:	**43,300**	**850**	**1,200**	**45,350**

The total scope of audit work hours in the group in 2016 (including 850 audit hours of Atudot Havatika) amounted to a total of approximately 45,350, as compared with the total scope of hours in the group in 2015, which amounted to a total of 45,580 hours (including 1,580 audit hours of Atudot Havatika). Atudot Havatika has an additional, separate internal auditor, whose activity is not associated with the group's internal audit division.

11.2.7. Performance of audits

- Audits are performed in accordance with professional guidelines for the internal audit unit, and in accordance with the guidelines set forth in institutional entities circular 2007-9-14.

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[65] The figure includes 100 audit hours in Clalbit Finance.

- The company's board of directors is satisfactorily convinced that the internal audit unit is working in accordance with the requirements which were determined in the aforementioned guidelines, inter alia, based on various issues which were presented to the board of directors and/or to the audit committee for approval, including the letter of authorities for the internal audit unit, qualifications, and the resources of the internal audit unit, and routine maintenance and monitoring of the internal auditor's independence.

11.2.8. Access to information

As part of the work done by the internal audit unit, any document or information requested by the internal auditor and required for the performance of his responsibilities were presented to him. No restrictions were imposed on the work of the internal audit unit, and as part of the foregoing, the internal auditor was given free, continuous and immediate access to the company's information systems and financial data.

11.2.9. Reports of the internal auditor

- The internal auditor's reports are submitted in writing.
- The internal audit reports are presented, on a routine basis, to the CEO of the audited company, for the purpose of holding a discussion regarding the findings of the audit, before presenting them t the relevant audit committee. The audit reports are available to the Board members.
- Presented below are the dates on which the reports regarding the internal auditor's findings were discussed in the audit committee of the company and/or of Clal Insurance: January 17, 2016, February 15, 2016, March 10, 2016, April 14, 2016, May 16, 2016, June 27, 2016, July 14, 2016, August 11, 2016, September 13, 2016, October 6, 2016, November 17, 2016.

The audit reports are rated by the internal audit department by level of severity. It is noted that some of the internal audit reports are submitted for review to the audit committee members for information purposes only, and are not discussed in the committee's meetings, in cases where the audit report is rated by the audit report unit with a relatively low severity level, in a manner which does not require presenting the report for discussion. It is emphasized, also with respect to the internal audit reports which are presented for information purposes only, that each of the audit committee members has the possibility of requiring that a specific discussion be held regarding the findings and recommendations which are included in the report.

11.2.10. Board of directors' assessment of the internal auditor's work

In the opinion of the company's board of directors, the scope, nature of continuity of the activities and work plan of the internal audit unit are reasonable in light of the circumstances, and are sufficient to achieve the goals of internal auditing in the company.

11.2.11. Compensation

- The internal auditor is employed as an employee of Clal Insurance, with the status of Executive VP, in a full time position, and receives a monthly salary, including social fringe benefits.
- The internal auditor has a personal compensation plan with respect to the distribution of an annual bonus, as part of the general compensation policy adopted by the company. The internal auditor's personal remuneration plan is based, inter alia, on the company's profit, professional

targets associated with the internal audit work program, including in accordance with the evaluation of the audit committee, and the evaluation by the Chairman of the board of directors regarding the performance of the internal auditor. The targets are approved on an annual basis by the compensation committee, audit committee and board of directors, as is the fulfillment thereof. For additional details, see the annex regarding the compensation policy.

- The total compensation to the internal auditor in 2016 amounted to approximately NIS 1.2 million.

- Over the years 2013 and 2014, 26,000 non-marketable warrants exercisable into ordinary company shares were allocated to the internal auditor as part of the 2013 warrants plan, which applies to corporate officers and employees in the company and in the group's member companies. For additional details, see Note 42 to the financial statements.
- On March 16 and 21, 2017, the compensation committee and board of directors evaluated the correspondence of the compensation received by the company's internal auditor in 2016, as specified in this section above, to the terms of the company's compensation policy, and found that the compensation corresponds to the terms of the company's compensation policy.

  The compensation policy of the group's institutional entities applies to the internal auditor. For the transitional provisions which were determined in the compensation circular and in the amendment thereto, see section 10.7.5 above.

  It is further noted that in April 2016, the audit committee and board of directors also evaluated comparative figures with respect to the total compensation given to internal auditors in similar companies.

  It is further noted that in March 2017, a part of the bonus was paid to the internal auditor, which had not yet been paid to him with respect to 2015, in accordance with the company's compensation policy, and the approval of the competent organs. For details, see section 10.7.5 above.

  In light of the foregoing, in the assessment of the board of directors, the employment terms of the internal auditor are reasonable and fair, and reflect the internal auditor's fulfillment of his personal targets, and his contribution to the company. The board of directors found that the fixed and variable component which were given to the internal auditor, as specified in regulation 21 of the Securities Regulations (Periodic and Immediate Reports), 1970, correspond to the compensation policy of the company and the institutional entities, and to the transitional provision which applies with respect to the compensation policy of the institutional entities.

  In light of the board of directors' impression regarding the personal integrity of the internal auditor and the quality of his work, and in light of the fact that the fixed salary constitutes the main component of the internal auditor's compensation package, the company's board of directors believes that there is no concern regarding a conflict of interest in that the internal auditor was given warrants in the past, and that as part of his compensation plan, he may receive a variable bonus, and the foregoing does not affect the internal audit work.

In light of the foregoing, the company's board of directors believes that the compensation given to the internal auditor does not affect his professional judgment.

11.3. Auditor's Report

11.3.1. Details Regarding the Auditing Firms

- **Kost Forer Gabbay & Kasierer -** Tenure commenced in 1978. Name of responsible partner: Yair Koppel, C.P.A.
- **Somekh Chaikin -** Tenure commenced in 1998. Name of responsible partner: Deborah Wiesel, C.P.A.

11.3.2. Payments to the auditors

NIS in thousands, excluding VAT

	2016				2015			
	Audit and tax services	**Audit-related services**	**Other services**	**Total**	**Audit and tax services**	**Audit-related services**	**Other services**	**Total**
The company	100	-	-	100	100	-	-	100
Clal Insurance and subsidiaries	3,997	404	1,471	5,872	3,972	235	1,642	5,849
Clal Agency Holdings and subsidiaries	142	-	-	142	142	-	-	142
Other companies	34	-	-	34	37	-	-	37
Total companies	**4,272**	**404**	**1,471**	**6,147**	**4,251**	**235**	**1,642**	**6,128**

11.3.3. Auditors' work hours

	2016				2015			
	Audit and tax services	**Audit-related services**	**Other services**	**Total**	**Audit and tax services**	**Audit-related services**	**Other services**	**Total**
The company	555	-	-	555	570	-	-	570
Clal Insurance and subsidiaries	20,930	928	5,218	27,076	21,320	469	5,155	26,944
Clal Agency Holdings and subsidiaries	950	-	-	950	921	-	-	921
Other companies	243	-	-	243	356	-	-	356
Total companies	**22,678**	**928**	**5,218**	**28,824**	**23,167**	**469**	**5,155**	**28,791**

The overall scope of work hours of the auditors in the group in 2016 amounted to 28,824 work hours, as compared with 28,791 hours in 2015.

The professional fees of the accountants with respect to the audit services were determined by the board of directors, in accordance with the recommendation of the audit committee. The professional fees with respect to the audit services were determined following negotiations with the auditors, in which the scope and complexity of the audit were evaluated, with reference to the auditor's salary, according to the conventional practice in the branch. The professional fees with respect to services which are not associated with auditing were determined primarily in accordance with the type of work, the scope of work hours and the audited subject.

11.4. Effectiveness of internal control over financial reporting and disclosure -

11.4.1. 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.

11.4.2. 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.

11.4.3. 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, including the update which was implemented to the model and is required beginning on December 15, 2014.

The management of Clal Insurance (the institutional entity), in collaboration with the CEO, Executive VP, Investments, Finance, and Financial Services Division Manager and Senior VP Chief Accountant of Clal Insurance (the “**Management of Clal Insurance**”) have evaluated, as at 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 management of Clal Insurance has concluded that, as at 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 annual 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 covered period ended December 31, 2016, 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.

11.5. Preparation for the implementation of a Solvency II-based economic solvency regime

The Commissioner is working to adopt an economic solvency regime in Israel which is based on the principles of European directive Solvency II, the adoption of which in Europe began in 2016. Beginning in 2008, the company has conducted quantitative impact studies (IQIS) in accordance with the detailed instructions which were published by the Commissioner for this purpose, and which were based on the provisions of the Directive which were known at that time in Europe, and included additional adjustments of the Commissioner to the local market. The company performed these quantitative impact studies with a focus on progressing towards the creation of an organizational, business and automational infrastructure, and the performance of adjustments in accordance with changes in instructions, which were published from time to time.

On February 7, 2017, the wording of provisions for the implementation of a Solvency II-based economic solvency regime for insurance companies were published, which was submitted to the Finance Committee of the Knesset, which included changes to the reference to details of implementation and the aplication date which were known prior to its publication, and it was determined that the application date will be June 30, 2017. The insurance companies in the group are preparing for the implementation of these guidelines, upon their entry into effect as binding directives, including the performance of the required adjustments to the automational and process infrastructure as involved in their routine implementation.

Clal Insurance Enterprises Holdings Ltd.

D. Naveh	**I. Cohen**
Chairman of the Board	**Chief Executive Officer**

March 21, 2017

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Board of Directors' Report

Clal Holdings

December 2016

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 December 31, 2016 (hereinafter: the "**Board of Directors' Report**") reviews the principal changes which occurred in the operations of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") during 2016 (hereinafter: the "**Reporting Period**").

The board of directors' report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, with respect to insurance business operations, in accordance with the Insurance Business Control Regulations (Particulars of Report), 1998, and in accordance with circulars issued by the Commissioner of the Capital Markets, Insurance and Savings (herein: 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 December 31, 2016	
	Holding of voting rights in the company	**Holding of voting rights in the company, at full dilution** [1]
Shareholder	%	
IDB Development Corporation Ltd. [2]	54.92	53.44
Bank Hapoalim	9.50	9.25

1) The holding rate, at full dilution, was prepared according to 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: 2,323,998 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, proximate to the publication of the report, IDB Development Corporation Ltd. is working to pledge 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, such that, as of proximate to the publication of the report, he holds only 50% of the means of control.

For additional details regarding IDB Development Corporation's holdings in the company, and IDB Development Corporation's obligation to sell the company's shares, and a request to pledge additional company shares, see Note 1 to the consolidated periodic reports.

1.2. Developments since the publication of the last annual report

1.2.1. General

For details regarding material changes which occurred during the reporting period, see section 2.5 in Part A of the Periodic Report - Description of the Corporation's Business (hereinafter: "**Description of the Corporation's Business**").

1. Description of the company (Cont.)

1.2. Developments since the publication of the last annual report (Cont.)

1.2.1. General (Cont.)

For details regarding additional events during and after the reporting period, see Note 44 to the financial statements.

1.2.2 Legal proceedings

For details regarding developments in the status of class actions and pending claims against the group (which are not in the ordinary course of business), see Note 43 to the financial statements.

1.2.3. Restrictions and supervision of the corporation's business

In recent years in general, and in the reporting year in particular, significant regulatory reforms were promoted in the various insurance and savings branches, primarily including reforms which are intended to directly or indirectly reduce premiums and management fees, through the use of various regulatory tools. Worthy of note, inter alia, was the establishment of a default pension fund by the Division of Capital Markets and Insurance as a means of reducing management fees, the implementation of a significant change to the tariffs of compulsory insurance, and changes to health products, through an effective reduction of the maximum limit for approved tariffs, without determining in advance the update mechanism for tariffs, during the insurance period.

The regulatory reforms created changes in the engagement structure and in the reciprocal relationships between institutional entities, agents, employers and customers, in a manner which could affect the ability of institutional entities to link their income to their expenses, and could impose on them significant operating expenses. The application of some of the reforms began during the reporting period, while others are expected to be applied in the future and/or are in various stages of regulatory processes. In light of the fact that these reforms were published recently, and are currently in various stages of the implementation process, it is not possible to estimate their full impact on the pension insurance market in Israel. The entire set of applied and proposed changes, the operational burden to the pace, scope and complexity of the regulatory changes, and the need to implement adjustments to the automation systems and work processes, have implications on the business model in the branch, and currently affect and will continue to affect the insurance market in Israel in the coming years, and the profitability thereof, including, inter alia, the value of new business (VNB) which will be sold, the embedded value with respect to branch operations, and the capital ratio in accordance with the Solvency II-based solvency regime, whose requirements the company is preparing to fulfill.

For details regarding developments in laws, regulations, material circulars which were published during the reporting year, and regarding material drafts of the above, which were published by the Knesset, the Government or the Commissioner, as applicable, see the Description of the Corporation's Business, in the part regarding "Restrictions, legislation, standardization and special constraints", for each of the operating segments; and section 11.2, regarding restrictions and supervision of the corporation's activities.

The information presented on all matters associated with the regulatory changes constitutes forward looking information, which is based on assumptions and estimates made by the group as of the publication date of the report. These changes, and the actual implications thereof, may differ from the forecast, including, inter alia, in light of the uncertainty involving their occurrence, and involving all of their implications, which are dependent, inter alia, on the conduct of distributing entities, distributing entities and policyholders, and on the reciprocal relationship between the various reforms.

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 2016, a mixed trend was recorded, whereby the Tel Aviv 100 Index decreased, and the Yeter Index recorded a positive trend. The local bond market was characterized by slightly increased prices.

In 2016, government bond yields sharply decreased in the first half of the year, until the results of the referendum in Great Britain became known. Subsequently, during the period between the referendum in Great Britain and the election in the United States during November, bond yields rose slowly, and featured low volatility.

Once the election results became known, the market expected fiscal expansion in the United States, which led to a sharp increase in yields around the world and in the local market, for a relatively short period of time. However, as opposed to global markets, in which inflation forecasts sharply increased, inflation forecasts remained low in the local market.

The linked government channel underperformed relative to the NIS channel throughout the entire curve, and the rate of inflation forecasts remained low, with no significant change.

The total impact of market developments on the group's results in 2016 was reflected in the fluctuations of the value of financial assets held against capital and insurance liabilities, primarily due to the changes in stock markets, and to the fluctuations in the value of the liabilities due to the changes in the interest rates which are used to calculate the insurance liabilities.

During the fourth quarter, a significant positive trend was observed in the leading stock indices around the world, and in the local stock market. In the bond market, a mixed trend was observed, whereby a negative trend was recorded in government bonds, and a positive trend was recorded in corporate bonds.
During the fourth quarter, returns sharply rose around the world and in the local market, in a relatively short period, following the results of the elections in the United States, as stated above.

The total impact of market developments on the group's results during the fourth quarter was reflected both in the increase in the value of financial assets held against capital and insurance liabilities, primarily due to the increase in stock markets, and in the decrease in the value of insurance liabilities, due to the increase in the interest rates which were used to calculate the insurance liabilities.

Despite the intervention of the Bank of Israel, which, in the months January - February 2017, performed additional acquisitions of USD, the NIS rose by an additional approximately 3.4% relative to the USD. For details regarding developments in the capital markets, see sections 2.1.1.3 and 2.1.2.3 below. For details regarding the changes in the value of the liabilities, see Note 44(L) to the financial statements.

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

2.1.1.1 <u>Developments in the Israeli economy and employment rate</u>

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.

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

In 2016, the economic activity continued to be positive, and according to the annual estimate of the Central Bureau of Statistics, the economy grew by approximately 3.8% in 2016. According to the forecasts of the research division of the Bank of Israel, in the years 2017 and 2018, gross domestic product is expected to grow by 3.2% and 3.1%, respectively.

Growth was primarily due to the increase in investment in fixed assets (approximately 10.3%) and private consumption (approximately 6.1%). The growth in private consumption was primarily due to the positive development in employment data, as specified below, the low interest rate, and the increase in salary.

Employment data

According to the data of the workforce survey conducted by the Central Bureau of Statistics, in 2016, the unemployment rate among persons aged 15 or older who are eligible to work is 4.8% (as compared with 5.3% in 2015), and the employment rate (percent employed out of the total population) among persons aged 15 or older was 61.1% (as compared with 60.7% in 2015), while the unemployment rate among those aged 25-64 who are eligible to work was 4.1% (as compared with 4.5% in 2015), and the employment rate among those age 25-64 was 76.6% (as compared with 76.2% in 2015).

In the fourth quarter of 2016, the unemployment rate among persons aged 15 or older who are eligible to work was 4.4% (as compared with 4.7% in the third quarter of 2016), the employment rate among persons aged 15 or older was 61.3% (unchanged relative to the third quarter of 2016), the unemployment rate among those aged 25-64 who are eligible to work was 3.8% (as compared with 4.1% in the third quarter of 2016), and the employment rate among those age 25-64 was 76.9% (unchanged relative to the third quarter of 2016).

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 2016 and 2015:

	For the year ended December 31		For the period of three months ended December 31	
In percent	**2016**	**2015**	**2016**	**2015**
Index in lieu	(0.2)	(1.0)	(0.2)	(0.4)
Known index	(0.3)	(0.9)	(0.3)	(0.7)

After the balance sheet date, the Central Bureau of Statistics published the price index for January, which decreased by 0.2%, and for February, which remained unchanged.

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

During the reporting period, the risk-free interest rate curve decreased further. This decrease was significantly lessened in the second half of 2016.

From the start of the year, the inflation forecast as derived from the capital market increased slightly, mainly in light of the increase in oil prices and positive data regarding improvement in the economy.

The Bank of Israel left the interest rate unchanged in 2016, at 0.1%.

The Bank of Israel continued its involvement in the foreign currency market, where some of the foreign currency purchases were performed as part of the plan to offset the impact of natural gas. Foreign currency balances in the Bank of Israel as of the end of the year amounted to approximately NIS 98 billion.

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 44(n) to the financial statements. See also Note 40(c)(2) to the financial statements regarding sensitivity tests to changes in the interest rate, and Note 40(e)(e1)(d)(1) for details 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.

Presented below are data regarding changes in major stock and bond indices in Israel:

Stock indices

	For the year ended December 31		For the period of three months ended December 31	
In percent	**2016**	**2015**	**2016**	**2015**
Tel Aviv 25	(3.8)	4.4	1.9	2.5
Tel Aviv 75	17.3	(5.4)	5.8	(3.6)
Tel Aviv 100	(2.5)	2.0	1.6	1.1
Yeter stocks	24.7	26.3	2.4	9.1
General stocks	(11.1)	6.8	(3.4)	4.5

Bond indices

	For the year ended December 31		For the period of three months ended December 31	
In percent	**2016**	**2015**	**2016**	**2015**
General	2.1	1.8	(0.6)	0.3
Telbond CPI-linked	2.4	0.0	(0.3	0.1
Telbond NIS-linked	2.4	4.7	0.5	1.9
Government CPI-linked	0.7	(0.2)	(1.8)	0.0
Government NIS-linked	1.2	2.8	(0.9)	0.4

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

	For the year ended December 31		For the period of three months ended December 31	
NIS in billions	**2016**	**2015**	**2016**	**2015**
Scope of raising by public companies for the period	64.1	57.1	7.3	11.5

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 - the growth of GDP in the first half of the year was relatively moderate. Furthermore, additional data, such as the PMI index and added new jobs in the employment reports presented data which did not allow the Federal Reserve (the "Fed") to increase the interest rate. The second half was far more encouraging, with growth of 3.5% in the third quarter, and the Fed resumed its signaling of the desire and need to raise the interest rate. Following the election of Donald Trump as president, who had announced his intention to adopt an expansive fiscal policy, yields of American government bonds began increasing, along with an expectation of an increased inflation rate. The USD rose to a 14 year high, while the Fed increased the interest rate in December 2016 by an additional quarter percent. In summary of the year, GDP grew by 1.6% relative to the previous year.

In March 2017, the Fed raised the interest rate by 0.25%, due to positive indicators in the labor market and inflationary pressures in the American economy.
Europe - The Central Bank announced, at the end of the first quarter, additional monetary incentives following the turbulence which affected stock markets, the moderation of economic data, the growing strength of the Euro, and particularly, the return of the annual inflation rate to negative territory. The Central Bank also decided to increase the scope of monthly debt asset acquisitions. Macro data improved beginning in mid-2016, when the inflation rate left negative territory. The main event which occurred during the year was the result of the referendum in Great Britain, in which the people of Britain decided to leave the European Union.

According to an annual summary, GDP is expected to grow by 1.7% relative to the previous year.

Japan - In late January 2016, the Japanese bank decreased the interest rate to negative territory. In September, the Japanese bank announced a change in policy, and its intention to control the government yield curve, such that the 10 year yield will be around 0%. In October 2016, inflation returned to positive territory, after 7 months of deflation. Growth data in the first three quarters of the year was positive: 2.8%, 1.8% and 1.3%, respectively.

China and emerging markets - in an annual summary, the Chinese economy grew in accordance with the forecast, at a rate of 6.7%. This growth was due to easements in the provision of credit, encouraged by the government, and by investments sponsored by the government. In Russia, the government announced the sale of part of its ownership in the oil companies, in order to finance the deficit, and the Central Bank reduced the interest rate twice. In Brazil, the impeachment of President Rousseff led to optimism in markets, with an expectation of resumed investments in Brazil. The Central Bank of Brazil decreased the interest rate twice, due to the stabilization of inflation.

2.1.2.1. Exchange rates

During the reporting period, the NIS gained strength vs. the USD, GBP and EUR. In the three month period ended on the reporting date, the NIS gained vs. the GBP and the EUR, and weakened vs. the USD.

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 year ended December 31			
2016	**(4.8)**	**(1.5)**	**(18.3)**
2015	(10.1)	0.3	(4.6)
2014	(1.2)	12.0	5.6

	Representative EUR exchange rate	**Representative USD exchange rate**	**Representative GBP exchange rate**
As of December 31, 2016	4.0438	3.8450	4.7252
As of December 31, 2015	4.2468	3.9020	5.7840
As of December 31, 2014	4.7246	3.8890	6.0636

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 forecast of the International Monetary Fund [1] for 2017, as compared with 2016:

In percent	Forecast 2017	Estimate 2016
Global	3.7	3.1
United States	1.9	1.6
Euro Bloc	1.6	1.7
Asia (excluding Japan)	6.7	6.3
Japan	0.8	0.9
China	6.5	6.7

1) As of January 2017.

2.1.2.3. Global stock markets

	In local currency				In NIS			
	For the year ended December 31		For the period of three months ended December 31		For the year ended December 31		For the period of three months ended December 31	
In percent	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Dow Jones	13.4	(2.2)	7.9	7.0	11.8	(1.9)	10.4	6.4
NASDAQ	7.5	5.7	1.3	8.4	5.9	6.1	3.7	7.8
Nikkei Tokyo	0.4	9.1	16.2	9.5	1.8	8.6	2.7	8.7
CAC - Paris	4.9	8.5	9.3	4.1	(0.2)	(2.4)	5.2	0.4
FTSE - London	14.4	(4.9)	3.5	3.0	(6.5)	(9.3)	0.4	0.1
DAX - Frankfurt	6.9	9.6	9.2	11.2	1.8	(1.5)	5.1	7.2
MSCI WORLD	5.3	(2.7)	1.5	5.1	3.8	(2.4)	3.8	4.5

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:

NIS in millions	For the period of nine months ended September 30						For the year ended December 31		
	2016			2015			2015		
	Company	Market	Company % of the market	Company	Market	Company % of the market	Company	Market	Company % of the market
Life insurance [1]	3,686	19,195	19.2%	3,628	17,914	20.3%	4,861	25,103	19.4%
Non-life insurance [2]	1,755	15,115	11.6%	1,908	14,547	13.1%	2,522	19,511	12.9%
Health insurance [3]	1,352	7,723	17.5%	1,255	6,932	18.1%	1,674	9,582	17.5%
Total gross premiums earned on the insurance market in Israel [4]	**6,793**	**42,033**	**16.2%**	**6,791**	**39,393**	**17.2%**	**9,057**	**54,196**	**16.7%**

NIS in millions	For the period of three months ended September 30					
	2016			2015		
	Company	Market	Company % of the market	Company	Market	Company % of the market
Life insurance [1]	**1,278**	**6,735**	**19.0%**	1,212	5,933	20.4%
Non-life insurance [2]	**579**	**4,800**	**12.1%**	630	4,826	13.1%
Health insurance [3]	**496**	**2,728**	**18.2%**	446	2,371	18.8%
Total gross premiums earned on the insurance market in Israel [4]	**2,353**	**14,263**	**16.5%**	2,287	13,130	17.4%

1) For details regarding the decrease in premiums in the second quarter of 2016, due to the cancellation of arrears in the premium charges, see section 3.1. C.
2) As specified in section 3.1.2 below, the decrease in premiums in non-life insurance was due to the non-renewal of losing business operations, including collective business operations in compulsory motor and property branches.
3) The decrease in the company's share in the market 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.
4) 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 year ended December 31					
	2016			2015		
NIS in millions	Company	Market	Company % of the market	Company	Market	Company % of the market
New pension funds	**5,395**	**32,373**	**16.7%**	**4,872**	**28,366**	**17.2%**
Benefits and personal severance pay funds	507	9,759	5.2%	391	6,455	6.1%
Study funds	1,100	21,214	5.2%	1,091	20,086	5.4%
Total provident funds *	**1,607**	**30,973**	**5.2%**	**1,481**	**26,541**	**5.6%**
Total contributions	**7,002**	**63,346**	**11.1%**	**6,352**	**54,907**	**11.6%**

	For the period of three months ended December 31					
	2016			2015		
NIS in millions	Company	Market	Company % of the market	Company	Market	Company % of the market
New pension funds	**1,439**	**8,538**	**16.9%**	**1,344**	**7,839**	**17.1%**
Benefits and personal severance pay funds	127	2,937	4.3%	102	1,982	5.1%
Study funds	340	6,355	5.4%	341	6,043	5.6%
Total provident funds *	**467**	**9,292**	**5.0%**	**443**	**8,025**	**5.5%**
Total contributions	**1,906**	**17,830**	**10.7%**	**1,787**	**15,864**	**11.3%**

*) Excluding central severance pay funds and funds for other purposes.

2. Description of the Business Environment (Cont.)

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

2.2.2. Assets in long-term savings

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

	As of December 31, 2016			As of December 31, 2015		
NIS in millions	**Company**	**Market**	**Company % of the market**	**Company**	**Market**	**Company % of the market**
Life insurance market						
Profit sharing life insurance - policies until December 31, 2003	36,347	157,775	23.0%	34,523	149,392	23.1%
Profit sharing life insurance - policies beginning from January 1, 2004	18,578	105,297	17.6%	17,176	92.100	18.6%
Total profit sharing life insurance assets	**54,925**	**263,072**	**20.9%**	**51,699**	**241,492**	**21.4%**
New pension assets	**44,618**	**254,633**	**17.5%**	**39,147**	**219,770**	**17.8%**
Benefits and personal severance pay funds	23,634	200,671	11.8%	24,345	193,294	12.6%
Study funds	7,222	183,576	3.9%	6,863	169,409	4.1%
Total central severance pay funds	3,264	16,761	19.5%	3,638	18,108	20.1%
Total provident fund assets *	**34,124**	**401,008**	**8.5%**	**34,846**	**380,812**	**9.2%**
Total profit sharing life insurance, new pension, provident* and life insurance assets	**133,667**	**918,713**	**14.5%**	**125,692**	**842,073**	**14.9%**

*) Excluding provident funds for other purposes.

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 5 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 9,110 million, as compared with a total of approximately NIS 9,055 million in the corresponding period last year. In life insurance, an increase of approximately NIS 138 million was recorded, primarily due to the increase in new sales of individual and managers' insurance products. Additionally, in health insurance, an increase of approximately NIS 125 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 207 million, primarily due to the non-renewal of a students personal accident insurance transaction, and the continued optimization of the portfolio by way of non-renewal of losing business operations, including collective motor business operations.

Comprehensive income after tax attributable to the company's shareholders in the reporting period amounted to a total of approximately NIS 122 million, as compared with income of approximately NIS 285 million last year. The decrease in profit during the reporting period was primarily due to the following special provisions (as specified in sections A-F of the following table): provision following the recommendations of the Winograd committee, provisions in the provisions, amortization of goodwill in the provident fund segment, and costs of exchange of deferred liability notes. On the other hand, during the reporting period, a decrease was recorded in provisions with respect to the low interest rate environment, relative to the corresponding period last year, and additionally, a tax benefit was recorded with respect to the reduction of tax rates.

The total impact of the foregoing (as specified in sections A-F below) is a reduction of comprehensive income after tax in the amount of approximately NIS 274 million during the reporting period, as compared with a total of approximately NIS 183 million after tax in the corresponding period last year.

After neutralization of the aforementioned provisions, comprehensive income after tax in the reporting period amounted to a total of approximately NIS 396 million, as compared with income in the amount of approximately NIS 468 million in the corresponding period last year.

During the reporting period, a deterioration was recorded in the results of the non-life insurance segment, as specified in section 3.1.2, and in the provident fund segment, as specified in section 3.1.1.7. Additionally, a decrease in investment income was recorded relative to investment income in the corresponding period last year. During the reporting period, gross real returns in profit sharing policies amounted to a positive rate of 2.95%, as compared with a positive rate of 4.33% 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 106 million, as compared with the collection of variable management fees in the amount of approximately NIS 168 million in the corresponding quarter last year.

The total financial margin in life insurance[1] amounted to a total of approximately NIS 686 million, as compared with a total of approximately NIS 783 million in the corresponding period last year.

On the other hand, an improvement was recorded in the results of the health insurance segment, as specified in section 3.1.3 below.

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[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.)

It is noted that Clal Insurance has a balance for the provision with respect to the liability adequacy test (LAT) as of December 31, 2016 in the amount of NIS 306 million, in addition to the increase of the reserve components which are affected by the low interest rate environment, as specified in the following table.

Subsequent to the reporting date, an additional increase occurred in the risk-free interest rate curve, which, if it remains unchanged, will cause a decrease in insurance liabilities as part of the liability adequacy test (LAT), and may decrease additional reserve components, as stated above, and result in increased income. At this stage, the foregoing does not constitute any estimate regarding the company's expected financial results for 2017. For complete details, see the section below regarding developments subsequent to the reporting date.

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

		For the year ended December 31		For the period of three months ended December 31	
		2016	2015	2016	2015
NIS in millions	Item	Audited		Unaudited	
Comprehensive income (loss), as published in the report		**122**	285	**479**	156
After neutralization of special provisions					
Impact of the low interest rate environment					
Life insurance - total impact of the low interest rate environment before tax		**(194)**	(265)	**311**	(93)
Non-life insurance *)		**-**	-	**2**	37
Long-term care insurance in the health segment		**-**	-	**180**	-
Total income (loss) before tax with respect to the low interest rate environment	**A**	**(194)**	(265)	**493**	(56)
Impact of recommendations of the Winograd committee in non-life insurance	**B**	**(141)**	-	**(16)**	-
Additional special provisions in long term savings	**C**	**(101)**	(26)	**1**	(21)
Amortization of goodwill - provident funds	**D**	**(25)**	-	**(25)**	-
Cost of exchange of deferred liability notes	**E**	**(24)**	(10)	**(7)**	-
Total income (loss) before tax with respect to sections A-E	**A-E**	**(485)**	(301)	**446**	(77)
Total comprehensive income (loss) after tax with respect to sections A-E	**A-E after tax**	**(311)**	(188)	**286**	(48)
Impact of the update to tax rates	**F**	**37**	5	**24**	5
Comprehensive income after tax, after neutralization of the impact of special provisions A-E		**396**	468	**169**	199

*) During the three month period ended on the reporting date - impact of the update to best practices. During the corresponding period, decrease in reserves with respect to the interest rate decrease.

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.)

Presented below are the main parameters for the reporting period:

	As of December 31, 2016	**As of September 30, 2016**	**As of June 30, 2016**	**As of March 31, 2016**	**As of December 31, 2015**
Spot risk-free interest rate					
5 years	0.0	0.0	(0.2)	(0.2)	0.1
10 years	0.6	0.5	0.3	0.5	0.7
20 years	1.3	1.0	0.9	1.0	1.4
25 years	1.5	1.2	1.0	1.1	1.5
Discount rates used in the calculation of the reserve for postponed and paid annuities	**2.40%-3.28%**	2.20%-3.28%	2.00%-3.28%	2.20%-3.40%	2.30%-3.40%
K factor values [2]- Profit-sharing	**0.96%**	0.88%	0.83%	0.96%	0.96%
K factor values [2] - Guaranteed-return	**0.00%**	0.00%	0.00%	0.00%	0.00%

A. Strengthening of insurance reserves with respect to the low interest rate environment, and its effect on discount rates in life insurance

During the reporting period, the discount rates which are used to calculate liabilities for paid pensions were updated. In light of the above, and in light of the liability adequacy test (LAT), the reserve with respect to life insurance contracts increased by a total of approximately NIS 194 million during the reporting period, as compared with the increase of the reserves (LAT) in the amount of approximately NIS 265 million in the corresponding period last year. For additional details, see Note 40(e1)(d)(1) to the financial statements.

B. Recommendations of the Winograd committee

In June 2014, an inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd was appointed in order to evaluate of the correction of life expectancy tables and the interest rate which is used discount annuities in accordance with the National Insurance Regulations (Discounting), 1978 (hereinafter: the "**Discounting Regulations**" and the "**Committee**"). In June 2016, an amendment to the Regulations (hereinafter: the "Amendment") was published which includes, inter alia, updates to the mortality tables and the discount rates which are used to calculate the aforementioned annuities.

The Discounting Regulations formalize, inter alia, the discount rate which is used to calculate the subrogation claims which are submitted by National Insurance towards third parties, in accordance with the right which is conferred upon it by virtue of the National Insurance Law (Consolidated Version), 1995 (hereinafter: the "**Law**"), in cases where the event constitutes grounds to charge the third party in accordance with the Civil Wrongs Ordinance or the RAVC law.

In accordance with the amendment, the interest rate for the purpose of determining the annual annuity will be 2% instead of 3%, as specified in the Discounting Regulations prior to the amendment.

The amendment also determines that the mortality tables and annuity discount rates will be updated again on January 1, 2020, and every four years thereafter.

[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.)

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

The reporting period (Cont.)

B. Recommendations of the Winograd committee (Cont.)

The company estimated the total 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 as of December 31, 2016 in the compulsory motor and liabilities branches by approximately NIS 141 million, on retention and before tax, and by a total of approximately NIS 90 million after tax.

In September 2016, an additional amendment to the Discounting Regulations was published, which postponed the amendment's entry into effect by one more year, until October 2017.

For additional details, see Note 40(e)(e2)(4)(g) to the financial statements.

C. Additional special provisions in long-term savings

As part of the progress made in the comprehensive data cleansing process in the long-term savings segment, and in parallel with advancement on the "roadmap" - the process of expanding the core systems in life insurance, as specified in section 10.10.3.2 of the chapter regarding a description of the corporation's business in the company's annual reports, the group updated the insurance liabilities with respect to members' rights in the amount of approximately NIS 58 million before tax (approximately NIS 37 million after tax). For additional details, see Note 43(a)(a4)(2) to the financial statements.

Additionally, the company performed a provision with respect to the cancellation of arrears in premium charges with respect to life insurance policies in the amount of approximately NIS 36 million before tax (approximately NIS 23 million after tax).

Additionally, the group performed a provision in the amount of approximately NIS 7 million (approximately NIS 5 million after tax) with respect to the cleansing of data regarding members' rights in pension and provident funds. For additional details, see Note 43(a)(a4)(2) to the financial statements.

D. Amortization of goodwill in provident funds

During the reporting period, the company performed an amortization of goodwill in the provident fund segment in the amount of approximately NIS 25 million before tax (approximately NIS 16 million after tax). For additional details, see Note 6 to the financial statements.

E. Cost of exchange of deferred liability notes

During the reporting period, as part of an exchange of deferred liability notes in Clalbit Finance, the group recorded early repayment cost of approximately NIS 24 million, as compared with a total of approximately NIS 10 million in the corresponding period last year.

F. Reduction of tax rate

As a result of the reduction of the primary tax rate which applies to the group, a decrease was recorded in tax expenses in the amount of approximately NIS 37 million, as compared with a total of approximately NIS 5 million in the corresponding period last year. For additional details, see Note 23 to the financial statements.

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

3.1. Financial information by operating segments (Cont.)

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

Three month period ended on the reporting date

Gross premiums earned amounted to a total of approximately NIS 2,319 million, as compared with a total of approximately NIS 2,266 million in the corresponding period last year. The change was mostly due to the increase of approximately NIS 80 million in life insurance premiums, primarily due to new sales of individual and managers policies, and an increase of approximately NIS 28 million in health insurance premiums, primarily due to the increase in the company's individual business operations.

On the other hand, a decrease of approximately NIS 54 million in non-life insurance premiums was recorded, primarily due to the continued optimization of the portfolio by way of non-renewal of losing business operations, including motor collective business operations and students personal accident insurance.

Comprehensive income after tax attributable to company shareholders amounted to a total of approximately NIS 479 million, as compared with comprehensive income of approximately NIS 156 million in the corresponding period last year. The increase in income during the reporting period was primarily due to the release of provisions from the increase in the risk-free interest rate curve, and additionally, the decrease in tax expenses, due to the reduction of the tax rate. On the other hand, the provision increased following the recommendation of the Winograd committee, and an amortization of goodwill was recorded in the provident fund segment.

The impact of the foregoing in the three month period ended on the reporting date (as specified in sections A-E below) was an increase to comprehensive income after tax in the amount of approximately NIS 310 million during the reporting period, as compared with loss in the amount of approximately NIS 43 million after tax in the corresponding period last year.

After neutralization of the aforementioned provisions, comprehensive income after tax during the three month period ended on the reporting date amounted to a total of approximately NIS 169 million, as compared with income in the amount of approximately NIS 199 million in the corresponding period last year.

In the three month period ended on the reporting date, a deterioration was recorded in the results of the non-life insurance segment, as specified in section 3.1.2, and in the provident fund segment, as specified in section 3.1.17. Additionally, a decrease in investment income was recorded relative to investment income in the corresponding period last year. During the reporting period, gross real returns in profit sharing policies amounted to a rate of 2.05%, as compared with a rate of 2.57% in the corresponding period last year.

The total financial margin in life insurance[3] (including variable management fees, as specified above) amounted to a total of approximately NIS 263 million, as compared with a negative financial margin in the amount of approximately NIS 290 million in the corresponding period last year.

On the other hand, in the results of the health segment, an increase was recorded in income from collective business operations, as specified in section 3.1.3 below.

[3] 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.)

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

The insurance branches were affected during the reporting period primarily by the following factors: (Cont.)

A. Release of insurance reserves due to the increased interest rate and its effect on discount rates in life insurance, long term care insurance, the health segment and non-life insurance

Life insurance

The discount rates which are used to calculate the liabilities for paid pensions were updated, and the pension reserves decreased following the increase of the expected future income ("K factor") for profit sharing annuity policies. In light of the above, and in light of the liability adequacy test (LAT), the reserve with respect to life insurance contracts decreased by a total of approximately NIS 311 million during the reporting period, as compared with an increase of the reserve in the amount of approximately NIS 93 million in the corresponding period last year. For additional details, see Note 40(e)(e1) to the financial statements.

Long-term care insurance in the health segment

In light of the liability adequacy test (LAT), the reserve with respect to long-term care insurance contracts decreased by approximately NIS 180 million during the three month period ended on the reporting date (with respect to non-investment-linked contracts in the amount of approximately NIS 81 million, and with respect to investment-linked contracts in the amount of approximately NIS 99 million). No impact in the corresponding period last year.

B. Non-life insurance - update to the estimated provision following the Winograd committee

Further to that stated in Note 40(e)(e2)(4)(g), in the three month period ended on the reporting date, the company updated the estimated provision with respect to the Winograd committee, and accordingly, increased the insurance liabilities as of December 31, 2016 in the compulsory motor and liabilities branches in the amount of approximately NIS 16 million on retention before tax, and a total of approximately NIS 10 million after tax. No impact in the corresponding period last year.

C. Amortization of goodwill in provident funds

The company performed an amortization of goodwill in the provident fund segment in the amount of approximately NIS 25 million before tax (approximately NIS 16 million after tax). For additional details, see Note 6 to the financial statements.

D. Cost of exchange of deferred liability notes
Within the framework of an exchange of deferred liability notes in Clalbit Finance, the group recorded early repayment cost in the amount of approximately NIS 7 million, with no impact in the corresponding period last year.

E. Reduction of the tax rate
As a result of the reduction of the primary tax rate which applies to the group, a decrease was recorded in tax expenses in the amount of approximately NIS 24 million, as compared with a total of approximately NIS 5 million in the corresponding period last year. For additional details, see Note 23 to the 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, which was submitted to the Finance Committee of the Knesset (hereinafter: the "**Updated Document**"), was published. 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 accordance with the provisions of the updated document. 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 assessment 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, which were specified in the updated document.

In light of the Commissioner's letter regarding dividend distributions from August 2016 (hereinafter: the "Letter"), as stated in Note 16(e) to the 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.)

Developments subsequent to the reporting period

Additionally, subsequent to the reporting date, the risk-free interest rate curve increased. Further to that stated in Note 40(e)(e1) and (e2) to the annual financial statements, an increase in interest rates may lead to a decrease 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 capital market returns and the increased risk-free interest rate curve during this period on the results for the first 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 increased interest rate curve on the fair value of debt assets, and regarding continuing developments in financial markets until the end of the first quarter of 2017, and the above does not constitute any estimate regarding the company's expected financial results for the first quarter of 2017. See also Note 44(L) to the financial statements.

For details regarding sensitivity tests to market risks, see Note 40(c)(2) to the 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	Item	For the year ended December 31 2016	2015	2014	Rate of change in percent relative to the corresponding year 2016	2015	For the period of three months ended December 31 2016	2015	Rate of change in percent relative to last year
Long term savings									
Gross earned life insurance premiums		**4,999**	4,861	4,722	**3**	3	**1,312**	1,233	6
Income from life insurance management fees		**485**	537	565	**(10)**	(5)	**182**	202	(10)
Impact of the interest rate environment on reserves in health insurance	**A**	**(194)**	(265)	(268)	**(27)**	(1)	**311**	(93)	#
Special provisions in life insurance	**C**	**(94)**	(26)	-	**(260)**	#	**1**	(21)	#
Financial margin including management fees		**686**	783	894	**(12)**	(12)	**263**	290	(9)
Income (loss) before tax in life insurance		**(132)**	60	(163)	**#**	#	**448**	54	730
Total comprehensive income (loss) before tax in life insurance		**(113)**	(65)	29	**74**	#	**476**	48	892
Income from pension management fees		**277**	270	254	**3**	6	**72**	71	1
Special provisions in pension funds	**C**	**(2)**	-	-	**#**	#	**-**	-	#
Income before tax in pension funds		**43**	39	49	**10**	(20)	**12**	11	9
Total comprehensive income (loss) before tax in pension funds		**43**	39	49	**10**	(20)	**12**	12	-
Special provisions in provident funds	**C**	**(5)**	-	-	**#**	#	**-**	-	#
Income from provident fund management fees		**194**	232	245	**(16)**	(5)	**47**	57	(18)
Impairment of goodwill	**D**	**(25)**	-	-	**#**	#	**(25)**	-	#
Income before tax in provident funds		**8**	71	78	**(89)**	(9)	**(22)**	17	#
Total comprehensive income (loss) before tax in provident funds		**8**	71	78	**(89)**	(9)	**(22)**	17	#
Total income (loss) before tax in the long term savings division		**(80)**	170	(36)	**#**	#	**439**	81	442
Total comprehensive income (loss) before tax in the long term savings division		**(61)**	44	156	**#**	(72)	**467**	75	523
Non-life insurance segments									
Gross premiums earned		**2,315**	2,522	2,696	**(8)**	(6)	**560**	614	(9)
Premiums earned on retention		**1,653**	1,815	1,944	**(9)**	(7)	**400**	438	(9)
Provision with respect to the Winograd committee		**(141)**	-	-	**#**	#	**(16)**	**-**	#
Impact of the interest rate environment on reserves in non-life insurance		**-**	-	(41)	**#**	#	**2**	**37**	#
Income before tax in the non-life insurance division		**16**	334	329	**(95)**	2	**(18)**	85	#
Comprehensive income before tax in the non-life insurance division		**(13)**	268	323	**#**	(17)	**(33)**	92	#
Health insurance									
Gross premiums earned		**1,799**	1,674	1,616	**7**	4	**447**	419	7
Premiums earned on retention		**1,586**	1,487	1,422	**7**	5	**389**	373	4
Impact of the interest rate environment on reserves in health insurance		**-**	-	-	**#**	#	**180**	-	#
Income (loss) before tax in the health insurance division		**203**	198	109	**3**	82	**253**	42	502
Comprehensive income (loss) before tax in the health insurance division		**216**	178	115	**21**	55	**255**	49	420
Total income (loss) before tax from insurance branches		**139**	702	402	**(80)**	75	**674**	208	224
Total comprehensive income before taxes from insurance branches		**142**	490	594	**(71)**	(18)	**690**	216	219
Repayment costs of deferred liability notes	**E**	**24**	10	-	**140**	#	7	-	#
Financing expenses		**151**	132	146	**14**	(10)	**36**	26	38
Total other income (loss) before tax and items which are not included in the insurance branches		**114**	87	128	**31**	(32)	**33**	40	(18)
Total income (loss) before tax		**88**	756	365	**(88)**	107	**656**	197	233
Total comprehensive income before tax		**105**	445	576	**(76)**	(23)	**687**	229	200
Impact of the reduced tax rate	**F**	**37**	5	-	**640**	#	**24**	5	380
Taxes (tax benefit) in comprehensive income		**(20)**	157	209	**#**	(25)	**207**	72	188
Total comprehensive income (loss) for the year, net of tax		**125**	288	367	**(57)**	(22)	**480**	157	206
Total comprehensive income (loss) for the year attributable to company shareholders		**122**	285	362	**(57)**	(21)	**479**	156	207
Comprehensive income (loss) for the year attributable to non-controlling interests		**3**	2	5	**50**	(60)	**-**	-	#
Return on equity in annual terms (in percent) *)		**2.7**	6.7	9.3	**(60)**	(28)	**45.7**	14.2	222
Neutralized by special effects (A-F)		**485**	301	309	**61**	(3)	**(446)**	77	#
Tax impact with respect to special effects		**(211)**	(118)	(117)	**(79)**	-	**136**	(34)	#
Comprehensive income after tax, after neutralization of special effects, attributable to company shareholders		**396**	468	554	**(15)**	(15)	**169**	199	(15)

***)** 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

The reporting period

Gross premiums earned during the reporting period amounted to a total of approximately NIS 4,999 million, as compared with a total of approximately NIS 4,861 million last year. The increase was primarily due to the increase in new sales of individual and managers' insurance products.

Comprehensive loss amounted to a total of approximately NIS 113 million, as compared with comprehensive loss in the amount of approximately NIS 65 million in the corresponding period last year.

The increase in loss during the reporting period was due, inter alia, to the comprehensive process of data cleansing in systems in the long-term savings segment, in which the group updated its insurance liabilities with respect to members' rights in the amount of approximately NIS 58 million before tax (approximately NIS 21 million in the corresponding period last year), and the provision with respect to the cancellation of arrears in premium charges with respect to life insurance policies in the amount of approximately NIS 36 million before tax (approximately NIS 5 million in the corresponding period last year). On the other hand, during the reporting period, provisions were recorded with respect to the low interest rate environment in the amount of approximately NIS 194 million, as compared with a total of approximately NIS 265 million in the corresponding period last year.

After neutralization of the aforementioned provisions, comprehensive income during the reporting period amounted to a total of approximately NIS 175 million, as compared with comprehensive income of approximately NIS 174 million in the corresponding period last year.

Comprehensive income in the reporting period, relative to the corresponding period, after neutralization of the aforementioned provisions, was primarily influenced by the fact that, during the reporting period, a decrease was recorded in investment income, as compared with the corresponding period last year.During the reporting period, gross real returns in profit sharing policies amounted to a rate of 2.95%, as compared with a positive rate of 4.33% in the corresponding period last year, such that, during the reporting period, variable management fees were collected in the amount of approximately NIS 106 million, as compared with collection of approximately NIS 168 million in the corresponding period last year,

as specified in section 3.1.1.2 below. The total financial margin in life insurance amounted to a total of approximately NIS 686 million, as compared with a total of approximately NIS 783 million in the corresponding period last year.

On the other hand, in the corresponding period last year, the company updated the payment period for loss of working capacity insurance, and the estimated development of claims in critical illness, loss of working capacity, accidental disability and death. As a result, the liabilities in life insurance increased in the amount of approximately NIS 83 million on retention.

During the reporting period, redemption rates of life insurance policies from the average reserve for the period, in annual terms, amounted to approximately 2.2%, similarly to the corresponding period last year.

Three month period ended on the reporting date

Gross premiums earned amounted to a total of approximately NIS 1,312 million, as compared with a total of approximately NIS 1,233 million in the corresponding period last year. The increase was primarily due to the increase in new sales of individual and managers' insurance products.

Comprehensive income amounted to a total of approximately NIS 476 million, as compared with comprehensive income of approximately NIS 48 million in the corresponding period last year.

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

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.1. Life insurance operations (Cont.)

In the three month period ended on the reporting date, insurance reserves were released due to the increase of the low risk-free interest rate curve, in the amount of approximately NIS 311 million, as compared with an increase of the reserves in the amount of approximately NIS 93 million in the corresponding period last year.

After neutralization of the aforementioned provisions, comprehensive income in the reporting period amounted to a total of approximately NIS 165 million, as compared with comprehensive income of approximately NIS 141 million in the corresponding period last year.

The total financial margin in life insurance amounted to a total of approximately NIS 263 million, as compared with a total of approximately NIS 290 million in the corresponding period last year, as specified in section 3.1.1.2. During the reporting period, gross real returns in profit sharing policies amounted to a rate of 2.05%, as compared with a positive rate of 2.57% in the corresponding period last year, such that, during the reporting period, variable management fees were collected in the amount of approximately NIS 86 million, as compared with collection of approximately NIS 108 million in the corresponding period last year.

During the three month period ended on the reporting date, the redemption rates of life insurance policies from the average reserve for the period, in annual terms, amounted to a rate of approximately 2.1% (rate of approximately 2.4% in the corresponding period last year).

Presented below is a description of the main results in life insurance, by product types, according to the specification provided in Note 20[4] to the financial statements:

A. Policies which include a savings component

Policies including a savings component which were sold until December 31, 1990

Gross premiums earned during the reporting period amounted to a total of approximately NIS 261 million, as compared with a total of approximately NIS 281 million last year. The decrease in premiums was primarily due to current settlements.

Comprehensive loss in the reporting period amounted to a total of approximately NIS 43 million, as compared with comprehensive loss of approximately NIS 61 million last year. The decrease in comprehensive loss during the reporting period, as compared with the corresponding period last year, was primarily due to the decrease in the impact of the low interest rate environment, which was offset by the decrease in the financial margin. For additional details, see Note 40(e)(e1)(d)(1).

Policies including a savings component which were sold from January 1, 1991 to December 31, 2003

Gross premiums earned during the reporting period amounted to a total of approximately NIS 1,655 million, as compared with a total of approximately NIS 1,658 million last year.

4. As noted, classifications were made in Note 20 to the financial statements regarding the amounts of insurance reserves between product generations, as well as classifications regarding the same product between types of insurance exposure. The classifications which were implemented had no impact on the company's comprehensive income.

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

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.1. Life insurance operations (Cont.)

A. Policies which include a savings component (Cont.)

Comprehensive income in these policies, which are investment-linked, in the reporting period amounted to a total of approximately NIS 76 million, as compared with comprehensive income of approximately NIS 51 million last year. The increase in comprehensive income in the reporting period, as compared with the corresponding period last year, was due to the update, during the corresponding period, to the payment period for loss of working capacity annuities which is used by the company to calculate the liabilities, and additionally, the update to the estimated development of claims in critical illness, accidental disability and death, as specified in Note 40(e)(e1)(d)(2) to the financial statements, which was offset by the decrease in variable management fees, which amounted to a total of approximately NIS 106 million, as compared with a total of approximately NIS 167 million last year, due to the decrease in gross real returns, to a rate of 2.95% during the reporting period, as compared with a rate of 4.33% last year.

Policies including a savings component which were sold beginning on January 1, 2004

Of the investment-linked type
Gross premiums earned of the investment-linked type during the reporting period amounted to a total of approximately NIS 2,415 million, as compared with a total of approximately NIS 2,197 million last year. The increase in premiums in investment-linked policies was primarily due to the increase in individual product sales.

Comprehensive loss in investment-linked policies amounted in the reporting period to a total of approximately NIS 168 million, as compared with comprehensive loss of approximately NIS 160 million last year.

Of the guaranteed-return type
Gross premiums earned in guaranteed-return policies amounted during the reporting period to approximately NIS 13 million, as compared with a total of approximately NIS 19 million last year.

Comprehensive income in guaranteed-return policies in the reporting period amounted to a total of approximately NIS 6 million, as compared with comprehensive income of approximately NIS 1 million last year. The increase in the reporting period, as compared with the corresponding period last year, was primarily due to the increase in surplus investment income over the income required to cover the increase in insurance liabilities.

B. Policies without a savings component

Coverage for risk sold as a single (individual) policy

Premiums earned during the reporting period amounted to a total of approximately NIS 553 million, as compared with a total of approximately NIS 558 million last year.

Comprehensive loss in these policies in the reporting period amounted to a total of approximately NIS 1 million, as compared with comprehensive income of approximately NIS 135 million last year. The decrease in income during the reporting period, as compared with the corresponding period last year, was primarily due to the update, during the corresponding period, to the estimated development in expected claims in critical illness, loss of working capacity, accidental disability and death, as specified in Note 40(e1)(d)(2) to the financial statements, and the performance of a provision with respect to the cancellation of arrears in premium charges with respect to life insurance policies during the reporting period, as stated above.

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

3.1 Financial information by operating segments (Cont.)

3.1.1. Long-term savings (Cont.)

3.1.1.1. Life insurance operations (Cont.)

B. Policies without a savings component (Cont.)

Coverage for risk sold as a collective policy

Premiums earned during the reporting period amounted to a total of approximately NIS 103 million, as compared with a total of approximately NIS 147 million last year.

Comprehensive income from these policies in the reporting period amounted to a total of approximately NIS 16 million, as compared with comprehensive loss of approximately NIS 30 million last year. The increase in comprehensive income was primarily due to the update, during the corresponding period, to the payment period for loss of working capacity annuities, which is used by the company to calculate the liabilities. Additionally, the company updated the estimated expected claim development in the critical illness, loss of working capacity and accidental disability and death branches, as specified in Note 40(e1)(d)(2) to the financial statements.

3.1.1.2 Composition of management fees and financial margin:

	For the year ended December 31						For the period of three months ended December 31			
NIS in millions	2016	% of total	2015	% of total	2014	% of total	2016	% of total	2015	% of total
Variable management fees	**106**	**22**	168	31	223	39	**86**	**47**	108	53
Fixed management fees	**379**	**78**	369	69	342	61	**96**	**53**	94	47
Total management fees	**485**	**100**	537	100	565	100	**182**	**100**	202	100
Total financial margin and management fees	**686**		783		894		**263**		290	

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

	For the year ended December 31						For the period of three months ended December 31			
NIS in millions	2016	% of total	2015	% of total	2014	% of total	2016	% of total	2015	% of total
Current premiums	**4,817**	**96**	4,740	98	4,602	97	**1,251**	**95**	1,202	97
Non-recurring premiums	**182**	**4**	120	2	120	3	**61**	**5**	31	3
Total gross premiums earned	**4,999**	**100**	4,861	100	4,722	100	**1,312**	**100**	1,233	100

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

	For the year ended December 31						For the period of three months ended December 31			
NIS in millions	2016	% of total	2015	% of total	2014	% of total	2016	% of total	2015	% of total
Current premiums	**111**	**24**	132	16	178	33	**24**	**27**	29	15
Non-recurring premiums	**358**	**76**	668	84	363	67	**66**	**73**	163	85
Total gross premiums earned	**469**	**100**	800	100	541	100	**91**	**100**	193	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.)

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

	For the year ended December 31						For the period of three months ended December 31			
NIS in millions	**2016**	**% of total**	2015	% of total	2014	% of total	**2016**	**% of total**	2015	% of total
Current premiums	**4,928**	**90**	4,872	86	4,780	91	**1,276**	**91**	1,231	86
Non-recurring premiums	**540**	**10**	789	14	482	9	**126**	**9**	194	14
Total gross premiums earned	**5,469**	**100**	5,661	100	5,262	100	**1,403**	**100**	1,426	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 year ended December 31			For the period of three months ended December 31			For the year ended December 31
	2016	**2015**	**2014**	**2016**	**2015**	**2014**	**2015**
Real return before payment of management fees	**2.95**	4.33	5.99	**2.05**	2.57	0.37	4.33
Real return after payment of management fees	**2.01**	3.19	4.59	**1.62**	2.07	0.19	3.19
Nominal return before payment of management fees	**2.64**	3.40	5.88	**1.74**	1.85	0.17	3.40
Nominal return after payment of management fees	**1.70**	2.26	4.49	**1.31**	1.36	-	2.26

Policies issued beginning in 2004 (New Fund J)

	For the year ended December 31			For the period of three months ended December 31			For the year ended December 31
	2016	**2015**	**2014**	**2016**	**2015**	**2014**	**2015**
Real return before payment of management fees *)	**2.46**	3.49	5.65	**1.70**	2.44	0.21	3.49
Real return after payment of management fees *)	**1.32**	2.45	4.36	**1.42**	2.16	(0.07)	2.45
Nominal return before payment of management fees	**2.15**	2.56	5.65	**1.39**	1.73	0.01	2.56
Nominal return after payment of management fees	**1.01**	1.53	4.46	**1.11**	1.45	(0.27)	1.53

*) 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 year ended December 31			For the period of three months ended December 31			For the year ended December 31
	2016	**2015**	**2014**	**2016**	**2015**	**2014**	**2015**
Nominal investment income applied to policyholders							
After management fees	**680**	787	1,783	**466**	559	(79)	787
Management fees	**485**	537	564	**183**	201	102	537

*) 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

Comprehensive income in the reporting period amounted to a total of approximately NIS 8 million, as compared with a total of approximately NIS 71 million in the corresponding period last year. The decrease in income was primarily due to the amortization of goodwill in the amount of approximately NIS 25 million (for additional details, see Note 6(b)(1) to the financial statements), and the expense with respect to the cleansing of data regarding members' rights, in the amount of approximately NIS 5 million.

After neutralization of impairment and the expense with respect to the aforementioned data cleansing process, comprehensive income in the reporting period amounted to a total of approximately NIS 38 million, as compared with a total of approximately NIS 71 million in the corresponding period last year.

The decrease in income, after neutralization of the aforementioned effects, was primarily due to a decrease in income from management fees, as a result of the competitive conditions in the segment.

Comprehensive loss in the three month period ended on the reporting date amounted to a total of approximately NIS 22 million, as compared with comprehensive income in the amount of approximately NIS 16 million in the corresponding period last year. The decrease in income and the transition to loss was primarily due to the amortization of goodwill, as stated above.

After neutralization of impairment, comprehensive income in the reporting period amounted to a total of approximately NIS 3 million, as compared with a total of approximately NIS 16 million in the corresponding period last year.

The decrease in income, after neutralization of the aforementioned impairment, was primarily due to a decrease in income from management fees, as a result of the 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).

3.1.1.8 Pension operations

Comprehensive income in the reporting period amounted to a total of approximately NIS 43 million, as compared with comprehensive income in the amount of approximately NIS 39 million in the corresponding period last year. The change in income relative to last year was primarily due to the amortization of the previous pension automation system in the amount of approximately NIS 5 million last year. Comprehensive income in the three month period ended on the reporting date amounted to a total of approximately NIS 13 million, as compared with a total of approximately NIS 12 million in the corresponding period last year.

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

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance

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

	For the year ended December 31						For the period of three months ended December 31			
NIS in millions	2016	% of total	2015	% of total	2014	% of total	2016	% of total	2015	% of total
Motor property insurance (see section 3.1.2.1 below)										
Gross premiums	**635**	**28**	639	27	747	28	**143**	**28**	129	24
Premiums on retention	**632**	**40**	635	37	744	39	**143**	**41**	127	36
Comprehensive income (loss) before tax	**16**	**13**	(36)	#	20	6	**7**	**#**	(7)	#
Loss ratio, gross	**70%**		80%		73%		**67%**		78%	
Loss ratio, on retention	**70%**		79%		73%		**68%**		75%	
Combined ratio, gross	**98%**		108%		100%		**96%**		109%	
Combined ratio, on retention	**99%**		108%		100%		**97%**		106%	
Compulsory motor insurance (see section 3.1.2.2 below)										
Gross premiums	**438**	**20**	455	19	543	20	**93**	**18**	93	17
Premiums on retention	**423**	**27**	437	25	523	27	**89**	**26**	89	25
Comprehensive income before tax, excluding the estimated impact of the Winograd committee and the discount rate	**154**	**120**	233	86	200	62	**3**	**#**	37	66
The pool's effect on results of operations	**(30)**		(22)		(20)		**(3)**		(5)	
Loss ratio, gross	**59%**		47%		62%		**86%**		61%	
Loss ratio, on retention	**56%**		48%		65%		**80%**		64%	
Combined ratio, gross	**78%**		64%		78%		**108%**		82%	
Combined ratio, on retention	**77%**		66%		81%		**103%**		86%	
Estimated impact of the Winograd committee and discount rate	**(81)**		(2)		-		**(5)**		13	
Comprehensive income before tax, including the estimated impact of the Winograd committee and the discount rate	**73**		231		200		**(2)**		50	
Property branches (see section 3.1.2.3 below)										
Gross premiums	**743**	**33**	873	36	930	35	**184**	**36**	201	38
Premiums on retention	**265**	**17**	378	22	374	19	**54**	**16**	66	19
Comprehensive income before tax	**(50)**	**#**	9	3	20	6	**(42)**	**247**	4	7
Loss ratio, gross	**42%**		58%		38%		**75%**		53%	
Loss ratio, on retention	**71%**		57%		54%		**116%**		55%	
Combined ratio, gross	**74%**		88%		68%		**107%**		82%	
Combined ratio, on retention	**118%**		101%		97%		**165%**		98%	
Provision with respect to the impact of the discount rate	**-**		2		-		**-**		5	
Comprehensive income before tax, including impact of discount rate	**(50)**		11		20		**(42)**		9	

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 year ended December 31						For the period of three months ended December 31			
NIS in millions	2016	% of total	2015	% of total	2014	% of total	2016	% of total	2015	% of total
Credit insurance (see section 3.1.2.4 below)										
Gross premiums	**107**	**5**	103	4	100	4	**27**	**5**	26	5
Premiums on retention	**54**	**3**	54	3	51	3	**14**	**4**	14	4
Comprehensive income before tax	**24**	**19**	20	7	41	13	**2**	**#**	2	4
Loss ratio, gross	**45%**		118%		26%		**41%**		291%	
Loss ratio, on retention	**46%**		48%		22%		**65%**		79%	
Combined ratio, gross	**67%**		140%		48%		**64%**		313%	
Combined ratio, on retention	**59%**		61%		30%		**80%**		90%	
Liabilities branches (see section 3.1.2.5 below)										
Gross premiums	**310**	**14**	325	14	344	13	**69**	**13**	87	16
Premiums on retention	**213**	**13**	227	13	232	12	**48**	**14**	54	15
Comprehensive income before tax, excluding the estimated impact of the Winograd committee and the discount rate	**(16)**	**#**	43	16	43	13	**14**	**#**	21	38
Loss ratio, gross	**106%**		47%		69%		**104%**		(1%)	
Loss ratio, on retention	**80%**		59%		71%		**37%**		29%	
Combined ratio, gross	**139%**		78%		97%		**137%**		30%	
Combined ratio, on retention	**123%**		99%		107%		**80%**		73%	
Estimated impact of the Winograd committee	**(61)**		(1)		-		**(11)**		17	
Comprehensive income before tax including the estimated impact of the Winograd committee's recommendations	**(77)**		42		43		**3**		38	
Total in non-life insurance segments, excluding the estimated impact of the Winograd committee and the discount rate										
Gross premiums	**2,233**	**100**	2,395	100	2,663	100	**516**	**100**	536	100
Premiums on retention	**1,587**	**100**	1,730	100	1,924	100	**348**	**100**	350	100
Comprehensive income before tax, excluding the estimated impact of the Winograd committee and the discount rate	**128**	**100**	270	100	323	100	**(17)**	**100**	56	100
Loss ratio, gross	**62%**		63%		56%		**77%**		64%	
Loss ratio, on retention	**67%**		63%		66%		**75%**		62%	
Combined ratio, gross	**90%**		90%		82%		**106%**		92%	
Combined ratio, on retention	**99%**		93%		93%		**107%**		94%	

***) The loss ratio and combined ratio data are presented without the implications of the Winograd committee and the impact of the discount rate

Total non-life insurance segments, including the impact of Winograd					
Provision with respect to the estimated impact of the Winograd committee and the discount rate **)	**(141)**	(2)	-	**(16)**	36
Comprehensive income before tax	**(13)**	268	323	**(33)**	92
Loss ratio, gross	**70%**	63%	56%	**81%**	56%
Loss ratio, on retention	**76%**	63%	66%	**79%**	51%
Combined ratio, gross	**98%**	90%	82%	**110%**	84%
Combined ratio, on retention	**107%**	93%	93%	**111%**	83%

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

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

**) The provision during the reporting period includes the implications of the Winograd committee, and in the corresponding periods last year includes the impact of the discount rate.

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

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

The reporting period

Gross premiums earned amounted to a total of approximately NIS 2,233 million, as compared with a total of approximately NIS 2,395 million in the corresponding period last year. The decrease in gross premiums in the amount of approximately NIS 162 million was primarily due to the non-renewal of students personal accident insurance transaction in the amount of approximately NS 80 million, and the non-renewal of losing business operations, including collective business operations in the compulsory motor and property branches.

Comprehensive loss before tax amounted to a total of approximately NIS 13 million, as compared with income in the amount of approximately NIS 268 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 141 million, as specified in section 3.1(b) above.

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 128 million, as compared with income of approximately NIS 268 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, which was reflected in the actuarial model. Additionally, during the reporting period, a negative development occurred in claims, from old underwriting years, in the third party, employers' liability and students personal accident insurance branches, as compared with the corresponding period last year. In addition to the foregoing, 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 motor property branch, relative to the corresponding period last year, following the optimization of collective and importers business operations, and 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 67%, from 63% in the corresponding period last year. The combined ratio on retention increased in the reporting period to 99%, from 93%.

Three month period ended on the reporting date

Gross premiums amounted to a total of approximately NIS 516 million, as compared with a total of approximately NIS 536 million in the corresponding period last year.

Comprehensive loss before tax amounted to a total of approximately NIS 33 million, as compared with income in the amount of approximately NIS 92 million in the corresponding period last year. in the three month period ended on the reporting date, an update was recorded to the provision with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendation of the Winograd committee, in the amount of approximately NIS 16 million. Additionally, during the corresponding period last year, the discount rates which are used to calculate insurance liabilities in the compulsory motor, liabilities and personal accidents branches were updated, and accordingly, comprehensive income increased by approximately NIS 36 million during that period.

After neutralization of the aforementioned provisions, in the three month period ended on the reporting date, loss was recorded in the amount of approximately NIS 17 million, as compared with income of approximately NIS 56 million in the corresponding period last year.

The transition from income to loss during the reporting period was primarily due to the negative development in claims, primarily in the students personal accident insurance branch, which was reflected in the actuarial model, and due the decrease in the surplus investment income over income required to cover the increase in insurance liabilities, as compared with the corresponding period last year . On the other hand, during the reporting period, an improvement occurred in underwriting results in the motor property branch, relative to the corresponding period last year, following the optimization of collective and importers business operations, and the underwriting improvement in individual business operations.

After neutralization of the aforementioned provisions, the loss ratio on retention during the quarter increased to 75%, from 62% (the combined ratio on retention increased during the same period to 107% from 94%).

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.)

3.1.2.1 Motor property

Reporting period

Gross premiums earned amounted to a total of approximately NIS 635 million, as compared with a total of approximately NIS 639 million in the corresponding period last year.

Comprehensive income amounted to a total of approximately NIS 16 million, as compared with loss in the amount of approximately NIS 36 million in the corresponding period last year.

The transition from loss to income was primarily due to the improvement in underwriting results in individual business operations, and the underwriting improvement in collective business operations, due to the non-renewal of losing business operations, as part of the company's strategy in recent years.

The loss ratio on retention decreased in the reporting period to 70%, from 79% in the corresponding period last year (the combined ratio on retention decreased to a rate of 99%, from 108%).

Three month period ended on the reporting date

Gross premiums amounted to a total of approximately NIS 143 million, as compared with a total of approximately NIS 129 million in the corresponding period last year. The increase in gross premiums in the reporting period, in the amount of approximately NIS 14 million, was primarily due to the increase in individual business operations, as part of the company's strategy in recent years.

Comprehensive income amounted to a total of approximately NIS 7 million, as compared with comprehensive loss of approximately NIS 7 million in the corresponding period last year. The transition from income to loss was primarily due to the improvement in underwriting results in the branch, as stated above.

The loss ratio on retention decreased to 68%, from 75% (the combined ratio on retention decreased during this period to 97%, from 106%).

3.1.2.2 Compulsory motor

Reporting period

Gross premiums earned amounted to a total of approximately NIS 438 million, as compared with a total of approximately NIS 455 million in the corresponding period last year. The decrease in gross premiums was primarily due to the optimization of the portfolio, through the non-renewal of losing business operations, including collective business operations.

Comprehensive income amounted to a total of approximately NIS 73 million, as compared with income of approximately NIS 231 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 81 million.

After neutralization of the aforementioned provisions, comprehensive income before tax amounted to a total of approximately NIS 154 million, as compared with income of approximately NIS 231 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 during the reporting period, as compared with the corresponding period last year, which was reflected in the actuarial model.

After neutralization of the aforementioned provisions, the loss ratio on retention increased to 56%, from 48% in the corresponding period last year (the combined ratio on retention increased during the reporting period to 77% from 66%).

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

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

3.1.2.2 Compulsory motor (Cont.)

Three month period ended on the reporting date

Gross premiums amounted to a total of approximately NIS 93 million, similarly to the corresponding period last year.

Comprehensive loss amounted to a total of approximately NIS 2 million, as compared with income in the amount of approximately NIS 50 million in the corresponding period last year. In the three month period ended on the reporting date, an update was recorded to the provision with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendation of the Winograd committee, in the amount of approximately NIS 5 million. Additionally, during the corresponding period last year, the discount rates which are used to calculate insurance liabilities in the compulsory motor, liabilities and personal accidents branches were updated, and accordingly, comprehensive income increased by approximately NIS 13 million during that period.

After neutralization of the aforementioned provisions, in the three month period ended on the reporting date, income was recorded in the amount of approximately NIS 3 million, as compared with income of approximately NIS 37 million in the corresponding period last year.

The decrease in income after neutralization of the aforementioned provisions was primarily due to the moderation in the positive development of claims in the compulsory motor branch, as specified above.

The loss ratio on retention increased to 80%, from 64% (the combined ratio on retention increased during the same period to 103% from 86%).

3.1.2.3 Property and others branches

Reporting period

Gross premiums earned amounted to a total of approximately NIS 743 million, as compared with a total of approximately NIS 873 million in the corresponding period last year. The decrease in gross premiums, in the amount of approximately NIS 130 million, was primarily due to the non-renewal of students personal accident insurance transaction in the amount of approximately NIS 83 million, as stated below in section 4.3.4.4, and to the decrease in premiums in the apartment branch, in the amount of approximately NIS 25 million, due to the optimization of the portfolio by way of non-renewal of losing business operations.

Comprehensive loss amounted to a total of approximately NIS 50 million, as compared with comprehensive income in the amount of approximately NIS 11 million in the corresponding period last year. The transition from income to loss during the reporting period was primarily due to the increase in loss in the students personal accidents branch, following the negative development in claims with respect to previous years, which was reflected in the actuarial model, as compared with the corresponding period last year. As specified above, beginning in September 2016, Clal Insurance stopped marketing and insuring students personal accident insurance policies, and the activity is currently under runoff.

The loss ratio on retention increased to 71%, from 57% in the corresponding period last year (the combined ratio on retention increased during the reporting period to 118% from 101%).

Three month period ended on the reporting date

Gross premiums amounted to a total of approximately NIS 184 million, as compared with a total of approximately NIS 201 million in the corresponding period last year.

Comprehensive loss in the three month period ended on the reporting date amounted to a total of approximately NIS 42 million, as compared with comprehensive income in the amount of approximately NIS 9 million in the corresponding period last year. The transition from income to loss during the reporting period was primarily due to the increase in loss in the students personal accidents branch, as stated above.

The loss ratio on retention increased to a rate of 116%, from a rate of 55% (the combined ratio on retention increased during this period to a rate of 165%, from a rate of 98%).

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

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

3.1.2.4 Credit insurance

Reporting period

Gross premiums earned in the reporting period amounted to a total of approximately NIS 107 million, as compared with a total of approximately NIS 103 million in the corresponding period last year.

Comprehensive income in the reporting period amounted to a total of approximately NIS 24 million, as compared with approximately NIS 20 million in the corresponding period last year. The increase in income during the reporting period was primarily due to the improvement in underwriting profit and investment income.

The loss ratio on retention decreased in the reporting period to 46%, from 48% in the corresponding period last year (the combined ratio on retention decreased to a rate of 59%, from 61%).

Three month period ended on the reporting date

Gross premiums earned amounted to a total of approximately NIS 27 million, as compared with a total of approximately NIS 26 million in the corresponding period last year.

Comprehensive income in the three month period ended on the reporting date amounted to a total of approximately NIS 2 million, similarly to the corresponding period last year.

The loss ratio on retention decreased to 65%, from 79% (the combined ratio on retention decreased to 80%, from 90%).

3.1.2.5 Other liability branches

Reporting period

Gross premiums earned amounted to a total of approximately NIS 310 million, as compared with a total of approximately NIS 325 million in the corresponding period last year.

Comprehensive loss in the reporting period amounted to a total of approximately NIS 77 million, as compared with income in the amount of approximately NIS 42 million in the corresponding period last year. During the reporting period, a provision was recorded in light of the possible implications of the amendment to the Discounting Regulations, due to the recommendations of the Winograd committee, in the amount of approximately NIS 61 million, as specified in section 3.1(b) above.

After neutralization of the provision with respect to the Winograd committee, as stated above, loss was recorded in the amount of approximately NIS 16 million, as compared with income of approximately NIS 42 million in the corresponding period last year.

The decrease in income, after neutralization of the provision with respect to the Winograd committee, as stated above, was primarily due to the negative development in claims from old underwriting years, primarily in the employers' liability insurance and third party branches, which was reflected in the actuarial model, as compared with the positive development in the corresponding period last year.

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 80%, from a rate of approximately 59% in the corresponding period last year (the combined ratio on retention increased during the reporting period to a rate of 123%, from a rate of 99%).

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

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

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

3.1.2.5 <u>Other liability branches</u> (Cont.)

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

Gross premiums in the reporting period amounted to a total of approximately NIS 69 million, as compared with a total of approximately NIS 87 million in the corresponding period last year.

Comprehensive income in the three month period ended on the reporting date amounted to a total of approximately NIS 3 million, as compared with approximately NIS 38 million in the corresponding period last year. in the three month period ended on the reporting date, an update was recorded to the provision with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendation of the Winograd committee, in the amount of approximately NIS 11 million. Additionally, during the corresponding period last year, the discount rates which are used to calculate insurance liabilities in the compulsory motor, liabilities and personal accidents branches were updated, and accordingly, comprehensive income increased by approximately NIS 17 million during that period.

After neutralization of the aforementioned provisions, in the three month period ended on the reporting date, income was recorded in the amount of approximately NIS 14 million, as compared with income of approximately NIS 21 million in the corresponding period last year.

The decrease in income in the current quarter, relative to the corresponding quarter last year, was primarily due to the negative development of claims in the third party branch, as stated above.

The loss ratio on retention increased to 37%, from 29% (the combined ratio on retention increased during the same period to 80% from 73%).

3.1.3 Health insurance

<u>Reporting period</u>

Gross premiums earned in the reporting period amounted to a total of approximately NIS 1,799 million, as compared with a total of approximately NIS 1,674 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 during the reporting period amounted to a total of approximately NIS 216 million, as compared with a total of approximately NIS 178 million in the corresponding period last year.

The increase in comprehensive income before tax during the reporting period was primarily due to the Group's policy of increasing individual business operations and improving collective business operations, due to the decrease in the reserve for profit participation and the increase in surplus investment income over the income required to cover the increase in insurance liabilities.

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

3.1 Financial information by operating segments (Cont.)

3.1.3. Health insurance (Cont.)

A. Long-term care branch

1. Individual - comprehensive income in the reporting period amounted to a total of approximately NIS 11 million, as compared with comprehensive loss in the amount of approximately NIS 9 million in the corresponding period last year. The decrease in comprehensive loss and the transition to income was primarily due to the recording of a premium deficiency reserve in the amount of approximately NIS 16 million in the corresponding period last year.

2. Collectives, including health fund collectives - comprehensive income in the reporting period amounted to a total of approximately NIS 91 million, as compared with a total of approximately NIS 56 million in the corresponding period last year. The increase in income was primarily due to the decrease in the reserve for profit participation, as stated above.

B. Illness and hospitalization branch

1. Long term - comprehensive income in the reporting period amounted to a total of approximately NIS 92 million, as compared with a total of approximately NIS 122 million in the corresponding period last year. The decrease in comprehensive income was due to the decrease of insurance reserves, as a result of the update to the estimates, primarily in the cancellation and morbidity rates, in the amount of approximately NIS 19 million during the reporting period, as compared with the decrease of insurance reserves in the amount of approximately NIS 47 million last year.

2. Short term - comprehensive income in the reporting period amounted to a total of approximately NIS 21 million, as compared with comprehensive income of approximately NIS 8 million in the corresponding period last year. The increase in comprehensive income in the fourth quarter was primarily due to the increase in surplus investment income over the income required to cover the increase in insurance liabilities and the improvement in underwriting results.

Three month period ended on the reporting date

Gross premiums earned in the three month period ended on the reporting date amounted to a total of approximately NIS 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 three month period ended on the reporting date amounted to a total of approximately NIS 255 million, as compared with comprehensive income in the amount of approximately NIS 49 million in the corresponding period last year.

The increase in comprehensive income before tax in the three month period ended on the reporting date was primarily due to the liability adequacy test (LAT) which resulted in a release of the reserve in the amount of approximately NIS 180 million in the three month period ended on the reporting date (with respect to non-investment-linked long-term care policies in the amount of approximately NIS 81 million and with respect to investment-linked long-term care policies in the amount of approximately NIS 99 million), with no impact in the corresponding period last year.

After neutralization of this provision, comprehensive income before tax amounted to a total of approximately NIS 75 million, as compared with comprehensive income in the amount of approximately NIS 49 million in the corresponding period last year. The increase in income was due to the update to estimates following actuaries studies, primarily in connection with the estimated expenses, which reduced the reserved and increased income in the amount of approximately NIS 15 million.

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

3.1 Financial information by operating segments (Cont.)

3.1.3. Health insurance (Cont.)

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 year ended December 31		For the period of three months ended December 31	
NIS in millions	**2016**	**2015**	**2016**	**2015**
Investment gains (losses) which were applied to policyholders	63	57	47	51

3.1.4. Other and items not included in the insurance branches

	For the year ended December 31			Rate of change in percent relative to the corresponding year		For the period of three months ended December 31		Rate of change in percent relative to last year
NIS in millions	**2016**	**2015**	**2014**	**2016**	**2015**	**2016**	**2015**	**2016**
Income from investments, net, and financing income	136	241	172	(44)	40	33	31	6
General and administrative expenses	57	64	54	(11)	19	14	19	(26)
Other expenses (income)	5	11	(10)	(55)	#	6	3	#
Loss before tax in Clal Finance	-	-	(42)	#	#	-	-	#
Income (loss) before tax from continuing operations from adjustments and offset operations	2	(3)	(2)	#	50	(3)	-	#
Income before tax from continuing operations in other segments	24	23	24	4	(4)	8	7	14
Total other income (loss) before tax and items which are not included in the insurance branches	**100**	**186**	**108**	**(46)**	**72**	**18**	**16**	**13**
Total other income (loss) before tax and items which are not included in the insurance branches	114	87	128	31	(32)	33	40	(18)

During the reporting period

Comprehensive income from items which are not included in the insurance branches amounted in the reporting period to a total of approximately NIS 114 million, as compared with comprehensive income of approximately NIS 87 million in the corresponding period last year. The increase in income was primarily due to investment income in the amount of approximately NIS 150 million in the reporting period, as compared with investment income in the amount of approximately NIS 142 million in the corresponding period last year.

During the three month period ended on the reporting date

Comprehensive income from items which are not included in the insurance branches in the fourth quarter amounted to a total of approximately NIS 33 million, as compared with comprehensive income of approximately NIS 40 million in the corresponding period last year. The decrease in income was primarily due to investment income in the amount of approximately NIS 48 million during the three month period ended on the reporting date, as compared with a total of approximately NIS 55 million in the corresponding period last year.

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

3.1 Financial information by operating segments (Cont.)

3.1.5. General and administrative expenses

Other general and administrative expenses during the reporting period amounted to a total of approximately NIS 773 million, as compared with a total of approximately NIS 753 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, and to the investments with respect to the road map. For additional details, see Note 44(c) to the financial statements.

During the three month period ended on the reporting date, general and administrative expenses amounted to a total of approximately NIS 203 million, with no change relative to the corresponding period last year.

3.1.6. Financing expenses

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

Financing expenses in operations which are not allocated to segments

Financing expenses in the reporting period amounted to a total of approximately NIS 151 million, as compared with approximately NIS 132 million in the corresponding period last year. The increase in financing expenses during the reporting period was primarily due to the cost of replacement of deferred liability notes in April and December in the amount of approximately NIS 7 and 17 million, respectively, as compared with the cost of replacement of deferred liability notes in the amount of approximately NIS 10 million in the corresponding period last year. (For additional details, see Note 25 to the financial statements.)

During the three month period ended on the reporting date, financing expenses amounted to a total of approximately NIS 36 million, as compared with a total of approximately NIS 26 million in the corresponding period last year. The increase in financing expenses was primarily due to the cost of the exchange of deferred liability notes in December 2016, as stated above.

3.2 Additional financial data

	Primary movements in equity					
	For the year ended December 31			For the period of three months ended December 31		
NIS in millions	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Income for the period [1)]	**100**	480	227	**449**	135	80
Other comprehensive income for the period [2)]	**26**	(193)	140	**30**	21	(38)
Comprehensive income	**125**	288	367	**479**	157	42
Comprehensive income attributable to shareholders in the company	**122**	285	362	**479**	156	41
Comprehensive income attributable to non-controlling interests	**3**	2	5	**-**	-	1
Comprehensive income	**125**	288	367	**479**	157	42

1. The decrease in income during the reporting period was primarily due to the impact of the low interest rate environment, the provision following the recommendations of the Winograd committee, additional special provisions in long-term savings, and the long-term savings in the provident fund segment.
   The decrease in income in the three month period ended on the reporting date was primarily due to the impact of the low interest rate environment, the provision following the recommendation of the Winograd committee, and the amortization of goodwill in the provident fund segment. For additional details, see section 3.1 above.
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. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)

3.3 Principal data from the consolidated statements of financial position

3.3.1. Assets

NIS in millions	As of December 31 2016	2015	Rate of change %
Total assets	**98,291**	95,122	3
From assets:			
Total assets with respect to investment-linked contracts in consolidated insurance companies	**58,396**	54,930	6
Other financial investments [1]	**30,340**	30,529	(1)
Assets managed for others (non-nostro) in the group (NIS in millions):			
For investment-linked insurance contracts and investment contracts	**58,396**	54,930	6
For provident fund members [1]	**34,133**	34,846	(2)
For pension fund members *)	**53,948**	48,160	12
Total assets managed for others	**146,477**	137,936	6
*) Out of this amount, total assets managed by Atudot Havatika	**9,330**	9,013	4

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.

3.3.2. Liabilities

NIS in millions	As of December 31 2016	2015	Rate of change %
Total liabilities	**93,578**	90,538	3
From liabilities:			
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**29,769**	29,794	-
Liabilities with respect to investment-linked insurance contracts and investment contracts	**57,276**	54,347	5
Total liabilities with respect to insurance contracts and investment contracts	**87,045**	84,141	3
Deferred liability notes [1]	**3,315**	3,220	16
Liabilities to banking corporations:			
The company	**70**	70	-
Clal Credit and Finance	**3**	26	(88)
Total liabilities to banking corporations and others, without the liability with respect to derivative financial instruments and short sales	**73**	96	(24)
Liabilities with respect to derivative financial instruments and short sales	**247**	247	-
Total liabilities to banking corporations and others (Note 27)	**320**	343	(7)

1. For details regarding the exchange and extension of deferred liability notes during the reporting period, see Note 25 to the 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.)

3.3.3. Capital and capital requirements

NIS in millions	As of December 31 2016	2015	Rate of change %
The company			
Total capital attributable to shareholders in the company	**4,674**	4,548	2.8
Total capital required of the company [1]	**2,845**	2,851	-
Surplus	**1,829**	1,697	7.8
Rate of surplus over required capital	**64.3%**	59.5%	8.1
Clal Insurance [2)3)4)]			
Total capital and required capital surplus	**4,793**	4,730	1.2
Total Tier 1 capital	**4,513**	4,402	2.5
Total Tier 2 and Tier 3 capital	**3,009**	2,935	2.5
Total recognized capital	**7,522**	7,337	2.5
Surplus	**2,729**	2,606	4.9
Rate of surplus over capital and required capital surplus	**56.9%**	55.1%	3.7
Rate of Tier 2 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 16 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 16 to the financial statements and section 3.1.1 above.
3. For details regarding the exchange and issuance of deferred liability notes during the reporting period, see Note 25 to the financial statements.
4. 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 financial statements, and accordingly, a total of approximately NIS 205 million was not recognized as capital as of December 31, 2016. 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 3.1.1. above and Note 16(e)(2)(4) to the financial statements.

3.4. Cash flows

Primary data from the cash flow report

NIS in millions	For the year ended December 31 2016	2015	2014
Net cash from (used in) operating activities *)	**(501)**	2,168	(227)
Net cash flows used in investing activities **)	**(278)**	(309)	(350)
Net cash flows used in financing activities	**(63)**	108	(488)
Impact of exchange rate fluctuations on cash balances	**(21)**	(32)	58
Total increase (decrease) in cash balances	**(863)**	1,935	(1,006)

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

**) The decrease in cash was primarily due to investments in software assets.

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

3.5. Financing sources (Cont.)

3.5.1. Liquid resources and credit facilities *)

The following are data regarding the principal liquid resources of the company and of its subsidiaries:

NIS in millions	As of December 31, 2016	Proximate to the publication date of the report
Liquid resources of the company (solo)	101	105

*) During the reporting period, in accordance with the date specified in the agreement, the company's credit facility in the amount of NIS 60 million expired. the company chose not to renew the credit facility.

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(8) to the consolidated reports. As of December 31, 2016, 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 16(e) to the financial statements.

F. For details regarding the exchange and issuance of liability certificates by Clalbit Finance during the reporting period, see Note 25 to the consolidated reports.

G. The following are details regarding the repayment of the company's liabilities to banks over the coming year:

	01.01.2017-30.06.2017			01.07.2017-31.12.2017		
NIS in millions	Principal	Interest	Total	Principal	Interest	Total
Loans from banks	-	1	1	-	1	1

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 2016-01-132298).

4. Exposure to and Management of Market Risks

Effect of market risks on business results

The term "market risks" refers to the effect of changes in interest rates, inflation, foreign currency exchange rates, stock prices and other risk factors on the business results, equity, cash flows, and financial assets and liabilities of the corporation and its value.

The group's business results are materially affected by changes in market risk factors. The sensitivity of operations to market risks is due both to the direct effect of these changes on the nostro investments of the institutional entities in the group, and to the indirect effect of returns of funds of members and policyholders in investment-linked policies, provident funds and pension funds, which are managed by those entities, on the management fees which are charged by them. For details regarding the exposure to market risks and methods for the management thereof in all of the group's operations, see Note 40 to the financial statements.

It is hereby clarified that in accordance with the Securities Regulations, sensitivity to changes in specific risk factors which refer to exposures to market risks in operations which are not performed by the insurance companies in the group, i.e., financial exposures (assets and liabilities) with respect to the operations of Clal Agencies and of the company itself, as well as exposures which are due to the balance of an operation which was performed in the past by subsidiaries of Clal Credit and Finance Ltd., a company wholly owned by the company, an operation which the company decided to gradually close down. The company's sensitivity, in this activity, to changes in market risk factors, is negligible.

4.1 Individual responsible for the management of market risks in the corporation

The individual responsible for the management of market risks in the company is Ms. Hila Conforti. Ms. Conforti holds a Master's degree in Economics, and served as the manager of the audit unit in the Banking Supervision Department, before her appointment as the Risk Manager of the institutional entities in the group in 2007.

4.2 Description of market risks and the corporation's policy regarding the management and oversight of market risks

The main risks to which the group is exposed are risks associated with the insurance operation, which is the group's main operation. For a description of these risks, and methods for the management and oversight thereof, on the level of the group and on the level of the company itself, see Note 40 to the financial statements.

<u>Means of oversight and policy implementation</u>

Oversight of the fulfillment of the group's policy regarding the exposure to market risks is performed by the management and board of directors of each of the group's member companies, with the assistance of the risk management unit, as applicable, and through data from their investment and accounting systems.
The board of directors believes that the quality of risk management in the company is appropriate, in light of the circumstances.

4.3 Events subsequent to the reporting period

Subsequent to the reporting period, no events occurred which significantly affected the company's exposure to market risks.

5. The Group's Vision, Goals and Business Strategy

The group's vision - to be the leading group in the Israeli insurance and pension market, while striving to increase the company's value and unlocking maximum value for shareholders, with an emphasis on increasing profitability, improving service for the company's customers, innovation in services and products technological leadership, maintenance of high-quality human resources, and continuously striving towards excellence.

Strategy - main methods of achieving the vision:

- Customer retention and continued growth and business expansion in core business operations (non-life insurance, long-term savings and health insurance) in the individual branches, while emphasizing underwriting profit before market share.
- The adjustment of the company's business activities to the changing conditions, including the regulatory environment, interest rate environment, and the state of capital markets.
- Management of capital and business operations in the new era of the Solvency II regime, with an emphasis on strengthening the capital structure.
- Resumption of leading returns for customers in all long-term savings branches.
- Continued improvement of service given to customers and to the company's agents.
- Increasing the satisfaction of the company's employees, and retaining them.
- Continued promotion of digital innovation, with an emphasis on the provision of information and service actions through the company's digital channels (agents, customers, trade employers), and continued improvement of the information systems in long-term savings, while increasing the efficiency of work processes.
- Continued emphasis on management of the control and internal enforcement unit, while complying with the rules of corporate governance.

The group's practice is to evaluate its strategic plans from time to time, and to update its goals in accordance with developments in the business environment, in the competition map, in regulation and in the capital market.

The information presented on all matters associated with the strategic plan constitutes forward looking information which is based on the group's estimates, intentions and strategy, which reflect its policy and intentions as of the publication date of this report, and which are based on current estimates regarding the group's operating segments and the group's position as of the publication date of the report, and may change, entirely or partially, from time to time. There is no certainty that the group's intentions or strategy will be realized. It is possible that the described goals may not be realized in the future, or that the group may decide not to implement the aforementioned strategy, in whole or in part, due, inter alia, to the following reasons: changes in economic profitability, changes in the business environment, changes in competitive market conditions and changes in the markets themselves, regulatory changes, changes in the capital market in Israel and around the world, and due to the other risk factors which apply to the group's activities, as specified in section 4 below and in Note 40 to the financial statements.

6. Aspects of Corporate Governance

6.1 The corporation's donations

As part of its social activities in 2016, the group donated a total of approximately NIS 640 thousand million in Israel, in accordance with the defined strategy: support for associations assisting population groups with special needs, with an emphasis on children[5]. Some of the activities also involved the company's employees.

Presented below are details regarding the associations to which the group donated over NIS 50,000 during the reporting year:

	Association name	Donation amount (in NIS)
1.	Jerusalem Music Center	140,000
2.	ALYN Hospital - Wheels of Love	50,000
3.	Nahar HaYarden Village Association	90,000

To the best of the company's knowledge, there is no relationship between the donation recipient and the corporation, director, CEO, controlling shareholder or any relative thereof.

6.2 Report regarding directors with accounting and financial expertise

For a list of directors with accounting and financial expertise, and for details regarding their education, experience, qualifications and knowledge, based on which the company's board of directors considers the aforementioned directors as possessing accounting and financial expertise, see section 17 in the section entitled Additional Details Regarding the Corporation.

6.3 Disclosure regarding the corporation's internal auditor

For details regarding the internal auditor, see section 12.2 in the section entitled Description of the Corporation's Business.

6.4 Disclosure regarding the auditor's salary

For details regarding the auditor, see section 12.2 in the section entitled Description of the Corporation's Business.

6.5 Changes in the corporation's corporate officers

On October 31, 2016, Ms. Ronit Zalman Malach concluded her tenure as the company's Executive VP and Chief Accountant. Beginning on November 1, 2016, Mr. Tal Cohen served as Senior VP and Chief Accountant of the company and of Clal Insurance.

On November 1, 2016, Mr. Shimon Kalman began serving as Executive VP and Personal Assistant to the CEO Regarding Special Affairs.

On October 25, 2016, Ms. Shula Bandel stopped serving as an outside director in the company. In her place, Mr. Sami Moualem was appointed as an outside director in the company.

On January 1, 2017, the long term savings division was divided in a manner whereby the management of the shared division was split, and Mr. Yaron Shamay was appointed as the Life Insurance Division Manager, while Mr. Avi Rosenbaum was appointed as the Pension, Provident and Financial Products Division Manager.

5 The company also donated a total of approximately NIS 3 million within the framework of settlements in legal proceedings which were conducted against it.

6. Aspects of Corporate Governance (Cont.)

6.6 Identification and approval of transactions with interested parties

The Companies Law, 1999 (the "**Companies Law**") determines that certain transactions in which the company's corporate officers have a personal interest, and transactions of public companies with the controlling shareholder (including those in which the controlling shareholder has a personal interest) (hereinafter, jointly: "**Transactions With Interested Parties**"), require the receipt of special approvals, in accordance with the party to the transaction, the type of the transaction, and the transaction terms. It is emphasized that according to the conventional interpretation of the Companies Law, a transaction of a private company which is under the company's control, with a controlling shareholder or in which the controlling shareholder has a personal interest, may be considered as a transaction of the company, as a public company (even if the public company is not party to the transaction), and require the receipt of approvals in the company. However, it should be clarified that the company will not consider a corporate officer in the company as an interested party in a transaction between its subsidiary and a third party, only because to the fact that he or his relative is a corporate officer in the same third party which is a party to the transaction, provided that the corporate officer or his relative are not party to the transaction (with respect to a director in the company or in a third party - where the compensation paid to him, with respect to this tenure, is fixed compensation only, and in accordance with section 244(b) of the Companies Law).

Transaction approval processes

On January 10, 2014, an amendment to the Companies Law entered into effect, according to which the audit committee is required, inter alia: (1) to determine, with respect to transactions with the controlling shareholder, as specified in section 270(4) or 270(4a) of the Companies Law, even if they are not extraordinary transactions, that a competitive process will be conducted under the supervision of the audit committee, or any entity which will be determined by it for this purpose, and in accordance with criteria which it will determine, or to determine that other processes will be conducted, as determined by the audit committee, before engaging in such transactions, in accordance with the type of transaction; (2) to determine the approval method for non-insignificant transactions, including determining the types of such transactions which will require the approval of the audit committee.

In accordance with the decision of the audit committee in its meetings on **November 23, 2015**, March 11, 2016 and March 16, 2017, the audit committee adopted a permanent policy[6] which regulates, inter alia, the method used to perform a competitive process, and alternative processes and procedures regarding the classification and approval of the aforementioned transactions[7]. Presented below are details regarding the main principles of the policy.

The processes for the approval of extraordinary transactions will be in accordance with the provisions of the Companies Law.

- **Transactions with corporate officers or in which corporate officers have a personal interest** [8]
  - o **Extraordinary transactions** - will be presented to the audit committee and board of directors for approval.
  - o **Non-extraordinary and non-insignificant transactions**[9] - Will be presented to the audit committee or board of directors for approval.

[6] In accordance with the decision of the audit committee on January 14 and February 16, 2014, which were reached following the amendment to section 117(2a) of the Companies Law, a temporary policy was approved regarding the implementation of the aforementioned amendment to the Companies Law, until the permanent policy has been established.

[7] For the avoidance of doubt, the provisions of the policy will apply both upon the approval of the transaction, and upon its renewal.

[8] Investment transactions with a related party in the investment segment will also be subject to the current provisions, in accordance with the law, including institutional entities circular 2013-9-13, "Investment rules for institutional entities", and including the Control of Financial Services Regulations (Insurance) (Board of Directors and its Committees), 2007, and therefore, transactions involving members' funds or the funds of profit sharing policies will be presented for approval to the relevant investment committee, in addition to, or instead of, the approval of the aforementioned organs, and investment transactions involving nostro funds will be presented to the audit committee for approval, in addition to, or instead of, the aforementioned organs.

[9] For the purpose of this policy, an "**Insignificant Transaction**" will be as defined in the company's insignificance policy (See part (ii) below).

6. Aspects of Corporate Governance (Cont.)

6.6 Identification and approval of transactions with interested parties (Cont.)

Transaction approval processes (Cont.)

- o **Non-extraordinary and insignificant transactions** - On February 17, 2009, an amendment was implemented to the company's bylaws, in which it was determined that a transaction with a corporate officer, or a transaction in which a corporate officer has a personal interest, will be approved by another corporate officer, provided that it is not an extraordinary transaction (excluding a transaction which pertains to terms of tenure and employment). The company's board of directors determined, on the same date, that the evaluation regarding whether the transaction is insignificant will be performed by a relevant corporate officer, in accordance with an internal company policy regarding the on the same date and approval of transactions with interested parties, as approved by the audit committee and board of directors on an annual basis.

- **Transactions with the controlling shareholder or in which the controlling shareholder has a personal interest** [10]
  - o **Extraordinary transactions** - will be approved in accordance with the provisions of the Companies Law.
  - o **Non-extraordinary and non-insignificant transactions** - will be presented for approval to the audit committee, for classification of the transaction and approval of the transaction itself.
  - o **Non-extraordinary and insignificant transactions** - will be pre-approved, provided that they are implemented in accordance with the provisions of the policy. The evaluation pf the aforementioned transactions will be performed by the corporate officer who is responsible for the relevant segment in the group (and insofar as he has a personal interest in the performance of the transaction - by his supervisor).
- **Non-extraordinary and highly insignificant retail transactions** - pre-approval was given for the performance of "retail" transactions in which the member companies in the group sell deviation to private entities and small businesses, including non-life, health and life insurance policies, pension funds and provident funds and associated services, which are provided to members and to small employers. These transactions are approved insofar as the premium amount or management fees with respect to the transaction, as applicable, according to the company's price list, do not exceed NIS 50,000 per year, except with respect to deposits to pension products, and provided that they are performed in accordance with price lists which include predetermined prices and discount levels (hereinafter: "**Highly Insignificant Current Transaction**").

Criteria for the classification of transactions

The Companies Law determines that an "extraordinary transaction" is a transaction which fulfills one of the following three criteria:

(A) A transaction which is not in the company's ordinary course of business; (B) a transaction which is not executed in market conditions; (C) a transaction which may significantly affect the company's profitability, property or liabilities.

The relevant corporate officer, or the relevant organ, as stated above, will evaluate the transaction in question, and will determine whether the transaction fulfills the three criteria for qualification as an **extraordinary transaction**.

[10] See footnote 2.

6. Aspects of Corporate Governance (Cont.)

6.6 Identification and approval of transactions with interested parties (Cont.)

Transaction approval processes (Cont.)

- For the purpose of the evaluation of exceptionality, a transaction will be considered a transaction **in the company's ordinary course of business** following a factual evaluation, in light of the ordinary economic activity of the company which is engaging in the transaction, in a manner whereby the type of product or service which are purchased, the liabilities or which are accepted in the company's ordinary course of business, are within its operating segments, are required for its operations.
- For the purpose of the aforementioned exceptionality, a transaction will be classified as a **material transaction** in accordance with the significance policy which has been adopted by the company, as specified in part (iii) below. A transaction will be classified as an **insignificant transaction** in accordance with the insignificant policy which has been adopted by the company, as specified in part (ii) below.
- For the purpose of the aforementioned evaluation of exceptionality, the evaluation of **market conditions** will be performed based on an external, objective indication of the market conditions of the transaction, and therefore, market condition identify similar transactions to those conducted with the controlling shareholder or with the corporate officer, which were performed with non-related parties, and to compare those transactions. The comparison will be performed, where possible, against similar transactions in terms of operating segment, type of product or service, and in terms of the financial scope of the engagement, with non-related parties, except in special cases, and for reasons which will be specified. As part of the above, efforts will be made to evaluate also similar transactions which were performed on the market by other companies.
- Additionally, in a transaction with a controlling shareholder or in which the controlling shareholder has a personal interest, the existence of a competitive process, or another process which was determined by the committee, will be necessary. In certain cases, or in cases where it is not possible to perform a competitive process, the committee has determined other criteria for implementation as an alternative to the competitive process, such as corresponding transactions which were performed by the company with non-related parties during the last 3 years, participation of another non-related party in the transaction, receipt of approval from a third party which has expertise in the segment regarding the existence of market conditions, receipt of approval from the counterparty in the transaction regarding the terms of corresponding transactions which were performed by non-related parties.

In accordance with the provisions of the policy, insofar as the existence of a **competitive process** is required, the following provisions will apply: (A) the competitive process will be performed under the supervision of a supervisory entity, which will supervise the process of evaluating and approving the transaction; (B) Consultations will be performed with relevant entities before the approval of the engagement; (C) The competitive process will include contact to three bidders with an alternative or identical product or service (and when such contact is irrelevant, the matter will be reported to the company's audit committee); (D) The criteria for the competitive process will be, in general, the total cost for the company. In accordance with the specific circumstances, the company will be able to establish, in advance, additional balancing criteria, including compliance with technical requirements, compliance with regulatory requirements, quality, experience in the field, prior experience with the company, availability and schedule.(E) In cases where a competitive process is required, although the transaction is performed under identical conditions as a transaction for which a competitive process was performed, and where one year has not yet passed since the date of engagement in the original transaction, and according to the evaluation of the supervising entity, no significant changes have occurred in market conditions - the company will be able to engage under the same conditions, or under beneficial conditions, without conducting another competitive process. (F) A competitive or other process will not be required insofar as the transaction only credits the company, or if it is an engagement which does not exceed a cumulative total of NIS 50,000 in a single calendar year.

Preparation of a list of potential related parties
In order to identify potential conflicts of interests, and to create in the company a list of entities which may be considered related parties to interested parties, a questionnaire will be sent to the directors, corporate officers and controlling shareholders of the following, which will include a request for details in connection with the interests and holdings, as interested parties, of those corporations and persons in various corporations, including service as directors and as corporate officers. According to the responses which will be received, a list of entities which may be considered entities with potential for interested party transactions will be compiled (the "**List of Interested Parties**").

6. Aspects of Corporate Governance (Cont.)

6.6 Identification and approval of transactions with interested parties (Cont.)

Transaction approval processes (Cont.)

The list of interested parties will be updated upon the personal turnover of the interested parties and/or corporate officers in the company, and in case of a change in the interested parties and holdings as interested parties of those corporations and people in various corporations (insofar as they will be reported to the company).

The company will followup, for the purpose of evaluating the adequacy of actual classification of the transactions by management, in accordance with the criteria which were determined;

- The relevant control units will periodically follow up on transactions with related parties.
- The internal auditor will conduct an internal audit regarding the compliance with the provisions of the policy each calendar year.
- The audit committee will hold a discussion regarding the criteria established in this policy each calendar year, in which it will receive reports regarding the audit report, and any significant control findings, as stated above.

6.7 Insignificant transactions

A. On March 10 and 22, 2016, the company's audit committee and board of directors decided to update guidelines and rules for the classification of a transaction of the company or its consolidated company with an interested party therein as an insignificant transaction, as determined in Regulation 41(a3)(1) of the Securities Regulations (Annual Financial Statements), 2010 (the "**Financial Statements Regulations**"). These rules and guidelines will also serve to evaluate the scope of disclosure in the periodic report and in the prospectus (including in shelf offering reports) regarding a transaction of the company, a corporation under its control, or its related company, with the controlling shareholder, or regarding which the controlling shareholder has a personal interest in its approval, as determined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Periodic Reports Regulations**"), and in Regulation 54 of the Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus), 1969 the ("**Details of Prospectus Regulations**"), (the types of transactions specified in the financial statements regulations, in the periodic reports regulations and in the details of prospectus regulations shall hereinafter be referred to as: "**Interested Party Transactions**"). It is noted that the aforementioned guidelines and rules are also used for transaction classification purposes, in accordance with the provisions of section 117(2a) of the Companies Law.

B. In their ordinary course of business, the company and its consolidated companies and related companies perform, or **may** perform, and have or may have liabilities for the performance of such transactions, including transactions of the types and characteristics specified below:

6. **<u>Aspects of Corporate Governance</u> (Cont.)**

6.7 Insignificant transactions (Cont.)

B. (Cont.)

1. <u>Transactions involving the acquisition of services and/or products and/or investments:</u>

(**A**) Transactions with banking corporations and financial institutions, including deposits and associated banking services, credit agreements and credit facilities; (**B**) Transactions involving the acquisition of products and services (such as communication and telephony products, food products, electricity products, office supplies and furniture, paper products, clothing, hygiene products and supplementary kitchen cleaning products); (**C**) Acquisition and/or provision of subsidization for the acquisition of discounted shopping cards; (**D**) Transactions for the acquisition of travel and tourism services; (**E**) Event production services; (**F**) Policy and services for income-generating properties; (**G**) Financial investments within the framework of a consortium and/or the acquisition of securities within the framework of public offerings and/or private issuances to institutional entities and/or private transactions; (**H**) Investments in funds and/or acquisition of rights in funds; (**I**) IT and organizational consulting; (**J**) Company rating services or issuances and underwriting for securities distribution, securities agency and brokerage; (**K**) Agency services with respect to insurance, pension and provident funds by insurance agencies; (**L**) Leasing, management and rental of properties; (**M**) Acquisition and sale of properties together with interested parties; (**N**) Investment/credit management services, including credit rating; (**O**) Acquisition of financial and/or economic services, including economic and business consulting, underwriting services, underwriting and investment banking services; (**P**) IT and software services.

2. <u>Transactions involving the sale of services and/or products</u>

(**A**) Sale of insurance policies which were issued by the insurers in Clal Group, in all insurance branches, to the interested parties in the company and/or to other parties, in cases where the interested parties have a personal interest in the engagement and/or in the employees of the aforementioned entities, including policies which are shared by the company and/or IDB and additional member companies in the company's group and/or in IDB Group (including employee trust insurance, real estate, property and liabilities insurance, managers' insurance, professional liability insurance, etc.); **(B)** Provision of agency services in insurance business operations by insurance agencies; **(C)** Provision of provident fund and/or pension fund management services to corporations and/or their employees; **(D)** Provision of banking, financial and/or economic services, including factoring, financing and mortgages; **(E)** Property rentals.

3. <u>Non-extraordinary and highly insignificant retail transaction</u>

Pre-approval was given for the performance of "retail" transactions in which the member companies in the group sell insurance policies to private entities and small businesses, including non-life, health and life insurance policies, pension funds and provident funds and associated services, which are provided to members and to small employers. These transactions are approved insofar as the premium amount or management fees with respect to the transaction, as applicable, according to the company's price list, do not exceed NIS 50,000 per year, except with respect to deposits to pension products, and provided that they are performed in accordance with price lists which include predetermined prices and discount levels (hereinafter: "**Highly Insignificant Current Transaction**").

It is noted that the approval process for related party claims, with respect to the receipt of insurance benefits, although it constitutes the implementation of the policy terms, was approved, for the sake of caution, by the audit committee, within the framework of a separate policy, in which policies were pre-approved with respect to the approval processes of such claims, whereby certain claims will be presented to the CEO for approval

C. The evaluation of the insignificance of a transaction will be performed according to the relevant criteria from among those specified below. The evaluation of the significance of a transaction will be performed according to the criteria set forth in the company's significance policy.

6. Aspects of Corporate Governance (Cont.)

6.7 Insignificant transactions (Cont.)

D. In case of a transaction with the controlling shareholder, or in which the group's controlling shareholder has a personal interest, the question of insignificance will be evaluated with respect to the operations and results of Clal Holdings.

E. In case of a transaction with a corporate officer in which the controlling shareholder does not have a personal interest, the question of insignificance will be evaluated with respect to the operations and results of the company which is engaging in the transaction.

F. Each case will be evaluated on its own merits, and a quantitative and qualitative evaluation will be conducted regarding the relevant event, based on the entire set of information, data, facts and estimates pertaining to the case, in light of the entire set of circumstances which are relevant to the company.

Without derogating from the generality of the foregoing, the quantitative and qualitative evaluations will be conducted in the following manner:

1. Quantitative evaluation

A. Insurance transaction
In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, a transaction of this kind which is implemented in market conditions, in the ordinary course of business, and which does not have a significant influence on the company, will be considered an insignificant transaction if its scope is lower than NIS 15 million. For the avoidance of doubt, it is hereby clarified that the scope of the transaction will be evaluated in accordance with the total income from the transaction in the calendar year, and in life insurance transactions and long-term savings products, the scope of the transaction will be evaluated in accordance with the total management fees with respect to the transaction in a calendar year.

B. Transactions involving the acquisition of products and/or services
In the absence of special qualitative considerations in light of the entire set of relevant circumstances, a transaction of this kind which is performed in market conditions, in the ordinary course of business, and which does not have a significant influence on the company, will be considered an insignificant transaction if it is in a scope lower than NIS 10 million, and if it does not involve the receipt of services from the controlling shareholder (management agreement) in accordance with section 270(4) of the Companies Law.

C. Transactions involving investment and/or acquisition or sale of fixed assets (non-current assets) / acceptance of monetary liability
In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, a transaction of this kind which is performed in market conditions, in the ordinary course of business, and which does not have a significant influence on the company, will be considered an insignificant transaction if all of the following criteria amount to a rate of less than one tenth of a percent (0.1%).

It should be noted that the evaluated data will be based on the company's consolidated financial statements, audited or reviewed (the last statements to be published before the performance of the transaction).

6. Aspects of Corporate Governance (Cont.)

6.7 Insignificant transactions (Cont.)

F. (Cont.)

1. Quantitative evaluation (Cont.)

D. Transactions involving investment and/or acquisition or sale of fixed assets (non-current assets)

Two cumulative tests are applied:

- In a transaction involving nostro assets and/or profit sharing policies - the scope of assets which is the subject of the transaction, out of the aforementioned sources, divided by the total assets in the company's consolidated balance sheet.
- In a transaction involving the assets of provident funds and/or pension funds - the scope of assets involved in the transaction from the aforementioned sources, divided by total members' assets in the provident funds and pension funds which are managed by the group.
- In a sale transaction from nostro assets - the annual profit/loss attributed to the company's shareholders, net, after tax, in terms of profit and loss or comprehensive income, actual or forecasted, as attributed to the transaction (whichever is more stringent), divided by the profit or loss attributed to the company's shareholders, net after tax, in terms of the company's average profit and loss or annual comprehensive income (in other words, over four quarters) over the last three years, calculated based on the last 12 quarters prior to the performance of the transaction, and for which audited or reviewed financial statements have been published. It is hereby clarified that the profit/loss in each quarter is calculated according to absolute values.

E. Acceptance of monetary financial liability

The scope of the liability which is the subject of the transaction, divided by the total assets in the company's consolidated balance sheet.

If the transaction involves a subsidiary or associate company of the company ("**Investee Company**"), an evaluation should be performed regarding the impact of the transaction on the company's relative share, i.e., relative to the company's holding rate in the investee company, while applying the insignificance tests specified above.

2. Qualitative test

The evaluation of the qualitative considerations of the interested party transaction may lead to a situation wherein a transaction will be determined as insignificant, even though according to the quantitative evaluation in accordance with section 1 above, it has qualified as an insignificant transaction. Thus, for example, and for the sake of example only, a transaction will generally not be considered insignificant if it is perceived by Company management to be a highly significant event, even if it is insignificant according to the quantitative criteria specified above, such as in cases where the transactions involved highly significant chances, risks or exposures, or if the transaction involves entry into a new and significant operating segment, or departure from a current and significant operating segment. It is hereby clarified, with respect to transactions which involve transferring all or part of a corporation's activity (including by way of transfer of securities), the tests set forth in Regulation 6(b) of the Securities Regulations (Transaction Between a Company and its Controlling Shareholder), 2001, will be taken into account.

Separate transactions which are dependent on one another, in a manner whereby they effectively constitute a part of the same engagement (for example, conducting centralized negotiations with respect to the entire set of transactions), will be evaluated as a single transaction.

A transaction which should be classified as an insignificant transaction by an investee company will be considered as an insignificant transaction also on the level of the holding company. A transaction of an investee company which should be classified as a non-insignificant transaction in an investee company may be classified as an insignificant transaction according to the relevant criteria on the level of the holding company.

6. Aspects of Corporate Governance (Cont.)

6.8 Policy regarding the evaluation of significance

With respect to the evaluation of significance, the company adopted a policy which was approved by the company's board of directors on August 20, 2008 (which was clarified and updated by the company's board of directors on March 17, 2010, and again on March 24, 2015), in which the company established for itself guidelines and rules regarding the evaluation of whether a certain event or affair of the company and/or its investee company (the "**Event**") is significant to the company, with respect to the obligation to file an immediate report regarding it by virtue of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970, and for the purpose of the classification of the transactions specified in section 270(1), (4) and (4a) of the Companies Law. The main principles of the policy are as follows:

In principle, each case will be evaluated on its own merits, and a quantitative and quantitative evaluation will be conducted regarding the relevant event, based on the entire set of information, data, relevant facts and assessments, in light of the entire set of circumstances which are relevant to the company. Without derogating from the generality of the foregoing, the quantitative and qualitative evaluations will be conducted in the manner described below.

1. Quantitative test

A. Regarding any event which fulfills the significance test, all of the relevant indicators will be taken into account, as applicable, among the following indicators, with reference to and based on the last published consolidated financial statements (audited or reviewed) of the company, and the data included therein: (A) Assets ratio - the total scope of assets involved in the event (assets acquired or sold) divided by total assets; [11] (B) Profit ratio - comprehensive income or comprehensive loss, actual or forecasted, which are attributed to the event, divided by the average annual comprehensive income or comprehensive loss (i.e., over four quarters) in the last three years, calculated based on the last 12 quarters for which audited or reviewed financial statements have been published; It is hereby clarified that the income/loss which is attributed to the event, and the income/loss in each quarter, are calculated according to absolute values. (C) Equity ratio - the increase or decrease in equity, divided by equity before the event; (D) Liabilities ratio - the financial liability associated which the event, divided by the company's total assets in the consolidated balance sheet before the event.

B. Without derogating from the need to estimate, with respect to each event whose significance is evaluated, which of the indicators specified in section 1(a) above are relevant, the following indicators will be considered relevant to the transactions specified below:

- Acquisition of an asset - assets ratio
- Sale of an asset - profit ratio, assets ratio
- Acceptance of a loan - assets ratio
- Service provision transaction, including insurance transaction - income ratio, profit ratio (according to the profit expected from the transaction).
- In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, an event will be considered significant if one of the relevant indicators which are calculated for it, as specified in section 1(a) above, exceeds 10%.
- In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, an event will be considered insignificant if all of the relevant indicators which are calculated for it, as specified in section 1(a) above, are lower than 5%.
- Events which are not classified under sections 1 and 2 above may be considered significant, and an evaluation of qualitative considerations should be performed regarding them, taking into account the entire set of information, and the entire set of relevant circumstances.

[11] In a transaction performed with the assets of the nostro and/or profit sharing portfolio, the assets ratio will be evaluated relative to the total assets in the company's consolidated balance sheet. In a transaction performed with the assets of provident funds and/or pension funds, the assets ratio will be evaluated relative to total members' asset in the provident funds and pension funds which are managed by the group.

6. Aspects of Corporate Governance (Cont.)

6.8 Policy regarding the evaluation of significance (Cont.)

1. Quantitative test (Cont.)

   1. An evaluation of the significance of an event which is expected to take place in the future should include taking into account the likelihood of the event's materialization, and the importance and expected impact of the event, if it materializes.
   2. In case of an event which pertains to a subsidiary or associate company of the company ("**Investee Company**"), an evaluation should be performed regarding the event's impact on the company's relative share in the event, i.e., relative to the company's holding rate in the investee company, including application of the relative share tests specified above.
   3. In case of an event which does not constitute an investment in the securities of any corporation, such as engagement in service receipt agreements, etc., an evaluation should be performed regarding the consequences of the relevant event on the company, also with respect to additional relevant accounting items, which pertain to the characteristics of the event in question.

2. Qualitative test

The significance of the event will be evaluated, as stated above, also in terms of qualitative considerations. The qualitative evaluation may lead to the refutation of presumptions arising from the quantitative test, with respect to the significance or insignificance of the event. The qualitative evaluation regarding the significance of the event may include taking into account its consequences and implications on the company, in light of one or more of the following considerations:

A. It involves significant chances, risks or exposures. The evaluation of this aspect will include taking into account if, and to what extent, the risks associated with the event reflect risk factors to which the company is exposed, and which were included in its previous reports. Additionally, an evaluation will be performed regarding whether or not the event involves the materialization of a risk factor which was reported to the investor public before the event took place;
B. If the event involves entry into a new and significant operating segment, or departure from a current and significant operating segment;
C. If the disclosure of the event may result, with a reasonable degree of certainty, and based on past experience, and with respect to evaluation and reference models conventionally applied by investors and analysts, in a significant change in the price of the company's securities;
D. If the event may have a special impact on the company's financial statements (such as on the reclassification of certain components, on the segmental note, etc.), or on another business component of the company, which has an important role in all matters pertaining to the analysis of its business operations and profitability;
E. The event has the potential to affect the company's compliance with significant regulatory requirements, significant financial covenants, which may impose significant difficulties on the company, or on other significant contractual requirements;
F. The event may significantly affect analysts and/or investors in their analysis of the company's activities and results.
G. The event is perceived as a significant event by Company management, and is used as the basis for reaching managerial decisions. Events which do not receive special managerial attention, and à fortiori those which are not brought to the attention of Company management, will generally be considered immaterial events from a qualitative perspective.

6. <u>Aspects of Corporate Governance</u> (Cont.)

6.8 Policy regarding the evaluation of significance (Cont.)

3. Without derogating from the generality of the foregoing,

With respect to legal claims (including class actions) - in an event which involves the filing of a claim, including a class action, against the company or its investee company, the materiality of the event will be evaluated as follows: (1) Quantitative evaluation - will be conducted based on the amount of the claim (or class action), multiplied by the company's holding rate in the sued company, in the case of an investee company, regardless of whether is an associate company or consolidated company. If an estimate of the claims' chances is available during the stage involving the evaluation of significance, these chances will be taken into account, and the prediction regarding the claim assessment will be taken into account. The relevant quantitative indicator for the evaluation of the significance of claims will be the profit ratio. In other words, the weighted claim amount which will be obtained from the performance of the aforementioned calculations will be divided by the average annual comprehensive income or comprehensive loss during the last three years, calculated based on the last 12 quarters for which audited or reviewed financial statements were published. The ratio which will be obtained from the performance of the aforementioned calculation, in light of the ordinary quantitative evaluation policies specified in section A above. (2) Qualitative evaluation - including the evaluation regarding whether or not the filing of the claim or threat of its filing significantly affect the entire set of information which serves as the basis for reaching investment decisions, by the investor public, with respect to the company's securities. As part of the foregoing, one or more of the relevant considerations will be taken into account, including: the identity of the plaintiff; the group of plaintiffs; the group of defendants; The expected effects in case the claim is approved as a class action, and in case it is accepted by the judicial instance; The existence of similar claims against the company, which pertain to a similar matter, and the extent of the impact of the additional claim on the entire set of information which is available to the investors; reference to the class action in the company's financial statements.

Notwithstanding the foregoing, with respect to an event which involves an insurance claim, the quantitative evaluation will be performed in the manner stated below:

An event which involves an insurance claim will be considered significant, in quantitative terms, if the following two conditions cumulatively apply to it:

- The amount claimed, less reinsurance (retention), interest and expenses, exceeds 1% of equity.
- The amount claimed (gross) exceeds 5% of Company's equity.

Additionally, an event involving an insurance claim will be considered significant in quantitative terms if the gross amount claimed exceeds 20% of the company's equity.

4. With respect to administrative or criminal proceedings - in case of an event which involves a criminal investigation being conducted against the company, on a material issue, by the proceeding, the Israel Securities Authority, or another regulatory authority, and events which involve criminal or administrative proceedings against the company regarding a significant matter, excess weight will be given to the qualitative evaluation of the significance of the event, and particularly, an on the subject will be placed on the way in which the event may affect investors and/or analysts in their analysis of the company's activities and results, and the reference of investors to the manner in which the company conducts its business affairs.

7. Disclosure Regarding the Corporation's Financial Reporting

7.1. 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.

7.2. 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.

7.3 Effectiveness of internal control over financial reporting and disclosure

7.3.1. 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.

7.3.2 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.

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

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

7.3.3. 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, including the update which was implemented to the model and is required beginning on December 15, 2014.

The management of Clal Insurance (the institutional entity), in collaboration with the CEO, Executive VP, Investments, Finance, and Financial Services Division Manager and Senior VP Chief Accountant of Clal Insurance have evaluated, as at 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 Financial Services Division Manager and Senior VP Chief Accountant of Clal Insurance have concluded that, as at 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 annual 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 covered period ended December 31, 2016, 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.

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

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, March 21, 2017

Quarterly Report Regarding the Effectiveness of Internal Control over Financial Reporting and Disclosure in Accordance with Regulation 38c(a)

Annual report regarding the effectiveness of internal control over financial reporting and disclosure in accordance with Regulation 9b(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 Financial Services 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.

Management, under the supervision of the board of directors, conducted the test and evaluated the internal control over financial reporting and disclosure, and the effectiveness thereof;

The evaluation of the effectiveness of internal control over financial reporting and disclosure which was conducted by management, under the supervision of the board of directors, included: entity level controls, controls over the process of preparation and closure of the financial statements, general controls over information systems (ITGC) and controls over processes which are very material to the financial reporting and disclosure (these processes are carried out within the framework of Clal Insurance Company Ltd., a subsidiary of the corporation, which is an institutional entity, and which is subject to the following regarding institutional entities, as well as within the framework of Clalbit Finance Ltd., a subsidiary of the corporation).

Clal Insurance Ltd., a subsidiary of the corporation, is an institutional entity, which is subject to the directives of the Commissioner of the Capital Markets, Insurance and Savings Division in the Ministry of Finance, with respect to the evaluation regarding the effectiveness of internal control over financial reporting.
With respect to the aforementioned subsidiary, management performed, under the supervision of the board of directors, an evaluation and assessment of internal control over financial reporting and the effectiveness thereof,

based on 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”.

Based on this evaluation, the company’s board of directors and management have concluded that the internal control over financial reporting, with respect to the internal control in an institutional entity, as at December 31, 2016, is effective.

Based on the evaluation of effectiveness which was conducted by management, under the supervision of the board of directors, as specified above, the company’s board of directors and management have concluded that the internal control over financial reporting and disclosure in the corporation, as of December 31, 2016, is effective.

Executive Certification
Certification of the CEO

I, Izzy Cohen, hereby certify the following:

1. I have evaluated the periodic report of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Corporation**") for 2016 (hereinafter: the "**Reports**").

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

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

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

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

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

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

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

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

C. I have evaluated the effectiveness of internal control over financial reporting and of the disclosure, and I have presented in this report the conclusions of the board of directors and management regarding the effectiveness of the said internal control, as of the reporting date.

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

March 21, 2017

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Izzy Cohen
Chief Executive Officer

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 other financial information which is included in the reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) for 2016 (hereinafter: the “**Reports**”).

2. To the best of my knowledge, the financial statements and the other 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 financial statements and the other financial information which is included in the 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 financial statements and to the other financial information which is included in the reports, which may reasonably have an adverse affect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:

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

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

A. I have established controls and policies, or have verified the establishment and implementation, under 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, insofar as it is relevant to the financial statements and to the other financial information which is included in the reports, 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 evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and to the other financial information which is included in the reports, as of the reporting date. My conclusions with respect to my aforementioned evaluation have been presented to the board of directors and management, and are included in this report.

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

March 21, 2017

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Anath Levin
Executive VP
Investments, Finance, and Financial Services Division Manager

Executive Certification
Certification of Chief Accountant

I, Tal Cohen, hereby certify the following:

1. I have evaluated the financial statements and other financial information which is included in the reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) for 2016 (hereinafter: the “**Reports**”).

2. To the best of my knowledge, the financial statements and the other 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 financial statements and the other financial information which is included in the 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 financial statements and to the other financial information which is included in the reports, which may reasonably have an adverse affect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:

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

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

A. I have established controls and policies, or have verified the establishment and implementation, under 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, insofar as it is relevant to the financial statements and to the other financial information which is included in the reports, 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 evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and to the other financial information which is included in the reports, as of the reporting date. My conclusions with respect to my aforementioned evaluation have been presented to the board of directors and management, and are included in this report.

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

March 21, 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 annual report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for 2016 (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 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 the fourth 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.

March 21, 2017

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Izzy Cohen
Chief Executive Officer

Clal Insurance Company Ltd.
Certification

I, Anath Levin, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for 2016 (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 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 the fourth 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.

March 21, 2017

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Anath Levin
Executive VP
Investments, Finance, and Financial Services Division Manager

Clal Insurance Company Ltd.
Certification

I, Tal Cohen, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the "**Company**") for 2016 (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 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 the fourth 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.

March 21, 2017

____

Tal Cohen
Chief Accountant
Senior VP

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Independent auditors' report to the shareholders of Clal Insurance Enterprises Holdings Ltd. regarding the audit of internal controls over financial reporting in accordance with section 9b(c) of the Securities Law Regulations (Periodic and Immediate Statements) - 1970

We have audited internal controls over financial reporting of Clal Insurance Enterprises Holdings Ltd. and its subsidiaries (hereinafter, together: "the **Company**") as at December 31, 2016. These controls were determined as described in the next paragraph. The company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their evaluation regarding the effectiveness of the internal controls over financial reporting, which is included in the periodic report as of the foregoing date. Our responsibility is to express an opinion regarding the internal controls over financial reporting, based on our audit.

Internal controls over financial reporting were determined in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of internal controls over financial reporting", including the amendments thereto (hereinafter: "Auditing Standard 104").

These controls include: (1) controls on the organizational level, including controls over the process and closing of the financial reporting and general controls on information systems; (2) controls over the processes which are highly material to the financial reporting and disclosure of a consolidated company - Clal Insurance Company Ltd., and of additional material consolidated companies (hereinafter: the "Audited Controls").

We have conducted our audit in accordance with Audit Standard 104. According to this standard, we are required to plan the audit and to execute it with the aim of identifying the audited controls and attaining a reasonable degree of confidence that these controls have been carried out effectively, in all material respects. Our audit included reaching an understanding of internal control over financial reporting, identifying the audited controls, evaluating the risk of existence of any material weakness in the audited controls, as well as testing and evaluating the effectiveness of the design and implementation of those internal controls, based on the estimated risk. Our audit, with respect to those controls, also included additional procedures which we believed to be necessary under the circumstances. Our audit addressed only the audited controls, as opposed to an internal audit of all of the corporation's material procedures in connection with financial reporting, and thus our opinion relates solely to the audited controls. Furthermore, our audit did not consider the mutual influences between the audited controls and those which were not audited, and thus our opinion does not take these possible influences into account. We believe that our audit, along with the reports provided by the other auditors, provides a reasonable basis for our opinion, in the aforementioned context.

Due to understandable limitations, internal control over financial reporting in general and specific controls may fail to prevent or discover a misrepresentation. Furthermore, reaching conclusions about the future, based on a current evaluation of effectiveness, is exposed to the risk that the controls may become inadequate, due to changes in circumstances or changes for the worst in compliance with policies or procedures.

Based on our audit, the company has effectively maintained, in all material respects, the audited controls as of December 31, 2016.

We also audited, in accordance with generally accepted auditing standards in Israel, the company's consolidated financial statements as of December 31, 2016, and 2015, and for each of the three years in the period ended December 31, 2016, and our report, dated March 17, 2017, includes an unqualified opinion regarding those financial statements, based on our audits and on the reports of other auditors, as well as a reference to Note 43 to the consolidated financial statements regarding exposure to contingent liabilities.

Tel Aviv, March 21, 2017	Somekh Chaikin Certified Public Accountants	Kost Forer Gabbay and Kasierer Certified Public Accountants

Joint Auditors

Part C

Financial Statements

Clal Insurance Enterprises Holdings Ltd.

Consolidated Financial Statements
As of December 31, 2016

Clal Insurance Enterprises Holdings Ltd.

Consolidated Financial Statements as of December 31, 2016

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Auditor's Report
To the Shareholders of Clal Insurance Enterprise Holdings Ltd.

We have audited the attached consolidated statements of financial position of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") as of December 31, 2016 and 2015, as well as the consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the company's board of directors and management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We have not audited the financial statements of an associate company accounted by the equity method, the investment in which amounted to approximately NIS 15 million as of December 31, 2016 and 2015, and where the company's share in its income amounted to approximately NIS 170 thousand, approximately NIS 316 thousand, and approximately NIS 520 thousand for the years ended December 31, 2016, 2015 and 2014, respectively. The financial statements of that company were audited by other auditors, whose reports were presented to us, and our opinion, insofar as it refers to the amounts which were included with respect to that company, is based on the reports of the other auditors.

We have conducted our audit in accordance with generally accepted accounting principles in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 1973. Pursuant to these standards, we are required to plan the audit and to perform it in order to obtain a reasonable measure of assurance that the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes performing an evaluation of the accounting principles used, and of the significant estimates made by the company's management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit, along with the reports provided by the other auditors, provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports provided by the other auditors, the aforementioned consolidated financial statements adequately reflect, in all material respects, the financial position of the company and its consolidated companies as of December 31, 2016 and 2015, as well as their results of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2016, in accordance with International Financial Reporting Standards (IFRS), and in accordance with the disclosure requirements which were determined by the Commissioner of Capital Markets, Insurance and Savings, in accordance with the Control of Financial Services (Insurance) Law, 1981.

Furthermore, we believe that the aforementioned financial statements have been prepared in accordance with the provisions of the Securities Regulations (Annual Financial Statements), 2010, to the extent to which these regulations apply to a corporation which consolidates insurance companies.

Without qualifying our opinion, we hereby call the reader's attention to that stated in Note 43 to the consolidated financial statements, regarding the exposure to contingent liabilities.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of internal controls over financial reporting", including the amendments thereto, the company's internal controls over financial reporting as of December 31, 2016, and our report dated March 21, 2017 includes an unqualified opinion regarding the effective existence of those controls.

Tel Aviv,	Somekh Chaikin	Kost Forer Gabbay and Kasierer
March 21, 2017	Certified Public Accountants	Certified Public Accountants

Joint Auditors

Consolidated Statements of Financial Position as of December 31

NIS in thousands	**Note**	**As of December 31 2016**	**As of December 31 2015**
Assets			
Intangible assets	6	**1,505,403**	1,503,630
Deferred tax assets	23	**10,344**	25,460
Deferred acquisition costs	7	**1,923,364**	1,850,218
Property, plant and equipment	8	**252,567**	270,287
Investments in investee companies accounted by the equity method	9	**270,044**	213,668
Investment property for investment-linked contracts	10,13	**2,742,180**	2,750,076
Other investment property	10	**1,185,907**	1,205,819
Reinsurance assets	17,18	**2,228,039**	2,318,475
Current tax assets	23	**135,969**	156,273
Other accounts receivable	11	**292,204**	349,114
Outstanding premiums	12	**866,518**	898,231
Financial investments for investment-linked contracts	13	**52,194,494**	47,844,720
Other financial investments:			
Marketable debt assets	14(A)	**5,575,059**	6,488,224
Non-marketable debt assets	14(C)	**21,281,713**	20,980,578
Stocks	14(D)	**1,139,560**	974,810
Others	14(E)	**2,343,481**	2,085,210
Total other financial investments		**30,339,813**	30,528,822
Cash and cash equivalents for investment-linked contracts	15(A),13	**2,953,235**	3,767,810
Other cash and cash equivalents	15(C)	**1,390,775**	1,439,358
Total assets		**98,290,856**	95,121,961
Total assets for investment-linked contracts	13	**58,395,620**	54,930,139

The notes to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Financial Position as of December 31

NIS in thousands	Note	As of December 31 2016	As of December 31 2015
Capital			
Share capital	16	**143,216**	143,216
Premium on shares		**977,898**	976,329
Capital reserves		**484,165**	460,554
Retained earnings		**3,068,909**	2,967,929
Total capital attributable to shareholders in the company		**4,674,188**	4,548,028
Non-controlling interests		**39,017**	35,877
Total capital		**4,713,205**	4,583,905
Liabilities			
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	17,19,20,21,22	**29,768,979**	29,794,233
Liabilities with respect to investment-linked insurance contracts and investment contracts	18,20,21,22	**57,275,793**	54,346,549
Deferred tax liabilities	23	**423,293**	439,348
Liabilities with respect to employee benefits, net	24	**74,577**	81,030
Deferred liability notes	25	**3,315,333**	3,219,656
Other accounts payable	26	**2,398,660**	2,312,501
Current tax liabilities	23	**1,354**	1,530
Liabilities to banking corporations and others	27	**319,662**	343,209
Total liabilities		**93,577,651**	90,538,056
Total capital and liabilities		**98,290,856**	95,121,961

The notes to the consolidated financial statements constitute an inseparable part thereof.

March 21, 2017				
Approval date of the financial statements	Danny Naveh Chairman of the Board of Directors	Izzy Cohen Chief Executive Officer	Anath Levin Executive VP Investments, Finance, and Financial Services Division Manager	Tal Cohen Chief Accountant

Consolidated Statements of Income for the Year Ended December 31

NIS in thousands	Note	2016	2015	2014
Gross premiums earned		**9,110,003**	9,054,725	9,029,412
Premiums earned by reinsurers		**1,042,247**	1,057,382	1,133,351
Premiums earned on retention	29	**8,067,756**	7,997,343	7,896,061
Income from investments, net, and financing income	30	**2,616,374**	3,010,393	4,045,517
Income from management fees	31	**956,457**	1,039,397	1,065,140
Income from commissions	32	**226,418**	238,723	254,144
Other income	33	**1,419**	2,095	31,669
Total income		**11,868,424**	12,287,951	13,292,531
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross		**9,684,807**	9,542,339	10,653,757
Share of reinsurers in payments and change in liabilities with respect to insurance contracts		**(657,026)**	(742,620)	(519,357)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	34	**9,027,781**	8,799,719	10,134,400
Commissions, marketing expenses and other acquisition costs	35	**1,814,199**	1,830,230	1,873,623
General and administrative expenses	36	**773,352**	753,126	681,469
Impairment of intangible assets	6	**34,246**	4,634	21,010
Other expenses	37	**14,762**	32,777	40,938
Financing expenses	38	**159,695**	139,188	217,859
Total expenses		**11,824,035**	11,559,674	12,969,299
Share in the results of investee companies accounted by the equity method, net	9	**41,479**	26,792	42,458
Income before taxes on income		**85,868**	755,069	365,690
Taxes (tax benefit) on income	23	**(13,713)**	274,630	139,116
Income for the period		**99,581**	480,439	226,574
Attributable to:				
Shareholders in the company		**96,401**	477,285	221,642
Non-controlling interests		**3,180**	3,154	4,932
Income for the period		**99,581**	480,439	226,574
Earnings per share attributable to shareholders in the company	39			
Basic earnings per share (NIS)		**1.74**	8.62	4.00
Diluted earnings per share (NIS)		**1.74**	8.60	4.00
Number of shares used to calculate earnings per share:	39			
Basic		**55,412**	55,390	55,356
Diluted		**55,412**	55,484	55,449

The notes to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

NIS in thousands	Note	2016	2015	2014
Income for the period		**99,581**	480,439	226,574
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:				
Foreign currency translation differences for foreign operations applied to capital reserves		**(22,006)**	(6,024)	33,453
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		**196,885**	100,050	420,064
Change, net, in the fair value of available for sale financial assets transferred to profit and loss		**(234,497)**	(451,734)	(331,078)
Impairment loss with respect to available for sale financial assets transferred to profit and loss		**73,761**	38,318	42,320
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax		**13,590**	(319,390)	164,759
Tax (tax benefit) with respect to available-for-sale financial assets		**(3,271)**	(118,914)	50,025
Taxes (tax benefit) with respect to other components		**(6,710)**	(1,607)	7,980
Tax (tax benefit) with respect to components of other comprehensive income which have been or will be transferred to profit and loss	23(D)	**(9,981)**	(120,521)	58,005
Other comprehensive income (loss) which, following initial recognition under comprehensive income, have been or will be transferred to profit and loss, net of tax		**23,571**	(198,869)	106,754
Components of other comprehensive income which will not be transferred to profit and loss:				
Income with respect to re-evaluation of property, plant and equipment which was classified as investment property		**-**	-	33,402
Actuarial income from defined benefit plan		**3,166**	9,166	12,506
Other comprehensive income for the period, before tax		**3,166**	9,166	45,908
Tax with respect to components of other comprehensive income which will not be transferred to profit and loss	23(D)	**938**	2,935	12,255
Other comprehensive income which will not be transferred to profit and loss, net of tax		**2,228**	6,231	33,653
Other comprehensive income (loss) for the period		**25,799**	(192,638)	140,407
Total comprehensive income for the period		**125,380**	287,801	366,981
Attributable to:				
Shareholders in the company		**122,240**	285,310	361,898
Non-controlling interests		**3,140**	2,491	5,083
Total comprehensive income for the period		**125,380**	287,801	366,981

The notes to the consolidated financial statements constitute an inseparable part thereof.

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 year ended December 31, 2016										
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 (loss) for the period	-	-	(15,849)	39,460	-	-	98,629	122,240	3,140	125,380
Transactions with shareholders which were applied directly to equity:										
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 to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Changes in Equity

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	Non-controlling interests	Total capital
	Attributable to shareholders in the company									
For the year ended December 31, 2015										
Balance as of January 1, 2015	143,164	969,381	20,650	497,073	180,329	(39,309)	2,495,533	4,266,821	35,045	4,301,866
Income for the period	-	-	-	-	-	-	477,285	477,285	3,154	480,439
Components of other comprehensive income (loss):										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	(6,024)	-	-	-	-	(6,024)	-	(6,024)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	100,217	-	-	-	100,217	(167)	100,050
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(450,808)	-	-	-	(450,808)	(926)	(451,734)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	38,308	-	-	-	38,308	10	38,318
Actuarial gains from defined benefit plan	-	-	-	-	-	-	9,139	9,139	27	9,166
Tax with respect to components of comprehensive income (loss)	-	-	1,607	118,511	-	-	(2,925)	117,193	393	117,586
Other comprehensive income (loss) for the period, net of tax	-	-	(4,417)	(193,772)	-	-	6,214	(191,975)	(663)	(192,638)
Total comprehensive income (loss) for the period	-	-	(4,417)	(193,772)	-	-	483,499	285,310	2,491	287,801
Cumulative effect as of December 31, 2015 of the cancellation of the recording of accrual and the initial application of best practices in non-life insurance (see Note 3(d)(2)(b)(4.6)	-	-	-	-	-	-	(14,905)	(14,905)	(1,659)	(16,564)
Transactions with shareholders which were applied directly to equity:										
Exercise and expiration of warrants for senior employees	52	6,948	-	-	-	-	(7,000)	-	-	-
Share-based payments	-	-	-	-	-	-	10,802	10,802	-	10,802
Balance as of December 31, 2015	143,216	976,329	16,233	303,301	180,329	(39,309)	2,967,929	4,548,028	35,877	4,583,905

The notes to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Changes in Equity

NIS in thousands	Attributable to shareholders in the company: 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	Non-controlling interests	Total capital
For the year ended December 31, 2014										
Balance as of January 1, 2014	143,158	967,598	(4,823)	415,905	155,277	(30,979)	2,251,895	3,898,031	29,201	3,927,232
Income for the period	-	-	-	-	-	-	221,642	221,642	4,932	226,574
Components of other comprehensive income (loss):										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	33,453	-	-	-	-	33,453	-	33,453
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	420,139	-	-	-	420,139	(75)	420,064
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(331,345)	-	-	-	(331,345)	267	(331,078)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	42,309	-	-	-	42,309	11	42,320
Income with respect to re-evaluation of property, plant and equipment which was classified as investment property	-	-	-	-	33,402	-	-	33,402	-	33,402
Actuarial gains from defined benefit plan	-	-	-	-	-	-	12,468	12,468	38	12,506
Tax with respect to components of comprehensive income (loss)	-	-	(7,980)	(49,935)	(8,350)	-	(3,905)	(70,170)	(90)	(70,260)
Other comprehensive income (loss) for the period, net of tax	-	-	25,473	81,168	25,052	-	8,563	140,256	151	140,407
Total comprehensive income (loss) for the period	-	-	25,473	81,168	25,052	-	230,205	361,898	5,083	366,981
Transactions with shareholders which were applied directly to equity:										
Exercise and expiration of warrants for senior employees	6	1,783	-	-	-	-	(1,789)	-	-	-
Share-based payments	-	-	-	-	-	-	15,222	15,222	-	15,222
Transactions with non-controlling interests	-	-	-	-	-	(8,330)	-	(8,330)	761	(7,569)
Balance as of December 31, 2014	143,164	969,381	20,650	497,073	180,329	(39,309)	2,495,533	4,266,821	35,045	4,301,866

The notes to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Cash Flows for the Year Ended December 31

		For the year ended December 31		
NIS in thousands	**Annex**	**2016**	**2015**	**2014**
Cash flows from operating activities				
Before taxes on income	(A)	**(542,825)**	2,385,840	(54,309)
Income tax received (paid)		**41,963**	(217,875)	(172,383)
Net cash from (used in) operating activities		**(500,862)**	2,167,965	(226,692)
Cash flows from investing activities				
Consideration from disposal of property, plant and equipment		**462**	5,991	51,184
Consideration from disposal of investments in investee companies		**5,902**	22,754	-
Consideration from disposal of investment in available for sale financial assets by companies which are not insurance and finance companies		**47,058**	40,782	148,397
Investment in available for sale financial assets by companies that are not insurance and finance companies		**(36,998)**	(62,126)	(108,333)
Repayment of investment (investment) in shares and loans in investee companies		**(31,102)**	(3,798)	(35,868)
Investment in property, plant and equipment		**(25,032)**	(53,128)	(140,249)
Investment in intangible assets		**(238,349)**	(259,203)	(264,852)
Net cash used in investing activities		**(278,059)**	(308,728)	(349,721)
Cash flows from financing activities				
Repayment of loans to non-controlling interests		**-**	-	(2,380)
Repayment of liabilities to banks and others		**(22,858)**	(133,442)	(505,076)
Acquisition of non-controlling interests		**-**	-	(7,569)
Repayment of principal with respect to bonds which was paid		**-**	-	(267,567)
Costs of issue and exchange of deferred liability notes		**(4,733)**	(5,695)	(4,812)
Consideration from issue of deferred liability notes		**541,207**	700,728	518,023
Repayment of deferred liability notes		**(444,196)**	(325,446)	(95,316)
Interest paid on bonds and deferred liability notes		**(132,213)**	(128,438)	(123,015)
Net cash from (used in) financing activities		**(62,793)**	107,707	(487,712)
Impact of exchange rate fluctuations on cash and cash equivalent balances		**(21,444)**	(31,568)	58,324
Net increase (decrease) in cash and cash equivalents		**(863,158)**	1,935,376	(1,005,801)
Cash and cash equivalents at beginning of period	(B)	**5,207,168**	3,271,792	4,277,593
Cash and cash equivalents at end of period	(C)	**4,344,010**	5,207,168	3,271,792

The notes to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Cash Flows for the Year Ended December 31 (Cont.)

		For the year ended December 31		
	NIS in thousands	**2016**	**2015**	**2014**
(A)	**Cash flows from operating activities before taxes on income** [1) 2)]			
	Income for the period	**99,581**	480,439	226,574
	Adjustments:			
	The company's share in the results of investee companies accounted by the equity method, net	**(41,479)**	(26,792)	(42,458)
	Dividends received from investee companies accounted by the equity method	**277**	3,508	15,225
	Changes in liabilities with respect to non-investment-linked insurance contracts and investment contracts	**(25,254)**	160,996	352,718
	Change in liabilities with respect to investment-linked insurance contracts and investment contracts	**2,929,244**	3,391,290	4,484,728
	Change in deferred acquisition costs	**(73,146)**	(91,841)	(79,527)
	Change in reinsurance assets	**90,436**	(112,879)	134,458
	Depreciation of property, plant and equipment	**42,228**	42,274	49,421
	Amortization of intangible assets	**202,330**	186,866	153,546
	Impairment of intangible assets	**34,246**	4,634	21,010
	Loss (profit) from disposal of property, plant and equipment	**62**	(853)	(24,876)
	Interest and linkage differences accrued with respect to deferred liability notes	**121,396**	129,239	120,651
	Interest accrued and revaluation of liabilities to banking corporations and others	**22,008**	(21,923)	169,188
	Change in fair value of investment property for investment-linked contracts	**53,133**	(63,148)	(105,280)
	Change in fair value of other investment property	**22,253**	(26,767)	(23,240)
	Change in share-based payment transactions	**3,920**	10,802	15,222
	Net profit from financial investments for investment-linked insurance contracts and investment-linked contracts	**(65,251)**	(493)	(1,111,301)
	Taxes on income	**(13,713)**	274,630	139,116
	Net loss (profit) from other financial investments:			
	Marketable debt assets	**(17,700)**	54,927	16,504
	Non-marketable debt assets	**6,061**	(317,974)	(437,758)
	Stocks	**1,792**	(230,257)	(74,168)
	Others	**(63,015)**	(129,364)	84,477
	Financial investments and investment property for investment-linked insurance contracts and investment contracts:			
	Acquisition of investment property	**(45,237)**	(30,867)	(797,944)
	Acquisitions, net, of financial investments	**(4,284,523)**	(1,369,166)	(2,814,373)
	Receipts (investments) from the sale of (investment in) financial assets and investment property in insurance business operations:			
	Marketable debt assets	**838,699**	80,419	439,601
	Non-marketable debt assets	**(331,946)**	(259,123)	(580,421)
	Stocks	**(135,094)**	90,501	32,163
	Others	**(109,675)**	36,070	(423,017)
	Acquisition of other investment property	**(16,094)**	(14,563)	(324,890)
	Consideration from the sale of investment property	-	169	-

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 to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Cash Flows for the Year Ended December 31 (Cont.)

		For the year ended December 31		
	NIS in thousands	**2016**	**2015**	**2014**
(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	**25,925**	71,609	218,501
	Other accounts receivable	**56,910**	(35,768)	200,989
	Outstanding premiums	**31,713**	67,695	6,569
	Other accounts payable	**100,375**	32,567	39,875
	Liabilities with respect to employee benefits, net	**(3,287)**	(1,017)	(135,592)
	Total cash flows from operating activities before taxes on income	**(542,825)**	2,385,840	(54,309)
(B)	**Cash and cash equivalents at beginning of period:**			
	Cash and cash equivalents for investment-linked contracts	**3,767,810**	1,891,753	2,239,957
	Other cash and cash equivalents	**1,439,358**	1,380,039	2,037,636
	Balance of cash and cash equivalents at the beginning of period	**5,207,168**	3,271,792	4,277,593
(C)	**Cash and cash equivalents at end of period:**			
	Cash and cash equivalents for investment-linked contracts	**2,953,235**	3,767,810	1,891,753
	Other cash and cash equivalents	**1,390,775**	1,439,358	1,380,039
	Balance of cash and cash equivalents at end of period	**4,344,010**	5,207,168	3,271,792
(D)	**Details of amounts included under operating activities**			
	Interest received	**2,060,541**	1,460,132	1,907,639
	Dividend received	**306,418**	254,433	285,528
(E)	**Operations not involving cash flows**			
	Receivables with respect to the sale of property, plant and equipment	-	-	2,068
	Investment in intangible assets against other accounts payable	-	6,237	-

The notes to the consolidated financial statements constitute an inseparable part thereof.

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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 December 31, 2016 (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 50% 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 54.92% of issued capital[1] (approximately 53.44% 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 Holdings Corporation Ltd. (which held, in the past, the entire issued capital of IDB Development) (hereinafter: "IDB Holdings"), 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. ("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. Going concern remark regarding IDB Development

Beginning with the first quarter of 2013, the financial statements of IDB Development and the independent auditors' review/audit reports (as applicable) have included a note and reference, respectively, regarding significant doubts as to the continued existence of IDB Development as a going concern.

The financial statements of IDB Development as of September 30, 2016 include a note and reference by the auditors of IDB Development regarding the existence of significant doubts as to the ability of IDB Development to continue operating as a going concern. This is due to the financial position of IDB Development and the cash which it requires to repay its liabilities, and to the fact that there is uncertainty regarding its ability to execute its business plans in an orderly and/or timely manner, and regarding its continued ability to service its liabilities in an orderly and/or timely manner.

[1] On May 2, 2012, IDB Development reported that it had engaged, inter alia, in a loan agreement with a financial entity. To the best of the company's knowledge, as of the reporting date, the aforementioned loan was repaid, and the aforementioned financial entity announced the settlement of the security which was provided in its favor, which included, inter alia, a pledge on approximately 4% (approximately 3.88% at full dilution) of the company's shares which are held by IDB Development. For details regarding the issuance of bonds (Series K) of IDB Development, regarding which, in order to secure them, IDB Development is working to pledge shares of the company (including the shares which were pledged in favor of the aforementioned financial entity), see section 4(b) above.

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 will be pledged by it as specified in footnote 1 above, such that, as of proximate to the publication of the report, it holds only 50% 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), 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, the appointments listed below were implemented:

- Accordingly, in November 2015, the trustee informed the company that he was requesting to convene a general meeting whose agenda will include, inter alia, the appointment of ordinary directors, in accordance with the recommendation of the committee regarding candidates for tenure as directors in the company. A list of 5 recommended candidates was submitted to the company in order for it to act accordingly. In the general meeting which was held in December 2015, 3 new directors was appointed in the company, 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.

- In April 2016, the committee announced that it had called upon candidates to offer their candidacy for tenure as outside directors in the company and in Clal Insurance, for the purpose of replacing outside directors in the company and in Clal Insurance, who are expected to conclude their third period of tenure in the group in the months October 2016 to May 2017.

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 accordance with the recommendation of the aforementioned committee.

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 appointed two outside directors, in accordance with the recommendation of the aforementioned committee, and in light of the committee's recommendation to appoint two directors.

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.

As noted in the letter, the evaluation of the request for joint control of the company by Messrs. Elsztain and Ben Moshe, through IDB Development, will no longer be evaluated (the request for joint control was filed before the completion of the buy me buy you process in IDB Development, after which Mr. Ben-Moshe ceased being a controlling shareholder in IDB Development through C.A.A. Extra Holdings Ltd., a company wholly owned by him, which was party to the shareholders agreement with respect to the holding and control of IDB Development with the Dolphin Group). The aforementioned decision was primarily based on the fact that IDB Development does not fulfill the criteria which were determined in the policy document for the control of an institutional entity, which was published by the Commissioner in February 2014 (the "Control Policy"). 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:

Note 1-General (Cont.)

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

3. (Cont.)

C. (Cont.)

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.

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:

Note 1-General (Cont.)

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

3. (Cont.)

I. (Cont.)

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.

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 given the current market circumstances, it would not be appropriate to work to sell its holdings in the company in accordance with the outline instructed by the Commissioner, and that it would be appropriate to formulate an alternative outline which will allow the company to sell its shares in the company within the framework of a transaction involving the sale of the control core, or any other outline which will prevent the harm which would be caused to the parent company if the Commissioner's outline is carried out. In parallel, IDB Development is continuing to evaluate the possibility of selling the company's control core.

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 February 11, 2016, IDB Development received a copy of a letter sent on behalf of the trustees for its bond holders (the "Trustees"), which was sent to the Commissioner. In their letter, the trustees raised various assertions and requested that, for the purpose of preventing the tremendous and disproportional harm which would be caused to the Israeli public which holds (independently or through institutional entities or banks) the debt of IDB Development (damages which is estimated by the trustees as hundreds of millions of NIS), the Commissioner order the postponement of the terminating event for the maximum possible period with respect to the aforementioned sale, in accordance with the Concentration Law. The trustees further stated, inter alia, in their letter, that all of the objectives which served as the basis for the publication of the outline from the outset have been realized and implemented, and that furthermore, it is possible, also today, to achieve additional objectives required by the Commissioner, by various means, while minimizing the tremendous damage which may be caused to the savers, as stated above (the trustees also attached to their letter an annex including calculations and an economic analysis which was prepared the possible implications of the sale of the company's shares, as well as reference to solutions which were proposed in place of the aforementioned sale of shares).

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 2017-01-026850.

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.

In her response to the motion for a temporary injunction dated March 28, 2016, in which the Court was requested to dismiss the motion for an injunction, the Commissioner noted, inter alia, that the sale of 5% of the company's shares once every four months can be discontinued at any time if the Commissioner becomes convinced that a serious alternative to the outline has become available, in the form of an agreement for the sale of the control of the company. The Commissioner further stated in the response that the trustee, by virtue of his duty of loyalty towards IDB Development, will be required to try to sell the shares in accordance with the outline, at a price which exceeds their price on the stock exchange, before addressing the alternative of selling the shares on the stock exchange, according to the share price on the stock exchange.

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 2, 2016, the Commissioner filed a response to the petitioner's answer to her aforementioned response to the motion for a temporary injunction, in which she added that the outline proposed by the petitioner, with respect to the sale, in parts, of the assets of Clal Insurance, effectively constitutes a motion for the liquidation of Clal Insurance, which is an active insurance company, with no reasons given other than improving the status of the shareholders, and that the outline is impractical, and does not take into account significant relevant issues. The Commissioner also presented, in her response, comparative figures with respect to the market value of insurance companies relative to their equity, which prove that the market value of Clal is not irregular in comparison to other insurance groups.

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.

On May 9, 2016, IDB Development announced that it had received a letter from the Commissioner, which referred to the proposals of IDB Development regarding an alternative outline for the sale of the means of control of Clal Group, and in which the Commissioner stated that the issue involving the sale of control of Clal Group has not been completed, and that until an acquisition offer has been presented to the Commissioner which justifies the consideration of suspending the current outline, the Commissioner does not consider it appropriate, for the time being, to stop the current outline. The Commissioner further clarified that she is open and willing to hear alternative proposals regarding the regulation of the control of Clal Group, and that every proposal will be evaluated on its own merits.

As part of the above, the Commissioner sent, on May 9, 2016, a letter to the trustee, in which she notified him that due to the fact that on May 7, 2016, four months passed since the date of the occurrence of the terminating event, as defined in the outline, and IDB Development had not fulfilled all of its obligations, and had not acted in accordance with the outline, he was required to act in accordance with the outline in place of IDB Development, and in accordance with all of the authorities which were vested in him (by virtue of the provisions of the deed of trust and the irrevocable authorization which IDB Development signed in January 2015).

In accordance with the public reports of IDB Development, on June 16, 2016, the CEO of IDB Development received a letter from the trustee (the "Letter"), in which the trustee stated, inter alia, that in light of the Commissioner's instructions in the letter from May 2016, he implemented preparations for the implementation of the sale, and received written offers for the acquisition of 5% of the company's shares, which include various techniques for the sale of the shares. In the letter, IDB Development was requested by the trustee to submit its reference to its preferred sale technique by June 26, 2016, and insofar as IDB Development fails to do so, the trustee will sell according to a technique which, in his discretion, meets the criteria of sale at the maximum price, at a high level of certainty, and according to the timetables specified in the outline.

Note 1-General (Cont.)

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

3. (Cont.)

J. (Cont.)

IDB Development responded to the aforementioned letter, and noted that, according to its position, as stated in its public reports, according to which, inter alia, in May 2016, IDB Development received a written offer for the acquisition of the control of the company (see section 4 below), and further to the above, the board of directors of IDB Development also approved an alternative outline, according to which IDB Development will conduct a competitive process for the sale of the control of the company (see section 4 below) - in light of the current circumstances, and inter alia, in consideration of the competitive process, as stated above; in consideration of the concrete and tangible offer which is available to IDB Development, as stated above; in consideration of the limits of the trustee's authority, in accordance with the deed of trust and the Commissioner's position (as raised in her response within the framework of a motion for a temporary injunction - see above), in which she stated that the minimum value for the aforementioned sale is the market price, which is the company's share price on the stock exchange; and in consideration of the quality of offers which have allegedly been presented to the trustee - any technique among those specified in the trustee's letter would cause IDB Development to incur significant and irreversible damage. IDB Development further stated in the aforementioned letter, that the sale of the shares by the trustee, as proposed by him in his letter, deviates from his authorities and permission, and also constitutes a breach of his obligations as trustee.

On July 13, 2016, 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.

In July 2016, the Commissioner responded to the motion. In her response, the Commissioner stated, inter alia, that according to her position, the Court should order the trustee, in some manner, to work towards realizing the means of control on the date specified in the Commissioner's outline, and that she leaves to the Court's judgment the determination regarding the appropriate manner to sell the shares which are the subject of the motion. In August 2016, IDB Development objected to the motion. In IDB Development's response to the motion, the Court was requested, inter alia, to dismiss the trustee's requests in the motion, to leave the holding of the company's shares according to the status quo, and to order the trustee not to sell the company's shares at this time, until IDB Development sells its holdings in the company to a potential buyer (while exhausting the competitive sale process which IDB Development is currently conducting), and in any case, so long as a significant gap exists between the value of the shares in accordance with the company's equity and their price according to the prices on the stock exchange, and so long as it has not received a different explicit instruction from the Court (and in that case as well, not to sell them for a consideration lower than the realizable value of the shares on the stock exchange, at that time). The Court was also requested to clarify to the trustee that, in his exercise of the authorities which are conferred upon him by virtue of the holdings of the means of control in the company, he must act in accordance with his own independent judgment, and not in accordance with the Commissioner's directives, while taking into account all of the relevant circumstances, and the company's economic interests.

The motion is still being conducted in the District Court of Tel Aviv-Yafo.

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

In accordance with the public reports of IDB Development, on May 25, 2016, IDB Development received a written offer entitled "Non-Binding Indicative Offer" (the "Preliminary Offer") from Ashkenazy Acquisition Corporation (the "Bidder"), for the acquisition of the control of the company. The offer includes a proposal to acquire from IDB Development, in consideration of cash, 25% to 30% of the issued and paid-up share capital of the company, or alternatively, all of IDB Development's holdings in the company, at a price which reflects a value of NIS 2.85 billion for the company. According to the offer, the offer is not subject to due diligence, and the bidder declares that it is able to finance the acquisition out of its own sources, with no need for financing. Furthermore, according to the offer, the completion of the transaction is conditional upon the engagement in a binding purchase agreement and in a shareholders agreement, as applicable, and is also conditional on the receipt of a permit for the control of Clal Insurance from the Commissioner. It is noted that the offer is non-binding, and that as of the present date, there is no certainty that IDB Development will engage in a transaction for the sale of its holdings in the company, nor that such a transaction will be completed, either based on the aforementioned offer, or in any other way. (The aforementioned offer is no longer in effect - see below).

On May 26, 2016, the board of directors of IDB Development convened in order to evaluate and discuss the offer and the appropriate process for the sale of its holdings in the company, in light of the offer which was received. Further to the discussion regarding the offer, and the indications regarding the possibility of the receipt of additional offers for the acquisition of the control of the company, and further to the decision of the District Court of Tel Aviv-Jaffa, in a hearing which was held on May 4, 2016 (see above), IDB Development reported that the board of directors of IDB Development had resolved as follows:

A. IDB Development will initiate a competitive process for the sale of the control of the company. As part of the sale process, IDB Development will also evaluate the offer which was received, and the following steps will take place:

   1. IDB Development will work to engage with a reputable investment bank. The investment bank will accompany the sale process, and will advise IDB Development on all matters associated with the structure and terms of the sale.

   2. IDB Development will formulate an outline for the sale process, inter alia, based on the advice which will be received from the aforementioned investment bank, with the intention of completing the sale process as soon as possible.

B. IDB Development will contact the Commissioner in order to coordinate the aforementioned sale process, and to adopt the aforementioned sale process (the "New Outline") as an alternative to the current outline from December 30, 2014. In parallel, IDB Development will petition the Court and present the new outline as an alternative outline to the Commissioner's current outline.

C. During the period of conducting the sale process, and until the completion of the sale of control by IDB Development, the following provisions will continue to apply: (a) the trustee, Mr. Moshe Terry, will continue serving in his position, in accordance with the provisions of the current deed of trust and power of attorney (in accordance with the new outline), and IDB Development will not exercise its voting rights which are associated with the means of control in the company, and will refrain from taking any action which could constitute, either directly or indirectly, guidance of the company, including by way of tenure as a corporate officer in the company; and (b) directors will be appointed in the company in accordance with the mechanisms which were determined in the current outline for this purpose.

Note 1-General (Cont.)

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

4. (Cont.)

D. According to the new outline, IDB Development will be able to pledge Company shares in favor of financial creditors, in any manner considered appropriate in its discretion, subject to the receipt of the approvals which are required by law, including the Commissioner's approval.

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.

On July 27, 2016, IDB Development reported that the bidder notified it that the initial offer was no longer valid.

IDB Development stated in its reports that it is continuing the competitive process for the sale of the control of the company with the accompaniment of the investment bank with which it has engaged, as stated above, and as part of the above, that it received inquiries from additional 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, whether with this bidder or with another bidder.

E. 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. In accordance with the terms of the bonds (Series K), the pledging of the shares within 180 days after the date of receipt of the issuance consideration constitutes a condition for the transfer of the issuance consideration to IDB Development, and it was further determined that this period will be extended by an additional 45 days, if, during the aforementioned 180 day period, IDB Development intends to convene a meeting of bondholders for the purpose of receiving their approval for any action in connection with the release of the consideration from the issuance of the bonds (Series K) (the "Extension Period"). It is noted that in accordance with the shelf offering report, the pledged shares, if any, will be subject to the Commissioner's directives, including the Commissioner's letter from December 2014, as well as additional directives, insofar as any will be received, from time to time, from the Commissioner, including, inter alia with respect to the possibility of their sale by the trustee and/or IDB Development at any time, the voting rights with respect to them, and the selection of members of the company's board of directors, and the bondholders of IDB Development and/or the trustee for the bondholders of IDB Development and/or any other party on their behalf will not be entitled to prevent, in any manner whatsoever (including from the trustee) from acting in accordance with the provisions the outline, including for the purpose of selling the pledged shares.

Note 1-General (Cont.)

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

4. (Cont.)

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 September 15, 2016, the Supreme Court issued a partial ruling and a decision, in which it decided, inter alia, to dismiss the petition for the most part, and 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 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.

Further to the above;

(1) On November 1, 2016, IDB Development performed a partial early redemption of its bonds (Series K), at a scope of approximately 73.68305% of the unpaid balance of the principal of the bonds, which is also the original balance of the bond series.

(2) On February 13, 2017, a meeting of IDB Development's bondholders (Series K), which was convened at its request, approved an amendment to the deed of trust for the bonds (Series K), in a manner whereby the deed of trust will address the possibility that the company's shares which will be pledged in favor of the trustee for the bondholders (Series K) could be subject to the outline and/or free shares (and as such, will be deposited directly in the trust account which is managed under the name of the trustee). Following the convention of the meeting of bondholders (Series K), as stated above, IDB Development was given an extension period for the purpose of pledging the company's shares and releasing the issuance consideration with respect to the balance of the outstanding bonds (Series K). In accordance with the above, the trustee transferred to IDB Development Company shares which constitute approximately 1% of its issued share capital and voting rights. As of the date of this report, IDB Development is working to record a pledge on the company's shares which constitute approximately 4.99% (approximately 4.86% at full dilution) of the company's shares.

(3) 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, 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.

Note 1-General (Cont.)

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

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 2014, in its financial statements for 2015, and in its financial statements for the third quarter of 2016, IDB Development issued reports regarding the alternatives which it is evaluating. Additionally, IDB Development clarified that as of the date of approval of its quarterly and annual financial statements for 2015, and in its financial statements for the third quarter of 2016, the above constitutes an evaluation only of the aforementioned alternatives, and there is no certainty regarding the performance of any of the aforementioned structural changes, and the execution of an alternative which will be adopted may take several years. Additionally, IDB Development reported, in its quarterly and annual financial statements for 2015, and in its financial statements for the third quarter of 2016, that based on an analysis which was performed, IDB Development estimates that, as of the above date, it is more likely than not the completion of one of the aforementioned alternatives will be successful and will constitute a solution for dealing with the restriction on the pyramid holding structure, while allowing IDB Development to retain control of DIC, and DIC to retain 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. Implications

As of the reporting date, the company and Clal Holdings are unable to estimate the entire impact of the results of the aforementioned events on them, which may result in additional changes in the holding and control of the company, and may also result in the sale of the control core shares of Clal Holdings on the stock exchange (including as a result of the implementation of the Commissioner's directives with respect to the application of the mechanism for an insurer without a controller in Clal Holdings), and which may affect, inter alia, the reputation and ratings of Clal Holdings, the company and the group's member companies.

Additionally, the transfer of the control shares in Clal Holdings from the trustee may affect grounds for demanding the immediate repayment of a loan which was taken by Clal Holdings from the banking system and clauses in certain agreements of member companies in the group with third parties (including reinsurers), which may require, upon the fulfillment of circumstances involving the above change in control, negotiations with these third parties in order to keep the agreements in force.

A banking corporation which provided credit to Clal Holdings confirmed that it will not initiate proceedings against Clal Holdings with respect to the appointment of a trustee and his actions, in accordance with the provisions which were issued by the Commissioner. Additionally, Clal Holdings contacted certain reinsurers and received their approval for the continued validity of the reinsurance agreements with it, despite the appointment of a trustee, as stated above.

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

Note 1-General (Cont.)

C. Definitions - in these financial statements:

Company	-	Clal Insurance Enterprises Holdings Ltd.
Group	-	The company and its consolidated companies.
Consolidated Companies / Subsidiaries	-	Companies, including partnerships, whose reports are fully consolidated, directly or indirectly, with the company's reports.
Investee Companies	-	Consolidated companies and companies, including partnerships or joint ventures, where the company's investment in them is included, directly or indirectly, in the financial statements, according to the equity method.
Joint Arrangements	-	Arrangements in which the group holds joint control, which was obtained through a contractual agreement which requires unanimous consent regarding activities which significantly affect the returns of the arrangement. Investments in joint arrangements are classified as joint operations or joint ventures, based on the rights and obligations of the parties to the arrangement. Joint ventures are any joint arrangements which are incorporated as a separate entity, and in which the group has rights to the net assets of the joint arrangement.
Associate Companies	-	Associate companies are entities regarding which the group has significant influence over the financial and operational policy, although control of them has not been obtained, and where the company's investment in such companies is included in the company's consolidated financial statements according to the equity method.
Interested Parties	-	As defined in paragraph (1) of the definition of an interested party in a corporation in section 1 of the Securities Law, 1968.
Related Parties	-	As defined in International Accounting Standard 24 (2009), Related Parties.
Member Companies of IDB Group	-	The term "Member Companies of IDB Group" in the financial statements refers to IDB Development and to those of its investee companies which are not the company and its investee companies.
The Commissioner	-	The Commissioner of Capital Markets, Insurance and Savings
The Control Law	-	The Control of Financial Services (Insurance) Law, 1981, including the amendments thereto.
The Capital Regulations	-	The Control of Financial Services Regulations (Insurance)(Minimum Equity Required of Insurer), 1998, including amendments enacted pursuant thereto.
The Investment Rules Regulations	-	The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012, and directives issued by the Commissioner in accordance therewith.
The Particulars of Report Regulations	-	The Control of Insurance Business Regulations (Particulars of Report), 1998, including the amendments enacted pursuant thereto.
The Reserve Calculation Regulations	-	The Control of Financial Services Regulations (Insurance) (Calculation of Reserves in Non-Life Insurance), 2013.
Insurance Contracts	-	Contracts whereby one party (the insurer) takes a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder in the event that a certain, pre-defined future event (the insurance event) occurs which adversely affects the policyholder.
Investment Contracts	-	policies which do not constitute insurance contracts.
Investment Linked Contracts / Profit Sharing Policies	-	Insurance contracts and investment contracts in life insurance and long term care insurance, where the insurer's liabilities, due to the savings component or risk of such contracts, are for the most part linked to the returns of the investment portfolio (profit sharing policies), in assets for investment-linked contracts.
Assets for Investment-Linked Contracts	-	Assets held against liabilities due to investment-linked contracts.
HETZ Bonds	-	CPI-linked government bonds which the state issues to insurance companies, and which are backed by guaranteed-return policies.
Liabilities with Respect to Insurance Contracts	-	Insurance reserves and outstanding claims in the long term savings, non-life insurance and health insurance segments.
Reinsurance Assets	-	The share of reinsurers in payments and changes in liabilities with respect to insurance contracts.
Premiums	-	Premiums including fees.
Premiums Earned	-	Premiums attributable to the reporting period.

Note 2- Basis for Preparation of the Financial Statements

A. Preparation framework of the financial statements

The financial statements have been prepared by the group in compliance with International Financial Reporting Standards (hereinafter: "**IFRS**"). These financial statements have also been prepared in accordance with the disclosure requirements issued by the Commissioner, in accordance with the Control Law, and in accordance with the disclosure requirements under the Securities Regulations (Annual Financial Statements), 2010, to the extent to which these regulations apply to a corporation which consolidates insurance companies.

B. Functional currency and presentation currency

The financial statements are presented in NIS, which is the company's functional currency, and are rounded to the nearest thousand, unless stated otherwise. NIS is the currency which represents the primary economic environment in which the company operates.

The following are details regarding changes that occurred in the consumer price index (hereinafter: the "**CPI**") and in the representative Euro, US Dollar (hereinafter: "**USD**") and Pound Sterling exchange rates:

In percent	**Index in lieu**	**Known index**	**Representative EUR exchange rate**	**Representative USD exchange rate**	**Representative GBP exchange rate**
For the year ended December 31					
2016	**(0.2)**	**(0.3)**	**(4.8)**	**(1.5)**	**(18.3)**
2015	(1.0)	(0.9)	(10.1)	0.3	(4.6)
2014	(0.2)	(0.1)	(1.2)	12.0	5.6

	Representative EUR exchange rate	**Representative USD exchange rate**	**Representative GBP exchange rate**
As of December 31, 2016	**4.0438**	**3.8450**	**4.7252**
As of December 31, 2015	4.2468	3.9020	5.7840
As of December 31, 2014	4.7246	3.8890	6.0636

C. Measurement basis

The financial statements were prepared on a historical cost basis, except for the following main assets and liabilities:

- Insurance liabilities.
- Financial assets at fair value through profit and loss.
- Financial instruments classified as available for sale.
- Investment property measured at fair value.
- Provisions.
- Deferred tax assets and liabilities.
- Assets and liabilities with respect to employee benefits.
- Investments in associate companies and joint ventures.

For details regarding the method used to measure these assets and liabilities, see Note 3 below, Summary of Significant Accounting Policies.

Note 2 - Basis for Preparation of the Financial Statements (Cont.)

D. Operating cycle and reporting structure

The group's ordinary operating cycle, which primarily includes financial institutions, cannot be clearly determined, and primarily exceeds one year, particularly with reference to the long term savings segment, the long term care and long term health branches in the health segment, and the long tail non-life insurance branches.

The consolidated statements of financial position, which primarily include the assets and liabilities of consolidated insurance companies, were presented by order of liquidity, with no distinction made between current and non-current. This presentation conforms with the Commissioner's guidelines, and provides more reliable and relevant information.

E. Use of estimates and judgment

1. Discretion with significant impact

As part of the process of applying the significant accounting policies in the group on the following subjects, management exercised discretion which had a significant impact on the financial statements:

Classification between insurance contracts and investment contracts - insurance contracts are contracts in which the insurer accepts a significant insurance risk from another party. Management considers, with respect to each individual contract, or with respect to a group of similar contracts, whether such products involve accepting significant insurance risk, and classifies them accordingly as either insurance contracts or investment contracts.

2. Critical estimates

In preparing the financial statements in accordance with IFRS and in accordance with the Control Law, regulations enacted pursuant thereto, and directives of the Commissioner, company management is required to exercise judgment in making estimates, assessments and assumptions which affect the implementation of the accounting policy and the amounts of assets and liabilities, revenues and expenses. It should be clarified that actual results may differ from these estimates, inter alia, due to regulatory changes which were published, or which are expected to be published in the insurance, pension fund and provident fund segments, and regarding which there is uncertainty as to their manner of realization and implications.

When formulating accounting and actuarial estimates used in preparation of the group's financial statements, management is required to make assumptions with regard to circumstances and events involving significant uncertainty. When applying judgment regarding the judgment estimates, group management relies on past experience, various facts, external factors and reasonable assumptions regarding future expectations, insofar as they are estimable, according to the appropriate circumstances for each estimate.

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized for the period during which the estimates were modified, and for all other affected future periods.

Presented below are the main assumptions made in the financial statements in connection with the uncertainty as of the balance sheet date and critical estimates which were calculated by the group and where a significant change therein, particularly in light of the aforementioned regulatory changes, may result in a material adjustment to the book values of assets and liabilities in subsequent reporting periods:

Note 2 - Basis for Preparation of the Financial Statements (Cont.)

E. Use of estimates and judgment (Cont.)

(2) Critical estimates (Cont.)

(A) Liabilities with respect to insurance contracts - Liabilities with respect to insurance contracts, and the evaluation of the adequacy of such liabilities, are primarily based on actuarial valuation methods and on the assumptions described in Note 40(e).

The actuarial estimates and the various assumptions are primarily derived from past experience, and are based on the assumption that the behavior pattern and past claims represent future occurrences. The actuarial estimates and assumptions are evaluated at least once per year. Variability in risk factors, in the frequency or severity of events, as well as changes in the legal situation, may materially affect the amount of liabilities with respect to insurance contracts. It is noted that changes in the increase in life expectancy, in the rate of policyholders who choose the option to withdraw funds by way of a pension, in the selection of the various annuity tracks, in the morbidity rate and in the cancellation rate, may have a significant impact on the financial statements.

For details regarding changes in the main assumptions which were used to calculate insurance liabilities in life insurance and health insurance, including the liability for supplementation of the annuity reserve, see Note 40(e)(e1)(d). For details regarding changes in the calculation of insurance liabilities in non-life insurance, see Note 40(e)(e2).

For details regarding the sensitivity tests to insurance risk, see Note 40(e)(e1)(c).

(B) Legal claims which are not in the ordinary course of business - Estimates regarding the chances of the legal claims which were filed against member companies in the group rely on the opinion of legal advisors with respect to the final results of the proceedings. These opinions are based on their best professional judgment, in consideration of the current stage of the proceedings, in consideration of the amount of legal experience which has accumulated, if any, on the various subjects, and based on the estimate of the relevant companies regarding the amounts of the settlement arrangements, which the managements of the consolidated companies expect are more likely that not that to be paid by them. It is emphasized that the results of the claims, as determined in the Courts, may differ from the aforementioned estimates. The amounts of the provisions which were performed are based on an estimate of the risk level in each of the claims as of a date proximate to the publication date of the financial statements. On this matter, it should be noted that events which occur during litigation may require re-evaluation of this risk. It is hereby emphasized that, in the attorneys' opinion, concerning the motions to approve class action status, the attorney's evaluation refers to the chances of the motion to approve class action status, and in some cases only, refers 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 current stage of the proceedings, and to the fact that the scope and content of hearing the claim on the merits, once granted class action status, will 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.

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 determinations regarding motions to recognize class actions and other interim motions) in a certain instance is determined 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, the group will not be charged.

Note 2 - Basis for Preparation of the Financial Statements (Cont.)

E. Use of estimates and judgment (Cont.)

(2) Critical estimates (Cont.)

(B) (Cont.)

In addition to the above claims, the group's member companies are also exposed to unasserted claims / lawsuits which are due, inter alia, to the existence of doubt as to the interpretation of an agreement and/or a provision of the law and/or the manner of their implementation. Such exposure is brought to the attention of the group's member companies in several ways, including, inter alia: through contact initiated by customers with entities in the group, and especially as directed to the group's ombudsman; though complaints submitted by customers to the Public Appeals Department in the Capital Markets, Insurance and Savings Division of the Ministry of Finance; and through (non-class action) claims which are filed with the Court. These topics are brought to the attention of the group's management if and insofar as the entities handling them recognize that the claims may have broad effects. In the assessment of risk due to unfiled claims / lawsuits, group management relies on internal estimates of the handling entities, and on its estimates, which include weighing the chances that a claim will be filed and the claim's chances of success, if and insofar as it is filed. Such estimates are based on cumulative experience with regard to the filing of claims, and on an analysis of the claims based on their own merits. Due to the nature of circumstances, actual results may differ from the estimates that were prepared in a stage prior to the filing of the claim, in light of the preliminary stage of the hearing of the legal claim.

For additional details, see Note 43(a)-(d).

(C) Impairment of non-financial assets, including goodwill - The estimated value in use of the asset or the cash generating unit, as applicable, for the purpose of performing an impairment test of non-financial assets or of goodwill, is based on past experience and on the best estimates of group management regarding the economic conditions which will prevail during the remaining useful lifetime of the asset or cash generating unit. Changes in the estimates which were used to determine the recoverable amount may result in impairment loss.

For additional information, see Notes 3(k)(2) and 6(b).

(D) Fair value estimates - See section 3 below.

(E) Determination of the recoverability of deferred acquisition costs - The recoverability of deferred acquisition costs is evaluated at least once per year, using working assumptions, for example, regarding life and long term care insurance policies, regarding cancellation, mortality and morbidity rates, and other variables, as stated in Note 40(e). In the event that these assumptions are not realized, it may be necessary to accelerate the amortization, or even to write off the deferred acquisition costs.

(F) Deferred tax assets - Deferred tax assets are recognized with respect to losses transferred for tax purposes and temporary differences which have not yet been used, if a future taxable income is expected to arise against which they can be used. Management is required to use judgment in order to determine whether a deferred tax asset can be recognized, as well as the recognizable amount of the deferred tax asset, based on the existence, timing and amount of projected taxable income, and on the tax planning strategy. For additional details, see Note 23.

Note 2 - Basis for Preparation of the Financial Statements (Cont.)

(G) Impairment of financial assets

1. Financial assets at amortized cost - The provision for doubtful debts with respect to non-marketable debt assets, including with respect to loans and receivables, including reinsurers, outstanding premiums and other debts, is determined on a specific basis, and also based on a collective assessment of groups with similar credit risk characteristics. For additional information, see Note 3(f) and (k)(1), and Note 40(f)(2)(a.2).

2. Available for sale financial assets - For each reporting date, the group evaluates whether objective evidence exists indicating that an asset's value has declined, and whether impairment has occurred with respect to it. For the purpose of evaluating the above impairment, the group employs judgment regarding objective indicators which refer to the rates of fair value decline in percent, and regarding the continuity of the period of fair value decline. See also Note 3(k)(1).

(3) Determination of fair value

For the purpose of preparing the financial statements, the group is required to determine the fair value of financial and non-financial assets and liabilities.

Fair value is the price which would be received upon the sale of an asset, or the price which would be paid upon the transfer of a liability, in an ordinary transaction between market participants on the measurement date. Fair value measurement is based on the assumption that the transaction takes place in the principal market of the asset or liability, or in the absence of a principal market, in the most advantageous market. The fair value of an asset or liability is measured using assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants are operating in favor of their economic interests. Fair value measurement with respect to non-financial assets takes into account the market participant's ability to generate economic benefits by making best use of the asset, or by selling it to another market participant, who will make best use of the asset.

The group uses valuation techniques which are appropriate for the circumstances, and for which there are sufficient obtainable inputs in order to measure fair value, while maximizing the use of relevant observable inputs, and minimizing the use of unobservable inputs.

Fair value amounts were determined for measurement and/or disclosure purposes using the methods described below. Additional information regarding the assumptions which were used in the determination of establishment of is included in the following notes:

- Note 10, regarding investment property, including with respect to investment-linked contracts
- Note 13, regarding assets for investment-linked contracts
- Note 14, regarding other financial investments
- Note 25, regarding deferred liability notes
- Note 27, regarding liabilities to banking corporations and others
- Note 42, regarding share-based payment

Fair value hierarchy

In the determination of the fair value of an asset or liability, the group uses observable market inputs, as much as possible. Fair value measurements are divided into three levels of the fair value hierarchy, based on the inputs used in the valuation, as follows:

Level 1 - Fair value which is measured according to quoted (non-adjusted) prices in an active market for similar instruments.
Level 2 - Fair value which is measured using directly or indirectly observable inputs which are not included in Level 1 above.
Level 3 - Fair value which is measured using inputs which are not based on observable market inputs.

The level within the fair value hierarchy to which the fair value measurement of the entire financial instrument belongs, is determined based on the lowest level of data that are significant in the measurement of total fair value.

Note 2 - Basis for Preparation of the Financial Statements (Cont.)

F. Reclassification

During the reporting period, immaterial classifications were performed to the cash and receivables items, and to the note regarding financial instruments, as well as other immaterial classifications. For details regarding the classification of additional data regarding long term savings, see Note 20(a).

Note 3 - Significant Accounting Policies

The accounting policy specified below was applied consistently by the group for all periods presented in these consolidated financial statements.

For details regarding changes in the calculation of insurance liabilities as of December 31, 2015 in non-life insurance, see section d(2)(b)(4).

A. Consolidation basis

1. Business combinations

The group applies the acquisition method to all of its business combinations.

The acquisition date is the date on which the buyer obtains control of the acquired entity. Control exists when the group is exposed, or holds rights, to variable returns due to its involvement in the acquired entity, and when it has the ability to influence those returns by exercising its influence over the acquired entity. The evaluation of control includes taking into account real rights which are held by the group and by others.

The group recognizes goodwill as of the acquisition date according to the fair value of the transferred consideration, including amounts recognized with respect to any non-controlling interests in the acquired entity, as well as the fair value, as of the acquisition date, of capital interests in the acquired entity which were previously held by the buyer, less the net amount attributed in the acquisition to identifiable assets that were acquired, and to liabilities that were accepted.

On the acquisition date, the buyer recognizes a contingent liability which was accepted in a business combination, if a present commitment exists which is due to past events, and if its fair value is reliably measurable.
In the event that the group performs a bargain purchase (including one that includes negative goodwill), it recognizes the gains created as a result thereof in the statement of income, on the acquisition date.
Additionally, goodwill is not updated with respect to the use of transferred losses for tax purposes which existed on the business combination date.

The transferred consideration includes the fair value of the assets that were transferred to the previous owners of the acquired entity, which materialized for the buyer vis-a-vis the previous owner of the acquired entity, as well as capital rights issued by the group. The transferred consideration also includes the fair value of the contingent consideration. After the acquisition date, the group recognizes changes in the fair value of a contingent consideration which is classified as a financial liability in the statement of income, under the item for other income or expenses, while a contingent consideration which is classified as a capital instrument is not remeasured.

Costs associated with the acquisition which materialized for the buyer with respect to a business combination, such as agent fees, consulting fees, legal fees, valuations and other fees with respect to professional services or consulting services, excluding services which are related to the issue of debt or capital instruments in connection with a business combination, are recognized as expenses during the period in which the services are received.

Note 3 - Significant Accounting Policies (Cont.)

A. Consolidation basis (Cont.)

2. Subsidiaries

Subsidiaries are entities which are controlled, directly or indirectly, by the company. The financial statements of subsidiaries are included in the consolidated financial statements from the date control was obtained until the date control was lost.

The financial statements of pension funds and provident funds (excluding the Bar A Provident Fund, to whose members Clal Insurance has guaranteed minimum returns - see Note 40(d)(1)), which are under the group's management were not consolidated, due to the fact that the group is not directly exposed to variable returns with respect to them, and therefore, does not control those entities.

The evaluation of control including taking into account also the overall relationship between the group and those entities, and the group's exposure to returns from other interests which it holds. This estimate also takes into account the group's maximum exposure to the variability of returns, including with respect to management fees and the group's guarantee to protect returns of members' rights in compensation programs.

The accounting policy of subsidiaries was changed insofar as was required in order to adjust it to the accounting policy which was adopted by the group.

3. Non-controlling interests

Non-controlling interests constitute the total capital in a subsidiary that is not attributable, either directly or indirectly, to the parent company, and include additional components such as share-based payment settled through capital instruments of the subsidiaries, and capital options for shares in the subsidiaries.

Measurement of non-controlling interests on the business combination date

Non-controlling interests, which are instruments conferring ownership rights in the present, and which grant their holder a share in the net assets in case of liquidation (for example: ordinary shares), are measured on the business combination date at fair value, or according to their relative share in the assets and liabilities identified with the acquired entity, on a separate basis for each transaction. The choice of accounting policy is not permitted for other instruments which meet the definition of non-controlling interests (for example, capital options for ordinary shares). These instruments will be measured at fair value or in accordance with the provisions of other relevant IFRS's.

Allocation of profit or loss and other comprehensive income between shareholders

Income or loss, and any component of other comprehensive income, is attributed to shareholders in the company and to non-controlling interests. Total income or loss or other comprehensive income is attributed to the owners of the company and to non-controlling interests, even if, as a result, the balance of non-controlling interests is negative.

Transactions with non-controlling interests, while retaining control

Transactions with non-controlling interests, while retaining control, are treated as capital transactions. The company chose to charge any difference between the consideration paid or received for the change in non-controlling interests to the capital reserve from transactions with non-controlling interests.

Furthermore, when making changes to its stake in a subsidiary while still retaining control, the company re-attributes the cumulative amounts which were recognized under other comprehensive income between the company's shareholders and the non-controlling interests.

Note 3 - Significant Accounting Policies (Cont.)

A. Consolidation basis (Cont.)

4. Loss of control

When a loss of control occurs, the group writes off the assets and liabilities of the subsidiary, as well as any non-controlling interests and other components of capital attributed to the subsidiary. If the group remains with a certain investment in the former subsidiary, the balance of the investment is measured according to its fair value on the date of loss of control. The difference between the consideration for the fair value of the balance of the investment, and the balances which were written off, is recognized under profit and loss, in the item for other income or expenses. From that date onwards, the remaining investment is accounted by the equity method or as an available for sale financial asset, according to the group's degree of influence on the relevant company.

The amounts which were recognized in capital through other comprehensive income in connection with said subsidiary are re-classified to profit or loss or to retained earnings, in the same manner that would have been required had the subsidiary itself disposed of the assets or the liabilities in question.

5. Investments in associate companies and joint ventures

Investments in associate companies and joint ventures are accounted by the equity method (save as specified in Note 3(f)(6) below), and are recognized for the first time at cost. The investment cost includes transaction costs. The consolidated financial statements include the group's share in net income or loss, in other comprehensive income, and in the net assets of investee companies accounted by the equity method, after performing adjustments required to adapt the accounting policy to that used by the group, from the date when significant influence or joint control materialized, until the date on which the conditions for significant influence or joint control are no longer met.

The group discontinues applying the equity method beginning on the date when it loses significant influence over the associate company or joint control of the joint venture, or when it rises to control of the investee company, and treats the remaining investment as a financial asset or subsidiary, as applicable.

On the date of loss of significant influence or joint control, the group measures at fair value any remaining investment in the former associate company or joint venture. The company recognizes profit or loss under the item for other income or expenses, with respect to any difference between the fair value of a particular remaining investment, and any consideration from the disposal of part of the investment in the associate company or joint venture, and the book value of the investment at that time. The amounts which were recognized under capital reserves through other comprehensive income, with reference to an investee company accounted by the equity method, are reclassified to profit and loss or to retained earnings, in the same manner which would have been required had the aforementioned investee company itself realized the assets or liabilities in question.

6. Transactions which were canceled as part of the preparation of the consolidated financial statements

Inter-company balances in the group, and unrealized income and expenses resulting from inter-company transactions among the group's member companies, were canceled as part of the preparation of the consolidated financial statements. Unrealized losses were canceled in the same manner as that which was used to cancel unrealized profits, so long as no evidence of impairment existed.

Note 3 - Significant Accounting Policies (Cont.)

A. Consolidation basis (Cont.)

7. Acquisition of property company

Upon the acquisition of a property company, the group exercises judgment in its evaluation of whether it constitutes the acquisition of a business or a property, for the purpose of determining the accounting treatment for the transaction. In its evaluation of whether a property company constitutes a business, the group evaluates, inter alia, the nature of the existing processes in the property company, including the scope and nature of the management, security, cleaning and maintenance services which are given to tenants. Transactions in which the acquired company is a business are treated as a business combination, as specified above. However, transactions in which the acquired company is not a business are treated as an treated as a group of assets and liabilities. In transactions of the business combination type, the acquisition cost, including transaction costs, is proportionately allocated to the identifiable assets and liabilities which were acquired, based on their proportional fair value as of the acquisition date. In the latter case, goodwill is not recognized, and deferred taxes are not recognized, with respect to temporary differences which exist as of the acquisition date.

B. Foreign currency

1. Transactions in foreign currency

Transactions in foreign currency are translated to the relevant functional currencies of the group's member companies, according to the exchange rates that were in force as of the transaction dates. Monetary assets and liabilities denominated in foreign currency on the reporting date are translated to the functional currency according to the exchange rate which is in effect as of that date. Foreign currency differences with respect to the monetary items refers to the difference between the amortized cost of the functional currency at the start of the year, adjusted to the effective interest rate and to payments throughout the year, and the amortized cost of the foreign currency, as translated using the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the functional currency according to the exchange rate that is in force on the date of determination of fair value. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate that was in force as of the transaction date.

Foreign currency differences arising from translation to the functional currency are generally recognized under the statement of income, excluding the following differences, which are recognized under other comprehensive income, and which are due to the translation of capital, non-monetary financial assets classified as available for sale (excluding in the case of impairment, in which case the translation differences which were recognized under other comprehensive income are reclassified to profit and loss).

2. Foreign operations

The functional currency, which is the currency that reflects, in the best possible manner, a company's economic environment and the transactions, is evaluated separately for each of the group's member companies, including companies presented using the equity method. Such currency is then used to measure their financial positions and operating results. In cases where the functional currency of a Group member is different from the company's functional currency (as described in Note 2(b) above), said company constitutes a foreign operation whose financial statements are translated for the purpose of including them in the financial statements, as follows:

The assets and liabilities of foreign operations, including goodwill and fair value adjustments which materialized at the time of acquisition, are translated to NIS according to the current exchange rate as of the reporting date. The income and expenses of foreign operations are translated to NIS using average exchange rates, which constitute an approximation of the rates that existed on the transaction dates.

Foreign currency differences with respect to the translation are recognized under other comprehensive income and are presented under capital, in the translation reserve.

Note 3 - Significant Accounting Policies (Cont.)

B. Foreign currency (Cont.)

2. Foreign operations (Cont.)

In cases where a foreign operation is a subsidiary that is not wholly owned by the group, the proportional part of the foreign currency differences with respect to the foreign operation is allocated to non-controlling interests.

Upon the disposal of a foreign operation which leads to loss of control, significant influence or joint control, the cumulative amount in the translation reserve with respect to the foreign operation is reclassified to profit and loss, as part of the profit or loss from the disposal.

In general, foreign currency differences with respect to loans which were received or provided for foreign operations, including foreign operations which are subsidiaries, are recognized under profit and loss in the consolidated statements. When the settlement of loans which were received or provided for foreign operations is not planned and is not expected in the foreseeable future, profit and loss from foreign currency differences which are due to those monetary items are included as part of the investment in the foreign operation, net, recognized under other comprehensive income, and presented under capital, as part of the translation reserve.

C. Segmental reporting

An operating segment is a component of the group which fulfills the following criteria:

1. It is engaged in business operations from which it may derive income, and with respect to which it may bear expenses, including income and expenses that are attributable to transactions between the group's member companies.

2. Its operating results are reviewed on a regular basis by the group's Chief Operational Decision Maker, in order to reach decisions regarding the resources allocated to it, and in order to assess its performance.

3. Separate financial information is available for the above.

For details regarding financial reporting by segment, see Note 5.

D. Insurance contracts, investment contracts and asset management contracts

IFRS 4, Insurance Contracts, allows an insurer to continue applying the accounting policy which it applied before the date of the transition to IFRS regarding insurance contracts which it issues (including related acquisition costs and related intangible assets), and also regarding insurance contracts which it acquires.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

Presented below are the group's significant accounting policies in connection with insurance contracts:

1. Long term savings and long term care insurance in the health insurance segment

   A. Recognition of income - see Note 3(N).

   B. Liabilities with respect to health and long term care insurance contracts in the health insurance segment

The liabilities are calculated in accordance with the Commissioner's directives (regulations and circulars), accounting rules and conventional accounting methods in Israel. The liabilities are included based on an actuarial valuation, and are calculated according to the relevant coverage data, including policyholder age, seniority of coverage, insurance amount, etc. The liabilities also include provisions for ongoing paid claims and outstanding claims, the direct and indirect expenses due to them, and provisions for IBNR claims. The share of reinsurers in the liabilities is determined according to the terms of the relevant contracts.

The liabilities, and the share of reinsurers therein, are determined by the chief actuaries in Clal Insurance: Mr. Ofer Brandt, MBA, F.I.A., F.IL.A.A, who is a corporate officer in Clal Insurance, and Mr. Mark Revayev, F.IL.A.A.

The CPI-linked liabilities and CPI-linked investments which are used to cover these liabilities were included in the last published financial statements before the end of the reporting period, including liabilities with respect to insurance contracts in which the linkage is semi-annual, in accordance with their terms.

Liabilities to supplement the annuity reserve

The liabilities regarding future annuity payments in life insurance contracts are calculated in accordance with the guidelines issued by the Commissioner, in consideration of the improvement in life expectancy and the change in annuity realization rates upon the retirement of policyholders, which require monitoring of the adequacy of the liabilities with respect to insurance contracts, which allow receiving an annuity and supplementing them appropriately. Accordingly, the group performs an immediate supplementation of the liabilities, as required, with respect to insurance contracts regarding paid annuities for policyholders who have reached retirement age, and with respect to the non-profitable group of insurance contracts. Regarding other insurance contracts, a supplementation of the liability is performed with respect to funds which have accrued in the insurance contracts until the end of the reporting period, including matching to expected income, throughout the period of the insurance contract.

For additional details, see Note 40(e)(e1).

Outstanding claims and INBR claims

Outstanding claims, less the share of reinsurers therein, are calculated on a case-by-case basis, in accordance with the estimates prepared by the experts of Clal Insurance, based on announcements made with respect to the insurance events and insurance amounts, and are included under liabilities with respect to insurance contracts and investment contracts. For IBNR claims, a provision is calculated based on a statistical model.

Reserves for ongoing claims

The provisions for paid pension and for paid ongoing claims in loss of working capacity insurance and in long term care insurance, the direct and indirect expenses which are due to them, and the provisions for IBNR claims, are calculated by the chief actuaries in Clal Insurance, and are included under liabilities with respect to insurance contracts and investment contracts.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

1. Long term savings and long term care insurance (Cont.)

C. Deferred acquisition costs (DAC)

(1) Life and long term care insurance contracts

DAC in life insurance and long term care insurance contracts which were sold beginning on January 1, 1999, include commissions to agents and acquisition supervisors, and other expenses, including part of the general and administrative expenses, which are associated with the acquisition of new insurance contracts. The DAC are amortized in equal annual rates over the period of the insurance contract, but no more than 15 years. The DAC with respect to insurance contracts which were canceled or settled are written off on the date of the cancellation or settlement. Deferred acquisition costs with respect to insurance contracts which were issued until December 31, 1998 are calculated by an actuary of Clal Insurance, based on the Zillmer deduction method, according to rates of the premiums or risk amounts, in accordance with the various insurance plans.

The actuaries of Clal Insurance evaluate, on an annual basis, the recoverability of DAC, in accordance with the Commissioner's directives. The evaluation is performed in order to verify that the insurance contracts are expected to generate sufficient future income to cover the amortization of DAC and the insurance liabilities, operating expenses and commissions with respect to those insurance contracts. The test is conducted collectively for all individual products and for all underwriting years. The assumptions which are used in this evaluation include assumptions regarding cancellations, operating expenses, returns on assets, mortality and morbidity, which were determined by the actuaries of Clal Insurance on an annual basis, in accordance with tests, past experience, and relevant current studies.

(2) Asset management contracts

Incremental acquisition costs (such as commissions for agents and acquisition supervisors) which are directly attributed to the acquisition of contracts for the management of assets in pension funds and provident funds are recorded as DAC if they are separately identifiable, reliably measurable, and if their repayment is expected through management fees. The DAC are amortized over the estimated period in which income from management fees is expected to be received. The chief actuary of Clal Pension and Provident Funds Ltd. evaluates, on an annual basis, the recoverability of DAC of the pension branch, in order to validate the estimated period for the receipt of management fees with respect to the contracts for the management of assets in pension funds, in order to determine the amortization period for the DAC which are created with respect to them. The assumptions which are used in this evaluation primarily include assumptions regarding cancellations, operating expenses, return on assets, mortality and morbidity, as determined by the chief actuary of Clal Pension and Provident Funds Ltd., on an annual basis, in accordance with tests, past experience, and relevant current studies. The recoverability of DAC attributed to the provident fund branch is evaluated within the framework of the recoverability of the entire provident fund segment. The evaluation of recoverability is performed by an external valuer at least once per year, and is based on discounting of the expected cash flows from the operation.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

1. Long term savings and long term care insurance (Cont.)

D. Liability adequacy test

The chief actuaries in Clal Insurance periodically conduct a liabilities adequacy test regarding liabilities with respect to life and long term care insurance contracts (hereinafter: "**LAT**"). The LAT is intended to test that the total liabilities suffice to cover the discounted value of the future flows which are expected from the insurance contracts: claims, commissions and expenses, net of premiums. The cash flows are discounted according to a risk-free interest rate, plus an illiquidity premium. The illiquidity premium as of December 31, 2016 is 0.51% (as of December 31, 2015 - 0.64%), and was calculated based on the Commissioners guidelines on this matter.

If the evaluation finds that the amount of liabilities in the books is lower than the discounted value of the aforementioned flow, less the difference between the book value and the fair value of non-marketable debt assets in the portfolio, a special provision is recorded with respect to the missing amount.

The test is performed separately for individual policies and collective policies. In individual policies, the test is performed with respect to groups of insurance contracts (including their annexes) which were issued in various periods, according to participation types, and separately for basic risk policies. In collective policies, the test is performed on the level of the single collective, and is performed in accordance with the actual claims experience of the single collective, and subject to the statistical reliability of such experience. The assumptions used for the above tests include assumptions made with regard to cancellations, operating costs, returns from assets, mortality and morbidity, and are determined by the chief actuaries of Clal Insurance based on tests, past experience and other relevant studies, including a margin for adverse deviations, in accordance with the insurance circular on the subject of the "liability adequacy test". For additional details, see Note 40(e1).

E. Investment contracts

Receipts with respect to investment contracts are directly applied to the item for liabilities with respect to insurance contracts and investment contracts in the statement of financial position, and are not included under the item for earned premiums in the statement of income. Repayments of investments with respect to redemptions and end of period with respect to these contracts are directly written off from the item for liabilities with respect to insurance contracts and investment contracts, and are not applied to the statement of income.

In the statement of income, amounts are charged with respect to these contracts for income from investments, management fees collected from policyholders, changes in liabilities with respect to insurance contracts and investment contracts, in the amount of the policyholders' share in investment income (participation in profits), agent commission expenses and general and administrative expenses.

F. Provision with respect to participation in the profits of policyholders in collective insurance

The provision is included under other accounts payable in the statement of financial position, and the change in provision is charged to the item for premiums.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts and investment contracts (Cont.)

2. Non-life insurance and health insurance, excluding long term care insurance

A. Recognition of income - see Note 3(n).

B. Liabilities with respect to non-life and health insurance contracts, except long term care insurance

Insurance reserves and outstanding claims which are included in the item for liabilities with respect to insurance contracts in the statement of financial position, and the share of reinsurers in the reserve and in outstanding claims, which is included in the item for reinsurance assets in the statement of financial position, were calculated according to the Reserve Calculation Regulations, the Commissioner's guidelines and conventional actuarial methods for the calculation of outstanding claims, which are applied according to the judgment of the actuaries of Clal Insurance. The liabilities with respect to insurance contracts were primarily calculated by the chief actuaries in Clal Insurance.

The item for liabilities with respect to insurance contracts is comprised of the following:

1. Unearned premium reserve This reserve reflects the premiums which are attributed to the insurance period subsequent to the reporting date.

2. Premium deficiency reserve This reserve is recorded, as required, if the unearned premiums (less deferred acquisition costs, see section C below) do not cover the expected cost with respect to insurance contracts.

3. Insurance reserves in long term health insurance branches This reserve is calculated according to actuarial estimates, including, if needed, a provision with respect to expected loss on retention (premium deficiency), which is calculated based on the estimated expected cash flows with respect to the contracts, according to the relevant coverage data, such as policyholder age, seniority of coverage, insurance type, insurance amount, etc.

4. Outstanding claims and reserves which are calculated according to the methods described below:

4.1 Outstanding claims, and the share of reinsurers therein, were included based on an actuarial valuation, excluding as regards the branches listed in section 4.2 below. Provision for indirect expenses for the settlement of claims is included according to an actuarial valuation. The actuarial calculation was performed by the chief actuaries of Clal Insurance: Mr. Yaakov Mauser, M.A., F.I.A., F.IL.A.A., and Mr. Mark Revayev, F.IL.A.A.

4.2. In the cargo, shipping, marine and aviation insurance branches, in guarantees according to the Sales Law, in financial guarantees, in credit insurance, and in the foreign trade risks and incoming business branches, regarding which the actuary has determined that it is not possible to apply an actuarial model, due to a lack of statistical significance, outstanding claims were included based on estimates which were prepared by external experts and employees of the company who handle claims, on reports of delivering companies regarding incoming businesses, and with the addition of IBNR claims, as needed.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

2. Non-life and health insurance, excluding long term care insurance (Cont.)

B. Liabilities with respect to non-life and health insurance contracts, except long term care insurance (Cont.)

4. Outstanding claims and reserves which are calculated according to the methods described below: (Cont.)

4.3. Net surplus revenues - net surplus revenues are calculated with respect to the following branches: marine insurance, aviation insurance, Sales Law guarantees, financial guarantees and foreign trade risks. In foreign trade risks insurance, based on the cumulative annual report, in apartment buyers investment insurance, on a cumulative tri-annual basis, and in the financial guarantees branch, before the end of the policy (hereinafter: the "**Surplus**"). It is noted that, until December 31, 2015, the foregoing was also calculated in the liabilities and compulsory motor branches (see section 5 below).

The surplus is calculated in accordance with the Reserve Calculation Regulations, and in accordance with the Commissioner's guidelines, based on income from premiums less claims and acquisition costs (up to a limited which was determined by the Commissioner as a rate of the premium), plus investment income which is calculated according to a real rate of return of 3% per year (independent of actual returns on the investments), less the share of reinsurers, according to the relevant insurance branches and underwriting year. The cumulative surplus until the date of its release from the start year of the insurance, less the unearned premium reserve, less deferred acquisition costs (see section C below), and less outstanding claims, which were calculated as specified above (hereinafter: the "**Accrual**"), is included under the item for liabilities with respect to insurance contracts. A deficit is immediately applied to the statement of income as an expense.

For details regarding the update to the calculation period with respect to net surplus revenues in the apartment buyer investment insurance branch in 2014, see Note 40(e2) below.

4.4 Claims of recourse and residuals are taken into account in the database used to calculate the actuarial valuations of outstanding claims.

4.5 According to estimate of Clal Insurance, the outstanding claims are adequate, in consideration of the fact that the outstanding claims are mostly calculated on an actuarial basis, and the others include appropriate provisions for IBNR, as required.

5. Reserve due to the liability adequacy test in accordance with the principles specified in Note 42(e)(e2)(4)(f).

It is noted that in January 2013, the Reserve Calculation Regulations were published, as well as a circular, which was updated in January 2015. Additionally, in January 2015, the Commissioner's position was published regarding best actuarial practices in the calculation of insurance reserves in non-life insurance for the purpose of the financial statements (hereinafter, jointly: the "**Amendment**").

The amendment canceled the Control of Insurance Business Regulations (Methods for Calculation of Provisions for Future Claims in Non-Life Insurance), 1984, which were replaced by the new regulations. The main change which occurred upon the amendment's entry into effect was the cancellation of the accrual in compulsory motor and liabilities branches, and the adoption of the Commissioner's position regarding best practices which constitute a liability adequacy test.

As a supplementary measure to the amendment, in October 2015, the measurement instructions which are included in the unified circular were amended, with respect to the share of reinsurers in deferred acquisition costs and in unearned premiums.

The amendment was treated as a change of accounting policy whose retrospective adoption is impractical, and therefore, the impact of the change was charged to as an adjustment to retained earnings on December 31, 2015, without retrospective adoption.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

2. Non-life and health insurance, excluding long term care insurance (Cont.)

B. Liabilities with respect to non-life and health insurance contracts, except long term care insurance (Cont.)

The impact of the aforementioned amendment on the company's financial statements as of December 31, 2015 is as follows:

NIS in thousands	Gross	Reinsurance	Retention / Total
(Increase) Decrease of insurance liabilities in non-life insurance and increase (decrease) of reinsurance assets:			
Due to the cancellation of the accrual	38,183	(12,906)	25,277
Implementation of best practices with respect to the calculation of insurance liabilities which are calculated by the actuary	(85,104)	34,901	(50,203)
(Increase) Decrease of reinsurance liabilities due to an update to the calculation of reinsurers' share in unearned premiums and in accrual	-	(23,176)	(23,176)
Total (increase) decrease of insurance liabilities in non-life insurance	(46,921)	1,181	(48,102)
Decrease of other accounts payable due to an update to the calculation of the share of reinsurers in deferred acquisition costs	-	21,565	21,565
Cumulative impact of changes in insurance reserves in non-life insurance			(26,536)
Attributable tax impact - reduction of the liabilities with respect to current taxes			9,972
Total reduction of capital			(16,564)
Attributable to non-controlling interests			(1,659)
Attributable to shareholders in the company, under the item for retained earnings			(14,905)

C. Deferred acquisition costs (DAC)

Gross DAC and reinsurers, with respect to non-life insurance and health insurance, excluding long term care insurance, were calculated in accordance with the Reserve Calculation Regulations and the Commissioner's instructions:

(1) DAC in the non-life insurance and short term health insurance branches include commissions to agents and part of the general and administrative expenses in connection with the acquisition of insurance contracts, which are attributed to unearned premiums on retention. The DAC are calculated according to the actual expense rates, or according to standard rates which were determined in the Reserve Calculation Regulations and in accordance with the Commissioner's provisions, as a percentage of unearned premiums for each branch separately, whichever is lower. Some of the reinsurers in DAC are classified under the item for other accounts payable. For details regarding changes in the calculation of reinsurers' share in DAC, see section B above.

(2) DAC in long term health insurance branches include commissions to agents and acquisition supervisors, and some of the general and administrative expenses which are associated with the acquisition of new insurance contracts. DAC are amortized in equal rates over the period of the insurance contract, but no more than six years. DAC attributable to canceled insurance contracts were written off on the cancellation date.

In accordance with the Commissioner's directives, an actuary of Clal Insurance evaluates, on an annual basis, the recoverability of DAC in the long term health insurance branches. This calculation includes evaluating whether the insurance contracts are expected to create sufficient future income to cover the insurance liabilities, the amortization of DAC, the operating expenses and the commissions with respect to those insurance contracts. The test is conducted collectively for all underwriting years. The assumptions which are used in this test include assumptions with respect to cancellations, operating expenses, return on assets, mortality and morbidity, and are determined on an annual basis by the chief actuary in Clal Insurance, in accordance with tests, past experience and relevant current studies.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

2. Non-life and health insurance, excluding long term care insurance (Cont.)

D. Items for payments and changes in liabilities

The items for payments and change in liabilities with respect to insurance contracts, gross, and retention, include, inter alia, settlement and direct handling costs with respect to paid claims, indirect claim settlement expenses, and updates to the provision for outstanding claims, to direct handling costs, and to indirect claim settlement expenses, which were recorded in previous years.

E. Provision with respect to participation in the profits of policyholders in collective insurance in the long term health insurance branches

The provision is included under other accounts payable in the statement of financial position, and the change in provision is charged to the item for premiums.

F. The Israeli Compulsory Motor Insurance Database of the Israel Insurance Association and other incoming business

Business received from the Israeli Compulsory Motor Insurance Database Ltd. (hereinafter: the "**Pool**"), from other insurance companies (including co-insurance and incoming business from abroad) and from underwriting agencies, are included according to accounts that are received by the reporting date, with the addition of provisions, as applicable, and in accordance with the participation rate of Clal Insurance.

E. Statements of cash flows

In the statements of cash flows, the company chose to present interest received and dividends received as part of cash flow from operating activities. Interest paid and dividends paid are presented under cash flows from financing activities.

F. Financial Instruments

1. **Non-derivative financial assets**

Initial recognition
The group initially recognizes loans, receivables and deposits on the date of their creation. Other financial assets which are acquired through regular way purchase, including assets which were designated to fair value through profit and loss, are initially recognized on the trade date, when the group becomes a party to the contractual terms of the instrument, i.e., when the group undertook to buy or sell the asset.

Non-derivative financial assets include investments in stocks and in debt instruments, cash and cash equivalents and other receivables.

Write-offs
Financial assets are written off when the group's contractual right to the cash flows arising from the financial asset expire, or when the group transfers the rights to receive the cash flows arising from the financial asset in a transaction wherein all risks and benefits associated with the ownership of the financial asset are effectively transferred.

Sales of financial assets through regular way sale are recognized on the trade date, i.e., on the date when the group undertook to sell the asset.

For details regarding the offsetting of financial assets and financial liabilities, see section 5 below.

Note 3 - Significant Accounting Policies (Cont.)

F. Financial instruments (Cont.)

1. <u>Non-derivative financial assets (cont.)</u>

<u>Classification of financial assets to groups and accounting treatment with respect to each group</u>

The group classifies financial assets into groups, as follows:

Financial assets at fair value through profit and loss

Financial assets are classified as measured at fair value through profit and loss, if they are classified as held for trading, or if they were designated as such upon initial recognition. Financial liabilities are designated at fair value through profit and loss if the group manages investments of this kind, and reaches decisions regarding the sale and purchase thereof based on their fair value, in accordance with the method used by the group to document the risk management or strategy associated with the investment, or if the designation was intended to prevent an accounting mismatch, or if the instrument in question is a hybrid instrument which includes an embedded derivative (see section 3 below). Attributable transaction costs are applied to the statement of income upon their materialization. These financial assets are measured at fair value, and changes therein are applied to the item for profit (loss) from investments, net, and statement of income in the statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with payments that are fixed or fixable, and which are not traded on an active market. These assets are recognized for the first time at fair value plus attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less impairment losses (see Note 3(k)(1)). Profit and loss due to the disposal of investments is calculated as the difference between the disposal consideration, net, and the original or amortized cost, and is recognized upon the occurrence of the sale event.

Loans and receivables include cash and cash equivalents and investments in debt instruments which are non-marketable and which are not included in the investment portfolios held against profit sharing (nostro) policies, including designated bonds (HETZ agreements), deposits in banks and debit balances and debit balances receivable.

Cash includes cash balances that are available for immediate use. Cash equivalents include short term investments where the duration from the original deposit date to the redemption date is up to 3 months, which have a high degree of liquidity, which are easily convertible into known amounts of cash, which are exposed to immaterial risk of changes in value, and which are not restricted by pledge.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets which were designated as available for sale or which were not classified under any of the other groups. The group’s investments in stocks and in certain debt instruments are classified as available for sale financial assets. Upon their initial recognition date, available for sale financial assets are recognized at fair value, with the addition of all attributable transaction costs. In subsequent periods, these investments are measured at fair value, while the changes in them, except for impairment losses and except for profit or loss from changes in the CPI and in the exchange rate and to the accrual of effective interest in debt instruments classified as available for sale, are applied directly to other comprehensive income, and are presented in the capital reserve with respect to financial assets classified as available for sale. Dividends which are received with respect to available for sale financial assets are applied to the statement of income. When the investment is written off, the profit or loss which accumulated in the capital reserve with respect to available for sale financial assets is transferred to profit and loss.

Available for sale financial assets include marketable debt instruments, excluding embedded derivatives, which must be separated, and investments in stocks which are not classified as held for trading investments, and which are not included in the investment portfolios held against profit sharing policies (nostro).

Note 3 - Significant Accounting Policies (Cont.)

F. Financial instruments (Cont.)

2. Non-derivative financial liabilities

Non-derivative financial liabilities include liabilities to banking corporations and others, bonds and deferred liability notes, and other payables.

Initial recognition of financial liabilities
The group recognizes issued debt instruments for the first time on the date of their creation. Other financial liabilities are recognized for the first time on the trade date, when the group becomes party to the contractual terms of the instrument.

Non-derivative financial liabilities are recognized for the first time at fair value, plus all attributable transaction costs. Transaction costs which are directly attributable to an expected issuance of an instrument which will be classified as a financial liability, are recognized as an asset under the item for deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon initial recognition, or are amortized as financing expenses in the statement of income, when the issuance is no longer expected to take place.

After initial recognition, non-derivative financial liabilities are measured at amortized cost using the effective interest method. Financing expenses are charged to the statement of income using the effective interest method.

Write-off of financial liabilities
Financial liabilities are written off when the group's liabilities, as specified in the agreement, expire, or when it has been settled or canceled.

Changes to terms of debt instruments
An exchange of debt instruments with materially different terms, between an existing borrower and lender, are treated as a settlement of the original financial liability, and as a recognition of the new financial liability at fair value. Additionally, a significant change in the terms of an existing financial liability, or a part thereof, is treated as a settlement of the original financial liability, and as a recognition of the new financial liability.

In such cases, any difference between the amortized cost of the original financial liability, and the fair value of the new financial liability, is recognized under profit and loss, in the item for financing expenses.

The conditions are materially different if the discounted present value of the cash flows, according to the new conditions, including any commissions which were paid, less any commissions which were received and discounted by the original effective interest rate, is different by at least ten percent than the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforementioned quantitative test, the group chose to evaluate whether changes also occurred in various qualitative parameters which are embodied in the replaced debt instruments. In general, debt instrument exchanges which result in a significant change in qualitative parameters are considered exchanges with materially different terms, even if they do not fulfill the quantitative test which was performed, as stated above.

In the event that the exchange or change is immaterial, it is treated as a change to the terms of the original liability, and no income or loss is recognized with respect to the exchange. Any costs or fees which have materialized adjust the book value of the liability, and are amortized over the remaining period of the modified liability.

Note 3 - Significant Accounting Policies (Cont.)

F. Financial instruments (Cont.)

3. Derivative financial instruments

The group holds derivative financial instruments such as options, foreign currency forward contracts and interest rate swaps.

Derivative financial instruments are first recognized at fair value, and directly attributable transaction costs are charged to the statement of income upon their materialization. After initial recognition, the derivative financial instruments are measured at fair value. Profit or loss due to changes in the fair value of derivative financial instruments are immediately applied to the statement of income, under the item for profit (loss) from investments, net, and financing income. Derivative financial instruments are recognized in the statement of financial position as assets when their fair value is positive, and as liabilities when their fair value is negative.

Embedded derivatives in a hybrid instrument must be measured at fair value through profit and loss separately from the host contract if: (a) There is no close connection between the economic characteristics and risks of the host contract and of the embedded derivative, (b) a separate instrument with the same terms as those of the embedded derivative would have fulfilled the definition of a derivative, and (c) the hybrid instrument is not measured at fair value through profit and loss.

Embedded derivatives in an insurance contract are not separated when the embedded derivative itself constitutes an insurance contract.

Economic hedging
Hedge accounting is not applied with respect to derivative instruments used for economic hedging of financial assets and liabilities. Changes in the fair value of these derivatives are applied to the statement of income as part of profit or loss from investments, net, and financing income.

4. CPI-linked financial assets and liabilities which are not measured at fair value

The company chose to revaluate CPI-linked financial assets and liabilities which are not measured at fair value, in each period, in accordance with the actual rate of change of the CPI.

5. Offsetting of financial instruments

A financial asset and financial liability is offset, and the amounts presented net in the statement of financial position, when the group has a currently enforceable legal right to offset the amounts which were recognized, and intends to settle the asset and the liability on a net basis, or to realize the asset and settle the liability simultaneously.

6. The group has decided to designate financial assets as specified below:

Assets included in the investment portfolios of profit sharing policies
These assets, which include marketable financial instruments and non-marketable financial instruments (including investments in associates and joint ventures), were designated to the group for fair value through profit or loss, for to the following reasons: they constitute portfolios which are managed, separate and identifiable, and whose presentation at fair value significantly reduces a lack of accounting consistency in the presentation of the assets and liabilities using various measurement bases, while in addition, such management is performed at fair value, and the portfolio’s performance is measured at fair value in accordance with a documented risk management strategy, and the information regarding the financial instruments is internally reported to management (the relevant investment committee) based on fair value.

Financial assets which include embedded derivatives required for separation
Financial assets which include embedded derivatives required for separation were designated to the group at fair value through profit or loss.

Note 3 - Significant Accounting Policies (Cont.)

F. Financial instruments (Cont.)

7. Share capital

Ordinary shares are classified as a capital instrument. Incremental costs which are directly attributed to the issuance of ordinary shares and options for shares, less tax impact, are presented as an amortization of the capital instrument in question.

G. Property, plant and equipment

1. Recognition and measurement

The company chose to measure components of property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses (see Note 3(k)(2)).

The cost includes costs which are directly attributable to the acquisition of the asset. The cost of independently established assets includes the cost of materials and direct working costs, as well as any other costs which are directly attributable to the process of bringing the asset to a position and situation in which it can operate in the manner intended by management. The cost of purchased software which constitutes an integral part of the operation of the equipment in question, is recognized as part of the cost of such equipment.

When significant components of property, plant and equipment have different lifetimes, these are treated as separate components (significant components) of the fixed asset.

Income or loss arising from the write-off of a component of property, plant and equipment is determined by comparing the net consideration from the write-off of the asset to its book value, and is recognized net in the item for other income or other expenses, as relevant, in the statement of income.

2. Subsequent costs

The cost of replacing part of an item of property, plant and equipment, and other subsequent costs, is recognized as part of the book value of property, plant and equipment, if the future economic benefit embodied therein is expected to flow to the group, and if the cost is reliably measurable. The book value of the replaced part of the property, plant and equipment is written off. Current maintenance costs are charged to income as incurred.

3. Depreciation

Depreciation is the systematic allocation of an asset’s depreciable amount over its useful lifetime. The depreciable amount is the asset’s cost less the asset’s residual value.

An asset is amortized when it is available for use, in other words, once it has reached the location and condition which are required in order to enable it to operate in the manner intended by management.

Depreciation is charged to the statement of income (unless it is included in the book value of another asset) using the straight line method, over the estimated useful lifetime of each part of the fixed asset items, due to the fact that this method reflects, in the best possible manner, the expected pattern of consumption of future economic benefits embodied in the asset. Assets leased under financial leases, including real estate properties, are depreciated over either the properties’ leasing period or the properties’ useful lifetime, whichever is shorter, unless the group is reasonably expected to receive the ownership of the property at the end of the leasing period. Owned real estate properties are not depreciated. Leasehold improvements are depreciated using the straight-line method over the rental period (including optional extension periods held by the group, and which it intends to exercise) or according to the assets’ estimated lifetime, whichever is shorter.

The estimates with respect to the depreciation method, the useful lifetime and the residual value are re-evaluated at least once at the end of each reporting year, and are adjusted when necessary and treated prospectively as a change in estimate.

Note 3 - Significant Accounting Policies (Cont.)

G. Property, plant and equipment (Cont.)

3. Depreciation (Cont.)

The depreciation rates used during the current period and the comparison periods are as follows (in percent):

Lands under finance lease	2
Buildings	4
Furniture and office equipment	6-20
Vehicles	15
Computers and peripheral equipment	20-33
Leasehold improvements	4-10

4. Classification under the item for investment property

When the use of real estate is converted from use by the owners to investment property which is measured at fair value, the property is remeasured at fair value, and classified as investment property. Any profit which was created due to the remeasurement is applied to other comprehensive income and presented under the revaluation reserve in capital, unless the profit cancels a previous impairment loss of the property, in which case the profit is first applied to profit and loss. Any losses are applied directly to profit and loss.

H. Intangible assets

1. Goodwill

Goodwill created as a result of the acquisition of consolidated companies is presented under intangible assets. For information regarding the measurement of goodwill upon initial recognition, see Note 3(a)(1).

In subsequent periods, goodwill is measured at cost less accumulated impairment loss (see Note 3(k)(2)).

2. Other intangible assets

Intangible assets which are acquired separately are measured upon initial recognition at cost, with the addition of direct acquisition costs. Intangible assets which are purchased in a business combination are measured at fair value on the date of the business combination.

The fair value of intangible assets that were acquired in a business combination is based on the discounted value of the cash flow expected to arise from the use and sale of such assets. The method requires a determination of a discount rate that is appropriate for the asset type, and for the risk level associated with the asset.

After initial recognition, intangible assets are measured at cost less accumulated amortization and less accumulated impairment losses (see Note 3(k)(2)).

Intangible assets with an undefined useful lifetime are not methodically amortized, and are subject to impairment tests on an annual basis, and also at any such time as indicators arise which signify that impairment may have occurred (see also Note 3(k)(2)). The useful lifetime of these assets is tested on an annual basis in order to determine whether the assessment of its lifetime as undefined is still valid. In the event that the events and circumstances no longer support said estimate, the change from undefined to defined useful lifetime is treated prospectively as a change in accounting estimate. At the same time, impairment is evaluated, and the asset is systematically amortized over its useful lifetime.

Note 3 - Significant Accounting Policies (Cont.)

H. Intangible assets (Cont.)

2. Other intangible assets (Cont.)

Intangible assets with a defined useful lifetime are amortized over their useful lifetimes using the straight line method, or based on the expected cash flow which was used for estimation purposes beginning on the date when the assets became available for use, since these methods reflect, in the best possible manner, the forecasted consumption pattern of the future economic benefits embodied in each asset. Impairment of intangible assets is evaluated when indicators exist which signify that impairment has occurred (see also Note 3(k)(2)). The amortization period and amortization method of intangible assets with defined useful lifetimes are reviewed at least at the end of each year. Changes in the useful lifetime or in the expected consumption patterns of the economic benefits that are expected to arise from the asset are treated prospectively as a change in accounting estimate. The amortization expenses with respect to intangible assets with finite useful lifetimes are charged to the income statement (unless included in the book value of another asset).

Software programs, including research and development costs

The group's assets include computer systems which are comprised of hardware and software. Software programs that constitute an integral part of hardware that cannot operate without the software installed on it are classified as property, plant and equipment. However, licenses for standalone software programs which provide additional functionality to hardware are classified as intangible assets.
Expenses associated with research activities which are performed with the aim of acquiring new scientific or technical knowledge and understanding know-how are applied to the statement of income upon their materialization.

Development activities are associated with product creation plans or new processes or significant improvements of existing products or processes. Expenses with respect to software development activities are recognized as an intangible asset if and only if: the development costs are reliably measurable; The product or process are both technologically and commercially feasible; A future economic benefit is expected from the product, and the group has the intention, and sufficient resources, to complete the development and to use the asset. Costs recognized as intangible assets include the cost of materials, direct wage expenses and overhead expenses that are directly attributable to the preparation of the asset for its intended use. Software development costs recognized as intangible assets are measured at cost less accrued amortization and accrued impairment losses (see Note 3(k)(2)).

Other costs with respect to software development activities are charged to income as incurred.

Intangible assets which are created in the group are not systematically amortized so long as they are not available for use, in other words, they are not in the location and condition which are required in order for them to be used in the manner intended by management. Therefore, these intangible assets, such as development costs, are tested for impairment at least once per year, until the date when they become available for use.

Subsequent costs

Subsequent costs are recognized as intangible assets only if they increase the future economic benefit embodied in the asset for which they were spent. The remaining costs, including costs associated with goodwill or with independently developed brands, are charged to the statement of income upon their materialization.

Useful lifetime
The estimated useful lifetime for the current period and comparative periods is as follows (in years):

Future management fees from pension operations	30
Future management fees from provident fund operations	7-18
Customer portfolios and brand	10-15
Acquisition costs with respect to insurance portfolios	15
Software programs	3-10

Note 3 - Significant Accounting Policies (Cont.)

H. Intangible assets (Cont.)

2. Other intangible assets (Cont.)

Classification of amortization and impairment losses

The current amortization with respect to intangible assets, including expenses involved in the acquisition of life and non-life insurance portfolios, and excluding software programs, is charged to the statement of income under the item for other expenses.

The depreciation of computer programs is charged to purchasing, distribution and other expenses, indirect expenses for claim settlement, or general and administrative expenses, in accordance with the designation of the software programs in question.

Impairment loss is charged to the item for "Impairment of intangible assets".

I. Investment property

Investment property includes any property (land or building, or part of a building, or both) which is held by the group, as the owner or under a financial lease, for the purpose of generating rental income and/or for the purpose of capital appreciation, or both, and not for the purpose of providing services, or for administrative purposes.

Investment property is measured for the first time at cost plus expenses which are directly attributable to the acquisition of the investment property. The cost of investment property under self construction includes materials and direct labor, as well as other costs which are directly attributable to bringing the asset to the required condition in order to allow it to operate in the manner intended by management.

In subsequent periods, the company chose to measure the investment property at fair value, with the changes in fair value charged to the statement of income, under the item for income (losses) from investments, net, and financing income. Investment property under construction that is designated for future use as investment property is also measured at fair value, as above, at such time as the fair value becomes reliably measurable. However, in cases where the fair value is not reliably measurable, due to the nature and scope of the risks associated with the project, the property is measured according to the fair value of the land plus construction costs, less impairment losses, if any, until the completion of construction, or until a date when the fair value is reliably measurable, whichever is earlier.

An asset is transferred from investment property to property, plant and equipment when a change in use occurs, such as the commencement of use of an asset by the owner. The cost of the asset that is transferred from investment property to property, plant and equipment constitutes its fair value as of the date of change.

Profit or loss from the write-off of investment property is determined by comparing the consideration from the write-off of the asset to its book value as of the last financial reporting date, and is recognized in the item for profit (loss) from investments, net, and financing income, in the statement of income. When investment property which was classified in the past as an investment property item is sold, the revaluation reserve which is included under capital with respect to the investment property is transferred directly to retained earnings.

J. Leases

Leases, including land leases from the Israel Land Administration, or from other third parties, in which the group significantly bears all risks and returns from the property, are classified as finance leases. Upon initial recognition, the leased properties are measured according to an amount equal either to the property's fair value, or to the present value of the minimum future leasing fees, whichever is lower. Future payments for the exercise of an option to extend the lease period vis-a-vis the Israel Land Administration are not recognized as part of the relevant asset and liability, since they constitute conditional lease fees which are derived from the fair value of the land on the future renewal dates of the lease agreement.

Note 3 - Significant Accounting Policies (Cont.)

J. Leases (Cont.)

After initial recognition, the asset is treated in accordance with the accounting policy uses for assets of this type. The liability with respect to leasing payments is presented at present value, with the lease payments allocated to financing expenses, and repayment of the liability with respect to the lease calculated using the effective interest method.

The remaining leases are classified as operating leases, and the leased properties are not recognized in the group's statement of financial position.
In leases of land and buildings, the land and building components are tested separately for the purpose of classifying the leases, where a significant consideration in the classification of the land component is the fact that land generally has an undefined lifetime.

Lease payments and receipts

Payments within the framework of operating leases, excluding contingent lease fees, are applied to the statement of income using the straight line method throughout the lease period.

When the company recognizes an asset in an operating lease, the lease receipts are recognized as income under profit or loss using a straight line over the lease period. Contingent lease receipts are applied to the statement of income as income on the date when the company is entitled to receive them.

Determination regarding whether an arrangement includes a lease

At the beginning of the arrangement or upon its re-evaluation, the group determines whether an arrangement is a lease, or whether it contains a lease. An arrangement is considered a lease, or as containing a lease, provided the following two conditions are met: The fulfillment of the arrangement depends on the use of a specific asset or assets; and the arrangement contains the right to use the asset.

K. Impairment

1. Non-derivative financial assets

The group reviews, for each reporting date, whether objective evidence exists which indicates impairment with respect to the following financial assets or groups of financial assets:

Financial assets at amortized cost

When objective evidence of impairment is found to exist, a test is performed to evaluate the need for recognition of an impairment loss. For material financial assets, the need for impairment is evaluated for each asset on a separate basis. For the remaining financial assets, the need for impairment is evaluated on a collective basis, based on groups with similar credit risk characteristics. Objective evidence for impairment, with regard to assets which are included under the loans and receivables groups, exists when one or more events occurred which adversely impacted the estimate of future cash flows expected to arise from the asset or group of assets with similar credit risk characteristics (hereinafter: the "**Asset**") after the recognition date. Evidence of impairment includes indicators of financial difficulty, including liquidity difficulties and the inability to make principal or interest payments. The loss amount charged to the statement of income is measured as the difference between the asset's balance in the financial statements and the present value of estimated future cash flows (which does not include future credit losses that have not yet materialized), which are discounted according to the financial asset's original effective interest rate (the effective interest rate calculated upon initial recognition). If the financial asset bears variable interest, the discount is performed according to the current effective interest rate. The balance for the asset in the financial statements is reduced by means of a recording provision. In subsequent periods, impairment loss is canceled when the retrieval of the asset's value is objectively attributable to an event that occurred after recognition of the loss. Such cancellation is charged to the statement of income up to the amount of amortized cost which would have existed as of the date of the impairment's cancellation, had the impairment not been recognized.

Note 3 - Significant Accounting Policies (Cont.)

K. Impairment (Cont.)

1. Non-derivative financial assets (Cont.)

Available for sale financial assets

With respect to available for sale financial assets which constitute capital instruments, the objective evidence of impairment includes significant or ongoing decline in the fair value of the asset below its cost, as well as evaluation of changes in the technological, economical or legal environment, or in the market environment in which the company that issued the instrument operates. The evaluation of significant or ongoing impairment is dependent on the circumstances prevailing as of each financial reporting date, where such evaluation includes taking into account the historical volatility of fair value, and also the duration of time in which the asset's fair value is lower than its original cost. Furthermore, in accordance with the group's policy, a decline in fair value at a rate of 20% or higher relative to cost, as of the reporting date, or a decline which continued for over nine months (even if at a lower rate), constitutes objective evidence of impairment. When objective evidence of impairment exists, the cumulative losses charged to capital reserves, which are measured as the difference between the acquisition cost (less previous impairment losses) and the fair value, are transferred from the capital reserves and recognized as an impairment loss in the statement of income. In subsequent periods, any additional decrease in fair value is recognized as an impairment loss; Cancellation of impairment loss is not applied to the statement of income, but rather, is applied to capital reserve as other comprehensive income.

With respect to available for sale financial assets which constitute debt instruments, objective evidence for impairment exists when one or more events occurred which adversely impacted the estimate of future cash flows expected to arise from the asset after the investment date, and when such impact can be reliably measured. Evidence of impairment includes indicators of financial difficulty, including liquidity difficulties and the inability to make principal or interest payments. When objective evidence of impairment exists, the cumulative losses charged to capital reserves, which are measured as the difference between the purchase cost (less previous impairment losses, amortization using the effective interest method and previous impairment losses) and the fair value, are transferred from the capital reserve and recognized as an impairment loss in the statement of income. In subsequent periods, any additional decrease in fair value is recognized as impairment loss; Impairment loss is canceled when the increase in fair value is objectively attributable to an event which occurred after the recognition of the impairment loss, and which was included in the original impairment calculation. A cancellation due to an increase in fair value as above, is charged to the statement of income up to the amount of amortized cost which should have existed as of the date of the impairment's cancellation, had the impairment not been recognized.

2. Non-financial assets

Timing of impairment test

The book value of the group's non-financial assets that do not constitute deferred acquisition costs, investment property and deferred tax assets, is tested for each reporting date in order to determine the existence of impairment financial indicators. In the event that such indicators are found to exist, the asset's estimated recoverable amount is calculated. Once per year, on a fixed date, with respect to each cash generating unit which includes goodwill, or intangible assets with an undefined lifetime or which are not yet available for use, the group performs an assessment of the recoverable amount. This is performed on a more frequent basis if impairment indicators have been found.

Determination of cash generating units

For the purpose of the impairment test, the assets are grouped into the smallest group generating cash flows from continuous use, and which are primarily independent of other assets and groups (hereinafter: "**Cash Generating Unit**").

Note 3 - Significant Accounting Policies (Cont.)

K. Impairment (Cont.)

2. Non-financial assets (Cont.)

Measurement of recoverable amount

The recoverable amount of an asset, or of a cash generating unit, is the higher of either the value in use or the fair value less disposal expenses. When determining value in use, the group discounts projected future cash flows according to the discount rate before tax, which reflects market assessments regarding the time value of money, and the specific risks relevant to a particular asset or cash generating unit, with respect to which the future cash flows which are expected to arise from the asset or from the cash generating unit have not been adjusted.

Allocation of goodwill to cash generating units

Cash generating units to which goodwill has been allocated are grouped in a manner whereby the level on which the goodwill impairment was tested reflects the lowest level on which the goodwill is monitorable for the purpose of internal reporting, although in any case, it is no larger than the operating segment (before grouping similar segments - see Note 3(c) regarding the definition of operating segments). In cases where goodwill is not monitored for internal management purposes, the goodwill is allocated to operating segments (before grouping similar segments). Goodwill acquired as part of a business combination is allocated to cash-generating units, including those which existed in the group also prior to the business combination, and which are expected to produce benefits from the synergy of the combination.

For the purpose of testing the impairment of goodwill, where non-controlling interests were measured for the first time according to their relative share in the net assets of the acquired entity, the group chose to reflect the book value of the goodwill according to the group's holding rate in the cash generating unit to which the goodwill is allocated.

Headquarter assets

Headquarter assets do not produce separate cash flows, and are used for more than one cash generating unit. A part of the headquarters' assets are allocated to cash generating units on a reasonable and consistent basis, and are evaluated for impairment as part of the impairment test performed with respect to the cash generating units to which they are allocated. Other headquarters' assets, which cannot be reasonably and consistently allocated to cash generating units, are allocated to the group for cash generating units in the event that indicators exist which signify that impairment has occurred in the asset belonging to the company's headquarters, or when indicators exist which signify that impairment has occurred in the group for cash generating units. In this case, the recoverable amount of the cash generating unit used by the headquarter asset is determined.

Recognition of impairment loss

Impairment losses are recognized when the book value of the asset or of the cash generating unit exceed the recoverable amount, and are applied to the statement of income. As regards cash generating units which include goodwill, an impairment loss is recognized when the book value of the cash generating unit, after embodiment of the balance of goodwill, exceeds its recoverable amount. Impairment losses which are recognized with respect to cash generating units are initially allocated towards the amortization of the book value of the goodwill attributed to such units, and are later proportionally attributed to the amortization of the book value of the other assets in the cash generating unit.

Allocation of impairment loss for non-controlling interests

The company chose to allocate impairment loss between the owners of the company and non-controlling interests according to the same basis which is used to allocated profit or loss.

Note 3 - Significant Accounting Policies (Cont.)

K. Impairment (Cont.)

2. Non-financial assets (Cont.)

Cancellation of impairment loss

Loss from goodwill impairment is not canceled. With respect to other assets for which impairment losses were recognized in previous periods, on each reporting date, an evaluation is performed to ascertain whether indicators exist which signify that such losses have decreased, or no longer exist. The impairment loss is canceled if a change occurred in the estimates used to determine the recoverable amount, only in the event that the asset's book value, after cancellation of the impairment losses, does not exceed the book value less depreciation or amortization which would have been determined had the impairment loss not been recognized.

3. Associate companies and joint arrangements accounted by the equity method

The company determines, on each reporting date, after applying the equity method, whether objective evidence of impairment exists, and whether it will be necessary to recognize impairment loss with respect to the investment in investee companies accounted by the equity method (hereinafter: the "**Investment**").

The impairment test is conducted with respect to the investment in its entirety, including the goodwill attributed to the investee company accounted by the equity method (hereinafter: the "**Investee Company**"). In the event that such objective evidence is found to exist, impairment loss is recognized in the amount of the difference between the recoverable amount of the investment and its value in the financial statements. The recoverable amount is the higher of either fair value or value in use, which is calculated based on a valuation of the net cash flows which are expected to arise from the investee, including cash flows from the activities of the investee, and the consideration from the final disposal of the investment, or an estimation of the present value of the estimated future cash flows which are expected to arise from the dividends which will be received, and from the final disposal. Such impairment loss is not specifically allocated to the goodwill which is included in the investment, and therefore, in subsequent periods, loss is cancelable up to its full amount, if and only if changes have occurred in the estimates which were used to determine the recoverable amount of the investment, from the date when the impairment loss was last recognized. The book value of the investment, after the cancellation of the impairment loss, may not exceed the book value of the investment which would have been determined according to the equity method, had it not been recognized as an impairment loss.

4. Outstanding premiums

The provision for doubtful debts with respect to premiums whose collection is doubtful, in the opinion of management, is determined specifically based on specific risk assessments, and collectively based on past collection experience in population groups with similar credit risk characteristics.

5. Debts of reinsurers

Non-fulfillment of reinsurers' undertakings towards the company does not release it from its undertakings towards policyholders in accordance with the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the company to incur losses.

Provisions for doubtful debts with respect to the debts of reinsurers whose collection is in doubt are performed on the basis of individual risk assessments. Additionally, when determining the share of reinsurers in outstanding claims and in insurance reserves, the consolidated companies take into account, inter alia, an evaluation of the possibility of collecting from the reinsurers. When the share of the above reinsurers is calculated on an actuarial basis, the share of such reinsurers in these difficulties is calculated by the actuary, in consideration of all risk factors. Additionally, the consolidated companies take into account, when preparing the provisions, inter alia, the willingness of reinsurers to reach "cut off" agreements (in which contractual agreements are terminated by means of final repayment of the debts).

Note 3 - Significant Accounting Policies (Cont.)

L. Employee benefits

1. Post-employment benefits

The group has several post-employment benefit plans. The plans are generally financed by deposits to insurance companies and to pension funds, and are classified as defined deposit plans and as defined benefit plans.

A. Defined deposit plans

A defined deposit plan is a post-employment plan in which the group pays fixed payments to a separate entity, without having a legal or implicit obligation to make additional payments. The group's obligations to deposit sums in a defined deposit plan are charged as an expense to the statement of income, in the periods during which the employees have provided related services.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan which is not a defined deposit plan. A net liability of the group which refers to a defined benefit plan with respect to post-employment benefits is calculated for each plan separately, by estimating the future amount of the benefit which will be owed to the employee in consideration of his services, in the current period and in previous periods. This benefit is presented at present value less the fair value of plan assets. The group determines the net liability on the liability (asset), net, with respect to the defined benefit, by multiplying the liability (asset), net with respect to the defined benefit by the discount rate which was used to measure the liability with respect to defined benefit, as both were determined at the beginning of the annual reporting period. The discount rate was determined according to the yields, as of the reporting date, of high quality corporate bonds, whose currency is the NIS, and whose repayment date is similar to the terms of the group's liability. The calculations are performed by a certified actuary, based on the forecasted eligibility unit.

When the results of these calculations lead to the creation of an asset for the group, an asset is recognized up to the net amount of the present value of the economic benefits which are available in the form of a repayment from the plan, or a reduction in the future deposits to the plan. An economic benefit in the form of repayments or reductions in future deposits will be considered available when it is realizable over the plan's lifetime, or after settlement of the liability. This calculation will take into account minimum deposit requirements, if they are relevant to the plan.

The remeasurement of the liability (asset), net, with respect to the defined benefit, includes actuarial profit and loss, return on plan assets (excluding interest), and any change in the impact on the assets limit (insofar as is relevant, excluding interest). According to the group's choice, re-measurements are immediately applied, through other comprehensive income, directly to retained earnings. Interest costs with respect to defined benefit liabilities, interest income with respect to plan assets and interest with respect to the impact on the limit of assets which were applied to the statement of income, are presented under the item for general and administrative expenses.

When an improvement or reduction has occurred in the benefits provided by the group to employees, that part of the increased benefits which is attributed to the past service of employees, or the profit or loss from the reduction, is immediately recognized under profit or loss when the correction or reduction of the plan takes place.

The group recognizes profit or loss from the settlement of a defined benefit plan when the settlement takes place. Such profit or loss constitutes the difference between the settled part of the present value of the defined benefit liability on the settlement date and the settlement price, including transferred plan assets.

Insurance policies with respect to termination of employer - employee relationships that were issued by a subsidiary, Clal Insurance, do not constitute plan assets, and are presented as a reduction of the liability with respect to the insurance contracts.

Note 3 - Significant Accounting Policies (Cont.)

L. Employee benefits (Cont.)

2. Other long term employee benefits

The group's net liability with respect to long term employee benefits which do not refer to post-employment benefit plans, applies to the future benefit amount owed to employees with respect to services provided during the current period and previous periods. The total amount of such benefits is discounted to its present value, and is presented after deduction of the fair value of the assets attributable to the obligation in question. The discount rate is determined according to the returns as of the reporting date of high quality corporate bonds whose currency is the NIS, and whose repayment date is similar to the terms of the group's liabilities. The calculation is performed based on the forecasted eligibility unit.
Actuarial gains and losses are charged to the statement of income for the period in which they were created.

3. Severance benefits

Severance benefits are recognized as an expense when the group has clearly committed, without any real possibility of cancellation, to the dismissal of employees before they reach the conventional retirement age according to a detailed formal plan, or to provide severance benefits as a result of an offer which was made in order to encourage voluntary retirement. Benefits provided to employees upon voluntary retirement are charged when the group has provided to employees a plan encouraging voluntary retirement, when it is expected that the offer will be accepted, and when the number of individuals accepting the offer can be reliably estimated.

4. Short term employee benefits

Short term employee benefits are benefits whose full settlement is expected earlier than 12 months after the end of the reporting period during which the employees provide the services in question. Liabilities with respect to short term employee benefits are measured on a non-discounted basis, and the expense is charged upon provision of the service in question, or in the event of non-cumulative absences (such as maternity leave) - upon actual absence. A provision with respect to short term employee benefits for cash bonus or profit sharing plans is recognized in the amount expected for payment when the group has a current legal or implicit liability to pay the amount in question with respect to a service provided by the employee in the past, and where the liability is reliably measurable.

5. Share-based payment transactions

The fair value on the allocation date of share-based payment bonuses to employees is applied as a payroll expense under profit and loss in parallel the increase in capital, over the period when the employees' eligibility to capital instruments is obtained, i.e., the period when the performance and/or service conditions are fulfilled (hereinafter: the "**Vesting Period**"). The vesting period concludes on the date when the relevant employees are entitled to compensation (hereinafter: the "**Vesting Date**"). According to the group's policy choice, the increase in capital is applied to the item for retained earnings.

The cumulative expenses recognized on each reporting date with respect to transactions settled by capital instruments until the maturity date reflects the rate of passage of the vesting period, and the group's best estimate of the number of capital instruments that will eventually vest. The debit or credit in the statement of income reflects the change in cumulative expenses recognized at the beginning and end of the reporting period. Expense with respect to allocations which will not finally mature are not recognized.

Note 3 - Significant Accounting Policies (Cont.)

M. Provisions

A provision is recognized when the group has a current legal or implicit liability as a result of an event which occurred in the past, and which is reliably measurable, and when it is more likely that not that a negative flow of economic benefits will be required in order to settle the liability. The company has chosen to determine the provisions when the impact of the value of time is significant, by discounting the future cash flow according to the pre-tax interest rate which reflects the current market estimates regarding the time value of money and the specific risks associated with the liability. The book value of the provision is adjusted in each period in order to reflect the passage of time.

The group recognizes an indemnification asset if it is virtually certain that the indemnification will be received in the event that the company settles the obligation. The amount recognized with respect to the indemnification does not exceed the provision amount.

Legal claims
Legal claims which possess unique characteristics are not grouped, but rather are evaluated separately. A provision with respect to unasserted claims is recognized in accordance with the claim's overall chance of success, if filed, against the group's member companies (based on the probability that the claim will be filed, and the probability that the claim will succeed).

Onerous contracts
A provision for onerous contracts is recognized when the benefits which are expected to be received from the contracts by the group are lower than the unavoidable costs due to the fulfillment of its onerous contract obligations. The provision is measured as the lower of either the present value of the expected cost to terminate the agreement and the present value of the net expected cost of continuing the agreement. Before the provision is recognized, the group recognizes impairment of the assets associated with that agreement, if any.

N. Recognition of income

1. Premiums

A. Long term savings segment and health segment

Premiums in the life insurance, long term care and long term health branches, including savings premiums, and excluding receipts with respect to investment contracts, are recorded as income when they come due.

Premiums in the short term health branch are recorded as income based on monthly output reports.

Cancellations are recorded on the date the announcement is received from the policy owner, or when initiated by the company due to arrears in payment, subject to the provisions of the law. Policyholders' participation in profits is deducted from the premiums.

B. Non-life insurance segment
Premiums in the non-life insurance segment are recorded as income based on monthly output reports. Premiums primarily involve an insurance period of one year. Gross premium income, and changes in unearned premiums in respect thereof, are recorded under the item for earned premiums, gross.

Premiums in the compulsory motor branch are recorded upon repayment of the premium, since the insurance coverage is conditional on payment of the premium.

Premiums from insurance contracts whose commencement date is after the end of the reporting period are recorded as accrued income.

The income included in the financial statements is after cancellations received from the policy owners, and less cancellations and provisions due to non-repayment of premiums, subject to the provisions of the law, and less participation in earnings on the basis of agreements which are in force.

Note 3 - Significant Accounting Policies (Cont.)

N. Recognition of income (Cont.)

2. Income (loss) from investments, net, and financing income

Income (loss) from investments, net, and financing income, includes income from interest and linkage differentials with respect to invested sums (including available for sale financial debt assets), dividend income, net income (loss) from the sale of financial assets classified as available for sale, changes in the net fair value of financial assets at fair value through profit or loss, net income (loss) from foreign currency with respect to assets, changes in the fair value of investment property, income (loss) with respect to the write-off of investment property, and rental income from investment property less attributable expenses.

Interest income and premium amortization or deductions are recognized upon their accrual, using the effective interest method.

Income from dividends which are recognized on the date of eligibility for payment. In the event that the dividend is received with respect to marketable shares, the group recognizes the dividend income on day X.

Rental income from investment property is recognized under profit and loss according to the straight line method, over the lease period. Allocated lease incentives are recognized as an inseparable part of total rental income over the lease period.

Gains and losses from exchange foreign currency differences and changes in the fair value of investments are reported net.

3. Income from management fees

A. Management fees for investment-linked insurance contracts

The management fees are calculated in accordance with the instructions issued by the Commissioner, on the basis of the returns and the accrual of policyholders’ savings in the profit sharing portfolio. The management fees include the following components:
With respect to insurance contracts which were sold beginning on January 1, 2004 - fixed management fees only;
With respect to insurance contracts which were sold until December 31, 2003 - fixed and variable management fees.

Fixed management fees are calculated using fixed rates from the savings accrual, and are recorded on an accrual basis.

Variable management fees are calculated as a rate of real annual profit (from January 1 to December 31) which is applied to the insurance contract after deducting the fixed management fees which were collected from that insurance contract. Only positive variable management fees may be collected, less negative amounts accrued in previous years. Variable management fees are calculated on the level of the single policy (see also Note 31).
Over the course of the year, variable management fees are recorded on an accrual basis in accordance with the real monthly return, insofar as this is positive. For months in which the real return was negative, the variable management fees are reduced to the cumulative amount of variable management fees charged from the beginning of the year. Negative returns for which no reduction of management fees was performed during the current year will be deducted for the purpose of calculating the management fees from positive returns in subsequent periods.

B. Management fees from pension funds and provident funds

Income from management fees in pension funds and provident funds is applied based on the balances of managed assets and receipts from members on an accrual basis, according to the Commissioner’s directives.

Note 3 - Significant Accounting Policies (Cont.)

N. Recognition of income (Cont.)

4. Income from commissions

A. Life insurance
Income from life insurance commissions in consolidated insurance agencies is applied based on the date of eligibility to receive commissions, according to the agreements with the insurance companies, less provisions for repayment of fees due to expected cancellations of insurance policies.

B. Non-life insurance
Income from commissions in non-life insurance in the consolidated insurance agencies are applied upon their materialization.

C. Reinsurance
Income from reinsurance commissions in life insurance, health insurance and non-life insurance is applied upon its materialization.

O. General and administrative costs and expenses

General and administrative costs and expenses are classified under indirect claim settlement expenses (which are included under the item for payments and changes in liabilities with respect to insurance contracts and investment contracts), expenses associated with acquisition (which are included under the item for commissions, marketing expenses and other acquisition expenses), and the balance of other general and administrative expenses which are included in this item. The classification was made according to the group's internal models, and according to the identification and loading of overhead expenses.

P. Financing expenses

Financing expenses include interest expenses, linkage differentials and foreign currency differences on received loans and other credit costs, interest and linkage differentials on deposits and balances of reinsurers, changes with respect to the value of time in provisions. Profit and loss from foreign currency differences are reported net.

Non-discounted borrowing costs are applied to the statement of income according to the effective interest method.

Q. Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are applied to the statement of income unless the tax is due to a business combination, or are applied directly to capital or to other comprehensive income if they are due to items which are recognized directly other comprehensive income under capital or are recognized directly, respectively.

Current taxes

Current tax is the tax amount which is expected to be paid (or received) on taxable income for the year, calculated according to the applicable tax rates in accordance with laws which were enacted, or which were effectively enacted, as of the reporting date. Current taxes also include changes in tax payments in reference to previous years.

The group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax assets and liabilities, and if there is an intention to settle current tax assets and liabilities on a net basis, or if the current tax assets and liabilities are settled simultaneously.

Uncertain tax positions

A tax liability with respect to uncertain tax positions, including additional tax expenses and interest, is recognized when it is more likely than not that the group will be required to make use of its economic resources to settle the obligation.

Note 3 - Significant Accounting Policies (Cont.)

Q. Taxes on income (Cont.)

Deferred taxes

Deferred taxes are recognized using the balance sheet method, with respect to the temporary differences between the book value of assets and liabilities for the purpose of financial reporting, and their value for tax purposes. The group does not recognize deferred taxes with respect to the following temporary differences: initial recognition of goodwill; initial recognition of assets and liabilities in a transaction which does not constitute a business combination and which does not affect accounting profit and profit for tax purposes; and differences due to investments in investee companies, if the group holds control on the difference reversal date, and they are not expected to reverse in the foreseeable future, whether by way of realization of the investment or by way of a dividend distribution with respect to the investment.

The measurement of deferred taxes reflects the tax implications which will result from the manner by which the group predicts, at the end of the reporting period, the repayment or settlement of the book value of assets and liabilities, according to the tax rate which is expected to apply on the reversal date. Regarding investment property measured using the fair value model, a refutable assumption exists that the book value of the investment property will be repaid by way of sale.

Deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences on the date of their realization, based on the laws that were enacted, or effectively enacted, as of the reporting date. Deferred taxes with respect to subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

Deferred tax assets are recognized in the books with respect to transferred losses and/or deductible temporary differences in the event that taxable income is expected to arise in the future against which the transferred losses and/or deductible temporary differences may be used, or in the absence of projected future taxable income, deferred tax assets are recognized only up to the amount of taxable temporary differences. Deferred tax assets are evaluated for each reporting date, and in the event that the attributable tax benefits are not expected to be realized, they are amortized.

Deferred tax assets which were not recognized are re-evaluated on each reporting date and are recognized if the expectation has changed such that taxable income is expected in the future against which it will be possible to use them.

Offsetting of deferred tax assets and liabilities
The company offsets deferred tax assets and liabilities in the event that a legally enforceable right exists to offset the current assets and liabilities, and they are attributable to the same taxable income, which is taxed by the same tax authority in the same assessed company, or in different companies, which intend to realize deferred tax assets and to settle deferred tax liabilities on a net basis, or where the deferred tax assets and liabilities are settled simultaneously.

Inter-company transactions
Deferred tax with respect to inter-company transactions recorded in the consolidated financial statements is recorded based on the tax rate that applies to the acquiring company.

R. Earnings per share

The company presents data regarding basic and diluted earnings per share for its ordinary share capital.

Basic earnings per share are calculated by dividing the income or loss attributable to the holders of ordinary shares in the company by the weighted average number of ordinary shares which were outstanding during the year.

Diluted earnings per share are determined by adjusting the profit or loss attributed to the holders of ordinary shares in the company, and adjusting the weighted average of the outstanding ordinary shares and with respect to the effects of all potential diluting ordinary shares (i.e., shares which reduce earnings per share or which increase loss per share), including options for shares which were provided to employees.

The average market value of the company’s shares, for the purpose of calculating the diluted impact of the warrants on shares, was based on quoted market prices for the period in which the warrants were outstanding.

Note 4 - New Standards and Interpretations Which Have not Yet Been Adopted

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(1) IFRS 9 (2014), Financial Instruments	IFRS 9 (2014) is the final version of the standard, which includes updated provisions for the classification and measurement of financial instruments, as well as a new model for the measurement of the impairment of financial assets. These provisions were added to the chapter regarding hedge accounting - general, which was published in 2013. <u>Classification and measurement</u> According to the standard, there are three main categories for the measurement of financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income. The classification basis for debt assets is based on the business model of the entity which manages financial assets, and on the characteristics of the financial asset's contractual cash flows. An investment in capital instruments will be measured at fair value through profit and loss (unless the company has chosen, upon initial recognition, to present the changes in fair value under other comprehensive income). The standard requires changes in the fair value of financial liabilities which were designated to fair value through profit and loss which are attributed to changes in the self credit risk to be recognized, for the most part, under other comprehensive income. <u>Hedge accounting - general</u> According to the standard, additional hedging strategies which were used for risk management purposes may qualify for hedge accounting. The standard replaces the current 80%-125% test used to determine the effectiveness of hedging, with a demand for an economic link between the hedged item and the hedging instrument, without determining a quantitative threshold. The standard also presents new models which constitute alternatives to hedge accounting with respect to exposures to credit and to certain contracts which do are not covered by the standard, and establishes new principles for the treatment of hedging instruments. The standard also sets forth new disclosure requirements. <u>Impairment of financial assets</u> The standard includes a new model for the recognition of expected credit losses (the expected credit loss model) with respect to most financial debt assets. The new model presents a dual measurement approach to impairment: if the credit risk attributed to the financial asset has not significantly increased since initial recognition, a provision will be recorded for loss in the amount of the expected credit losses with respect to failure events, when their occurrence is possible in the twelve months subsequent to the reporting date. If the credit risk has significantly increased, in most cases, the provision for impairment will be increased, and will be recorded in the amount of the expected credit losses throughout the entire lifetime of the financial asset.	The standard will be applied with respect to annual periods beginning on January 1, 2018. Early adoption is possible. The standard will be adopted retrospectively, save for certain easements. See also the amendment to IFRS 4, Insurance Contracts, in section (2) below.	The group evaluates the implications of the standard on the financial statements. No change is expected in the method used to measure the value of the assets against investment-linked liabilities. The balance of the capital reserve with respect to available for sale capital financial assets will be transferred to retained earnings, and the changes in the value of such financial assets will also be included under surplus through the statement of income (and will not be recorded based on the rules applicable to available for sale financial assets (see Note 3(f)(1) above). The company is still evaluating the method used to measure HETZ (indexed life) bonds and treasury deposits, which bear guaranteed returns and include a certain margin above the guaranteed returns in liabilities to the policyholders / members against which they are held, as well as the consequences of changes, if any, in the measurement of these assets, on the value of the aforementioned liabilities.

Note 4 - New Standards and Interpretations Which Have not Yet Been Adopted (Cont.)

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(2) Amendment to IFRS 4, Insurance Contracts: Adoption of IFRS 9, Financial Instruments, together with IFRS 4	The amendment presents two optional corrections with respect to the expected adoption of IFRS 9 by insurers: A. Deferral of the adoption date of IFRS 9 to January 1, 2021 (or to an earlier date, if the adoption date of the new standard which is expected to be published in connection with insurance contracts is earlier) for companies whose primary activity is the issuance of insurance contracts which fall under the adoption of IFRS 4, and which have not yet adopted the earlier version of IFRS 9. During the deferral period, the company will continue applying the provisions of IAS 39, Financial Instruments: Recognition and Measurement. Additionally, a company which is applying the deferral option will be required to include various disclosures in its financial statements. These disclosures include, inter alia, disclosures regarding the fair value and changes in the fair value of various groups of financial assets, in accordance with the classification method under IFRS 9, as well as disclosure regarding the exposure to credit risk. B. Adjustment of the results in the adoption of IFRS 9 with respect to financial assets which refer to insurance contracts and which are measured at fair value through profit and loss in accordance with IFRS 9.	The adoption of the easements in the amendment applies as of the adoption date of IFRS 9, and is voluntary for companies which meet the criteria defined in the amendment.	The group is evaluating its fulfillment of the criteria defined in the amendment, for the purpose of deferring the adoption of IFRS 9, as permitted under the amendment.

Note 4 - New Standards and Interpretations Which Have not Yet Been Adopted (Cont.)

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(3) IFRS 15, Revenue from Contracts with Customers	The standard replaces the current provisions regarding the recognition of income, and presents a new model for the recognition of revenue from contracts with customers. The standard determines two methods for the recognition of income: at a single point in time, or over time. The model includes five stages in the analysis of transactions, in order to determine the timing and amount of the recognition of income. The standard also establishes new disclosure requirements which are more extensive than the current requirements.	The standard will be applied with respect to annual period beginning on January 1, 2018. Early adoption is possible. The standard includes various alternatives regarding the implementation of the transitional provisions, such that companies will be able to choose one of the following alternatives, at the time of upon the occurrence of: full retrospective adoption; full retrospective adoption including practical easements; or adoption of the standard beginning on the date of initial adoption, while adjusting the balance of retained earnings as of that date with respect to transactions which have not yet concluded.	According to the group's estimate, following an evaluation of the implications of the application of the standard on the financial statements, its adoption had no significant impact on the company's financial statements.
(4) Amendment to IFRS 2, Share-Based Payment - classification and measurement of share-based payment transactions	The amendment includes reference to the following subjects: A. The fair value measurement of shared-based payment transactions which are settled in cash; B. The treatment method to be applied with respect to changes in share-based payments with respect to which a liability bonus becomes a capital bonus; and the treatment method with respect to a company's undertaking to hold part of the capital instruments which are offered to an employee for the purpose of deducting tax at source, with respect to the bonus.	The standard will be applied prospectively with respect to annual periods beginning on January 1, 2018. Early adoption is possible. Retrospective adoption is possible only if the required information is available.	The group is evaluating the implications of the amendment on the financial statements.

Note 4 - New Standards and Interpretations Which Have not Yet Been Adopted (Cont.)

	Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
5)	**IFRS 16, Leases**	The standard will replace the current guidelines regarding leases under international standards. For lessees, the new standard cancels the current requirement to classify the lease as operational or financial, and presents a single model for the accounting treatment of all leases on the balance sheet (excluding several exceptions), which is similar in nature to the current accounting treatment of financial leases. However, the accounting treatment in the books of the lessors is expected to remain similar to the current accounting treatment.	The standard will be applied with respect to annual periods beginning on or after January 1, 2019. Early adoption is possible, provided that the company also applies, through early adoption, IFRS 15, Revenue from Contracts with Customers. The standard includes various alternatives to the transitional provisions, in a manner which allows companies to choose one of the following alternatives at the time of initial application: full retrospective adoption, or adoption of the standard beginning from the date of initial application, while adjusting the balance of retained earnings as of that date (without restating comparative figures).	The group is evaluating the implications of the amendment on the financial statements.
(6)	**Amendment to IAS 12, Taxes on Income: Recognition of deferred tax assets for unrealized losses**	The amendment clarifies that, for the purpose of recognition of a deferred tax asset, when estimating expected taxable income, the impact of the reversal of at the time of temporary differences should be taken neutralized. This evaluation will be performed separately with respect to different types of deductible temporary differences, if there are restrictions in the tax laws on the types of taxable income against which losses can be used. The amendment further provides that expected taxable income may include income with respect to assets which will be settled in consideration of an amount which is higher than their book value, if there is sufficient evidence indicating it.	The standard will be adopted retrospectively with respect to annual periods beginning on January 1, 2017. Early adoption is possible.	The group is evaluating the implications of the amendment on the financial statements.

Note 4 - New Standards and Interpretations Which Have not Yet Been Adopted (Cont.)

	Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(7)	**Amendments to IAS 7, Statement of Cash Flows, with respect to additional disclosures regarding financial liabilities**	According to the amendments, it is necessary to present the movement between the opening balance and the closing balance of financial liabilities.	The standard will be applied with respect to annual periods beginning on January 1, 2017. Early adoption is possible. Is not necessary to present the additional disclosures with respect to periods prior to the application date.	The group will include the required disclosures in its relevant financial statements.
(8)	**Amendments to IAS 40, Investment Property - Transfers of investment property**	The amendments clarify and provide guidelines regarding the adoption of the provisions of IAS 40, with respect to transfers of investment property or to investment property. The amendments primarily include the determination that the list of events specified in the standard, with respect to transfers of investment property, constitute examples of evidence of changes in the use of the property, and do not constitute a closed list. The amendments also clarify that any change in the intent of management, in itself, does not constitute evidence of change in use.	The amendments will be applied retrospectively beginning with the financial statements for annual periods beginning on January 1, 2018. Early adoption is possible. The amendments allow the choice of partial retrospective adoption, according to which the amendments will be adopted with respect to transfers which took place beginning with the period of initial adoption and thereafter, and the restatement of comparative figures will not be required. In this	The group began evaluating the implications of the adoption of the amendments on the financial statements. At this stage, it is not possible to estimate its effects.
(9)	**IFRIC 22, Foreign Currency Transactions and Advance Consideration.**	The interpretation determines that the transaction date for the purpose of determining the exchange rate for the recording of a transaction in foreign currency which includes advance consideration will be on the date when the company first recognizes a non-monetary asset / liability with respect to the advance consideration. In case of several advance payments or receipts, the company will determine a transaction date for each payment / receipt separately.	The amendments will be applied retrospectively beginning with the financial statements for annual periods beginning on January 1, 2018. Early adoption is possible. The amendments allow the choice of partial retrospective adoption, according to which the amendments will be adopted with respect to transfers which took place beginning with the period of initial adoption and thereafter, and the restatement of comparative figures will not be required. In this	The group began evaluating the implications of the adoption of the amendments on the financial statements. At this stage, it is not possible to estimate the impact of the foregoing.

Note 5 - 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 liability and property insurance, credit insurance, personal accident insurance and other 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, such as the balance of financial services operations, 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 5- Segmental Reporting (Cont.)

B. Additional information regarding the segmental reporting basis

1. The information regarding operating segments was determined based on information reviewed by the Chief Operational Decision Maker for the purpose of reaching decisions with regard to resource allocation and performance assessment.

2. The note regarding operating segments includes several segments which constitute strategic business units of the group. These business units include various products, and are managed separately for the purpose of resource allocation and performance assessment. The products which constitute the basis of each segment are for the most part similar in terms of characteristics, distribution methods, mix of customers, characteristics of the oversight environment, as well as long term economic and demographic characteristics which are derived from exposure with similar characteristics to insurance risks. Additionally, the results in the portfolio of investments held against insurance liabilities may have a significant impact on profitability.

3. The results, assets and liabilities of each segment include items which are directly attributable to the segment, and items which can be reasonably attributed thereto.

   The accounting principles which were applied in the segmental report correspond to the generally accepted accounting principles that were adopted for the purpose of the preparation and presentation of the group's consolidated financial statements.

Note 5- Segmental Reporting (Cont.)

C. Report on operating segments

	Long term savings											
	Provident			Pension			Life insurance [1)]			Total		
NIS in thousands	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Gross premiums earned	**-**	-	-	**-**	-	-	**4,998,993**	4,860,632	4,721,643	**4,998,993**	4,860,632	4,721,643
Premiums earned by reinsurers	**-**	-	-	**-**	-	-	**168,386**	163,571	188,277	**168,386**	163,571	188,277
Premiums earned on retention	**-**	-	-	**-**	-	-	**4,830,607**	4,697,061	4,533,366	**4,830,607**	4,697,061	4,533,366
Income (loss) from investments, net, and financing income	**125,670**	112,571	127,304	**10**	(483)	560	**2,134,693**	2,350,605	3,348,298	**2,260,373**	2,462,693	3,476,162
Income from management fees	**194,052**	232,186	244,792	**276,851**	269,791	254,302	**484,697**	536,524	565,178	**955,600**	1,038,501	1,064,272
Income from commissions	**-**	-	-	**-**	-	-	**38,029**	26,939	52,879	**38,029**	26,939	52,879
Other income (expenses)	**-**	-	(2)	**-**	-	-	**-**	-	-	**-**	-	(2)
Total income	**319,722**	344,757	372,094	**276,861**	269,308	254,862	**7,488,026**	7,611,129	8,499,721	**8,084,609**	8,225,194	9,126,677
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**118,063**	104,878	121,890	**-**	-	-	**6,729,656**	6,710,204	7,733,685	**6,847,719**	6,815,082	7,855,575
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**-**	-	-	**-**	-	-	**(109,637)**	(147,652)	(104,468)	**(109,637)**	(147,652)	(104,468)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**118,063**	104,878	121,890	**-**	-	-	**6,620,019**	6,562,552	7,629,217	**6,738,082**	6,667,430	7,751,107
Commissions, marketing expenses and other acquisition costs	**61,539**	64,689	71,917	**104,854**	109,266	111,741	**642,916**	645,433	700,320	**809,309**	819,388	883,978
General and administrative expenses	**98,314**	98,450	89,809	**127,061**	118,423	93,030	**361,014**	341,315	314,690	**586,389**	558,188	497,529
Impairment of intangible assets	**28,877**	-	-	**535**	-	962	**2,585**	3,018	8,009	**31,997**	3,018	8,971
Other expenses	**4,865**	5,896	10,366	**-**	1,585	80	**519**	1,801	6,447	**5,384**	9,282	16,893
Financing expenses (income)	**1**	2	4	**(25)**	376	14	**3,818**	1,562	5,233	**3,794**	1,940	5,251
Total expenses	**311,659**	273,915	293,986	**232,425**	229,650	205,827	**7,630,871**	7,555,681	8,663,916	**8,174,955**	8,059,246	9,163,729
Share in the results of investee companies, net	**-**	-	-	**(986)**	(392)	(157)	**11,099**	4,167	1,502	**10,113**	3,775	1,345
Income (loss) before taxes on income	**8,063**	70,842	78,108	**43,450**	39,266	48,878	**(131,746)**	59,615	(162,693)	**(80,233)**	169,723	(35,707)
Other comprehensive income (loss) before taxes on income	**-**	-	-	**37**	(681)	153	**19,069**	(124,907)	191,922	**19,106**	(125,588)	192,075
Total comprehensive income (loss) before taxes on income	**8,063**	70,842	78,108	**43,487**	38,585	49,031	**(112,677)**	(65,292)	29,229	**(61,127)**	44,135	156,368
1) Total premiums (including premiums with respect to investment contracts, which were applied directly to reserve)							**5,468,697**	5,660,535	5,262,448	**5,468,697**	5,660,535	5,262,448

Note 5- Segmental Reporting (Cont.)

C. Report on operating segments (Cont.)

	Health			Non-life			Other		
NIS in thousands	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Gross premiums earned	**1,798,776**	1,674,136	1,615,842	**2,314,579**	2,522,324	2,695,758	-	-	-
Premiums earned by reinsurers	**212,416**	186,941	193,677	**661,445**	706,870	751,397	-	-	-
Premiums earned on retention	**1,586,360**	1,487,195	1,422,165	**1,653,134**	1,815,454	1,944,361	-	-	-
Income from investments, net, and financing income	**101,165**	116,238	204,565	**138,421**	203,070	225,363	**6,162**	9,705	12,853
Income from management fees	-	-	-	-	-	-	**5,974**	5,974	5,975
Income from commissions	**4,461**	18,425	2,681	**133,647**	140,143	147,171	**120,524**	115,288	116,595
Other income	-	-	-	**72**	85	62	**1,347**	1,746	4,548
Total income	**1,691,986**	1,621,858	1,629,411	**1,925,274**	2,158,752	2,316,957	**134,007**	132,713	139,971
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**1,227,856**	1,153,321	1,283,975	**1,611,703**	1,578,083	1,519,326	-	-	-
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(189,484)**	(159,246)	(169,176)	**(357,905)**	(435,722)	(245,713)	-	-	-
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**1,038,372**	994,075	1,114,799	**1,253,798**	1,142,361	1,273,613	-	-	-
Commissions, marketing expenses and other acquisition costs	**395,825**	372,821	343,957	**587,893**	610,444	621,987	**89,803**	87,747	88,293
General and administrative expenses	**56,071**	53,368	48,652	**66,581**	65,699	64,043	**16,727**	15,962	24,075
Impairment of intangible assets	-	-	4,300	**1,249**	-	1,200	-	1,616	6,539
Other expenses	-	116	182	-	7,033	-	**3,183**	3,294	6,804
Financing expenses (income)	**5,263**	4,382	8,506	**(600)**	(670)	26,773	**780**	1,803	31,863
Total expenses	**1,495,531**	1,424,762	1,520,396	**1,908,921**	1,824,867	1,987,616	**110,493**	110,422	157,574
Share in the results of investee companies, net	**6,163**	843	241	-	-	-	**207**	341	306
Income (loss) before taxes on income	**202,618**	197,939	109,256	**16,353**	333,885	329,341	**23,721**	22,632	(17,297)
Other comprehensive income (loss) before taxes on income	**13,473**	(20,423)	5,311	**(29,486)**	(65,960)	(6,278)	**617**	1,124	1,167
Total comprehensive income (loss) before taxes on income	**216,091**	177,516	114,567	**(13,133)**	267,925	323,063	**24,338**	23,756	(16,130)

Note 5- Segmental Reporting (Cont.)

C. Report on operating segments (Cont.)

	Not allocated to segments			Adjustments and offsets			Total		
NIS in thousands	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Gross premiums earned	**-**	-	-	**(2,345)**	(2,367)	(3,831)	**9,110,003**	9,054,725	9,029,412
Premiums earned by reinsurers	**-**	-	-	**-**	-	-	**1,042,247**	1,057,382	1,133,351
Premiums earned on retention	**-**	-	-	**(2,345)**	(2,367)	(3,831)	**8,067,756**	7,997,343	7,896,061
Income from investments, net, and financing income	**110,824**	219,331	131,197	**(571)**	(644)	(4,623)	**2,616,374**	3,010,393	4,045,517
Income from management fees	**-**	-	-	**(5,117)**	(5,078)	(5,107)	**956,457**	1,039,397	1,065,140
Income from commissions	**-**	-	-	**(70,243)**	(62,072)	(65,182)	**226,418**	238,723	254,144
Other income	**-**	261	27,048	**-**	3	13	**1,419**	2,095	31,669
Total income	**110,824**	219,592	158,245	**(78,276)**	(70,158)	(78,730)	**11,868,424**	12,287,951	13,292,531
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**-**	-	-	**(2,471)**	(4,147)	(5,119)	**9,684,807**	9,542,339	10,653,757
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**-**	-	-	**-**	-	-	**(657,026)**	(742,620)	(519,357)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**-**	-	-	**(2,471)**	(4,147)	(5,119)	**9,027,781**	8,799,719	10,134,400
Commissions, marketing expenses and other acquisition costs	**-**	-	-	**(68,631)**	(60,170)	(64,592)	**1,814,199**	1,830,230	1,873,623
General and administrative expenses	**57,066**	63,512	53,595	**(9,482)**	(3,603)	(6,425)	**773,352**	753,126	681,469
Impairment of intangible assets	**1,000**	-	-	**-**	-	-	**34,246**	4,634	21,010
Other expenses	**5,272**	11,619	16,756	**923**	1,433	303	**14,762**	32,777	40,938
Financing expenses (income)	**150,919**	132,066	146,445	**(461)**	(333)	(979)	**159,695**	139,188	217,859
Total expenses	**214,257**	207,197	216,796	**(80,122)**	(66,820)	(76,812)	**11,824,035**	11,559,674	12,969,299
Share in the results of investee companies, net	**24,996**	21,833	40,566	**-**	-	-	**41,479**	26,792	42,458
Income (loss) before taxes on income	**(78,437)**	34,228	(17,985)	**1,846**	(3,338)	(1,918)	**85,868**	755,069	365,690
Other comprehensive income (loss) before taxes on income	**12,614**	(102,709)	(20,109)	**432**	3,332	38,501	**16,756**	(310,224)	210,667
Total comprehensive income (loss) before taxes on income	**(65,823)**	(68,481)	(38,094)	**2,278**	(6)	36,583	**102,624**	444,845	576,357

Note 5- Segmental Reporting (Cont.)

D. Additional information regarding the main insurance branches included in the non-life insurance segment

	Liability branches					
	Compulsory motor			**Liabilities and other branches [1]**		
NIS in thousands	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Gross premiums	**438,306**	454,704	542,751	**310,259**	325,391	344,003
Reinsurance premiums	**15,572**	17,389	20,030	**97,292**	98,739	112,233
Premiums on retention	**422,734**	437,315	522,721	**212,967**	226,652	231,770
Change in unearned premium balance, on retention	**27**	40,123	5,740	**4,299**	4,585	2,255
Premiums earned on retention	**422,761**	477,438	528,461	**217,266**	231,237	234,025
Income from investments, net, and financing income	**69,798**	99,809	105,910	**42,827**	59,170	62,988
Income from commissions	-	-	-	**13,254**	10,031	11,306
Other income	-	-	-	-	-	-
Total income	**492,559**	577,247	634,371	**273,347**	300,438	308,319
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**352,883**	230,109	342,433	**426,299**	160,623	237,270
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(33,614)**	(735)	1,316	**(191,478)**	(23,215)	(71,320)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**319,269**	229,374	343,749	**234,821**	137,408	165,950
Commissions, marketing expenses and other acquisition costs	**75,411**	76,018	75,124	**98,896**	95,789	89,484
General and administrative expenses	**9,813**	9,257	10,897	**6,946**	6,624	6,950
Impairment of intangible assets	-	-	271	**143**	-	170
Other expenses	-	-	-	-	-	-
Financing income (expenses)	-	-	-	**174**	(70)	372
Total expenses	**404,493**	314,649	430,041	**340,980**	239,751	262,926
Income (loss) before taxes on income	**88,066**	262,598	204,330	**(67,633)**	60,687	45,393
Other comprehensive income (loss) before taxes on income	**(14,730)**	(31,857)	(4,203)	**(9,031)**	(18,841)	(2,434)
Total comprehensive income (loss) before taxes on income	**73,336**	230,741	200,127	**(76,664)**	41,846	42,959
Liabilities with respect to insurance contracts						
Gross	**2,380,386**	2,566,840	2,904,175	**2,490,718**	2,419,866	2,600,361
Reinsurance	**119,659**	103,484	131,162	**974,912**	873,100	901,175
Retention	**2,260,727**	2,463,355	2,773,013	**1,515,806**	1,546,766	1,699,186

1) Other liability branches primarily include the results of the third party liability and professional liability insurance branches, the activity in which accounts for approximately 68% of total premiums in these branches. (In 2015 - 66%; in 2014 - 62%).

Note 5- Segmental Reporting (Cont.)

D. 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		
NIS in thousands	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Gross premiums	**634,508**	639,097	746,709	107,027	103,121	100,205	**742,580**	872,976	929,796	**2,232,680**	2,395,289	2,663,464
Reinsurance premiums	**2,756**	4,446	2,632	52,722	49,572	48,813	**477,295**	495,004	555,519	**645,637**	665,150	739,227
Premiums on retention	**631,752**	634,651	744,077	54,305	53,549	51,392	**265,285**	377,972	374,277	**1,587,043**	1,730,139	1,924,237
Change in unearned premium balance, on retention	**(7,631)**	45,527	3,953	(81)	(103)	(237)	**69,477**	(4,817)	8,413	**66,091**	85,315	20,124
Premiums earned on retention	**624,121**	680,178	748,030	54,224	53,446	51,155	**334,762**	373,155	382,690	**1,653,134**	1,815,454	1,944,361
Income from investments, net, and financing income	**10,901**	19,242	17,935	691	3,394	6,709	**14,204**	21,455	31,821	**138,421**	203,070	225,363
Income from commissions	**26**	(10)	(15)	16,611	16,366	18,954	**103,756**	113,756	116,926	**133,647**	140,143	147,171
Other income	-	-	-	72	85	62	-	-	-	**72**	85	62
Total income	**635,048**	699,410	765,950	71,598	73,291	76,880	**452,722**	508,366	531,437	**1,925,274**	2,158,752	2,316,957
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**437,796**	546,742	547,761	47,891	121,699	25,854	**346,834**	518,910	366,008	**1,611,703**	1,578,083	1,519,326
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**582**	(8,274)	(1,678)	(23,028)	(95,916)	(14,353)	**(110,367)**	(307,582)	(159,678)	**(357,905)**	(435,722)	(245,713)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**438,378**	538,468	546,083	24,863	25,783	11,501	**236,467**	211,328	206,330	**1,253,798**	1,142,361	1,273,613
Commissions, marketing expenses and other acquisition costs	**163,595**	172,760	184,410	8,743	8,470	7,947	**241,248**	257,407	265,022	**587,893**	610,444	621,987
General and administrative expenses	**14,207**	13,011	15,017	14,797	14,812	14,922	**20,818**	21,995	16,257	**66,581**	65,699	64,043
Impairment of intangible assets	**642**	-	371	-	-	-	**464**	-	388	**1,249**	-	1,200
Other expenses	-	7,033	-	-	-	-	-	-	-	-	7,033	-
Financing income (expenses)	**(249)**	(216)	(1)	(1,253)	(977)	2,833	**728**	593	23,569	**(600)**	(670)	26,773
Total expenses	**616,573**	731,056	745,880	47,150	48,088	37,203	**499,725**	491,323	511,566	**1,908,921**	1,824,867	1,987,616
Income (loss) before taxes on income	**18,475**	(31,646)	20,070	24,448	25,203	39,677	**(47,003)**	17,043	19,871	**16,353**	333,885	329,341
Other comprehensive income (loss) before taxes on income	**(2,350)**	(4,304)	(341)	(449)	(4,895)	1,019	**(2,926)**	(6,063)	(319)	**(29,486)**	(65,960)	(6,278)
Total comprehensive income (loss) before taxes on income	**16,125**	(35,950)	19,729	23,999	20,308	40,696	**(49,929)**	10,980	19,552	**(13,133)**	267,925	323,063
Liabilities with respect to insurance contracts												
Gross	**483,164**	505,939	517,872	97,897	144,868	72,476	**1,037,179**	1,270,097	1,192,606	**6,489,344**	6,907,609	7,287,490
Reinsurance	**894**	8,323	1,368	53,462	99,764	47,520	**489,129**	666,086	590,385	**1,638,056**	1,750,757	1,671,610
Retention	482,270	497,616	516,504	44,435	45,104	24,956	548,050	604,011	602,221	**4,851,288**	5,156,852	5,615,880

1) Property and other branches primarily include the results of the business property insurance and apartment insurance branches, the activity in which accounts for approximately 73% of total premiums in these branches (in 2015 - 65%; in 2014 - 66%).

Note 5- Segmental Reporting (Cont.)

E. Reporting regarding operating segments

As of December 31	Long term savings		Health insurance		Non-life insurance		Other		Not allocated to segments		Adjustments and offsets		Total	
NIS in thousands	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Assets:														
Intangible assets	**1,125,900**	1,149,193	**82,983**	53,009	**240,058**	246,229	**30,940**	32,649	**25,522**	22,550	-	-	**1,505,403**	1,503,630
Deferred acquisition costs	**1,246,505**	1,205,253	**439,371**	393,729	**237,488**	251,236	-	-	-	-	-	-	**1,923,364**	1,850,218
Investments in investee companies	**99,819**	79,031	**19,012**	5,411	-	-	**886**	956	**150,327**	128,270	-	-	**270,044**	213,668
Investment property for investment-linked contracts	**2,742,180**	2,750,076	-	-	-	-	-	-	-	-	-	-	**2,742,180**	2,750,076
Other investment property	**969,091**	960,629	**52,965**	55,497	-	-	-	-	**163,851**	189,693	-	-	**1,185,907**	1,205,819
Financial investments for investment-linked contracts	**48,643,929**	44,757,987	**3,550,565**	3,086,733	-	-	-	-	-	-	-	-	**52,194,494**	47,844,720
Other financial investments:														
Marketable debt assets	**1,613,574**	1,515,409	**923,937**	862,164	**524,271**	1,397,549	-	-	**2,513,277**	2,713,102	-	-	**5,575,059**	6,488,224
Non-marketable debt assets	**17,683,055**	17,497,352	**458,136**	409,911	**2,942,169**	2,955,981	**15,003**	39,753	**191,880**	88,989	**(8,530)**	(11,408)	**21,281,713**	20,980,578
Stocks	**227,692**	150,355	**196,959**	140,265	**117,552**	142,012	-	-	**597,357**	542,178	-	-	**1,139,560**	974,810
Others	**1,079,945**	937,377	**322,238**	248,781	**180,229**	242,333	-	-	**76,069**	656,719	-	-	**2,343,481**	2,085,210
Total other financial investments	**20,604,266**	20,100,493	**1,901,270**	1,661,121	**3,764,221**	4,737,875	**15,003**	39,753	**4,063,583**	4,000,988	**(8,530)**	(11,408)	**30,339,813**	30,528,822
Cash and cash equivalents for investment-linked contracts	**2,878,912**	3,606,302	**74,323**	161,508	-	-	-	-	-	-	-	-	**2,953,235**	3,767,810
Other cash and cash equivalents	**566,018**	685,045	**128,288**	173,539	**192,891**	148,410	**81,921**	72,306	**421,657**	360,058	-	-	**1,390,775**	1,439,358
Reinsurance assets	**223,109**	222,449	**366,874**	345,269	**1,638,056**	1,750,757	-	-	-	-	-	-	**2,228,039**	2,318,475
Outstanding premiums	**257,018**	288,814	**112,643**	98,379	**494,359**	510,196	**2,498**	842	-	-	-	-	**866,518**	898,231
Other assets	**265,497**	343,927	**31,396**	37,556	**242,442**	229,226	**35,902**	40,634	**158,362**	198,333	**(42,515)**	(48,542)	**691,084**	801,134
Total assets	**79,622,244**	76,149,199	**6,759,690**	6,071,751	**6,809,515**	7,873,929	**167,150**	187,140	**4,983,302**	4,899,892	**(51,045)**	(59,950)	**98,290,856**	95,121,961
Total assets for investment-linked contracts	**54,754,343**	51,659,154	**3,641,277**	3,270,985	-	-	-	-	-	-	-	-	**58,395,620**	54,930,139
Liabilities:														
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**21,385,685**	21,138,154	**1,895,640**	1,750,868	**6,489,344**	6,907,609	-	-	-	-	**(1,690)**	(2,398)	**29,768,979**	29,794,233
Liabilities with respect to investment-linked insurance contracts and investment contracts	**53,759,791**	51,104,369	**3,534,683**	3,260,969	-	-	-	-	-	-	**(18,681)**	(18,789)	**57,275,793**	54,346,549
Deferred liability notes	-	-	-	-	-	-	-	-	**3,315,333**	3,219,656	-	-	**3,315,333**	3,219,656
Liabilities to banking corporations and others	**221,764**	205,004	**9,146**	11,777	**15,663**	30,575	**6,271**	29,160	**70,000**	70,000	**(3,182)**	(3,307)	**319,662**	343,209
Other liabilities	**1,142,726**	1,018,268	**482,947**	472,141	**626,835**	655,479	**41,547**	40,166	**683,751**	736,097	**(79,922)**	(87,742)	**2,897,884**	2,834,409
Total liabilities	**76,509,966**	73,465,795	**5,922,416**	5,495,755	**7,131,842**	7,593,663	**47,818**	69,326	**4,069,084**	4,025,753	**(103,475)**	(112,236)	**93,577,651**	90,538,056

Note 6- Intangible Assets [2)]

A. Composition and movement

NIS in thousands	Goodwill	Customer portfolios and future management fees	Licenses, trade names, brand names, and others	Original differences attributed to the value of insurance portfolios	Software programs	Total
Cost						
Balance as of January 1, 2015	632,732	272,288	9,851	633,360	1,548,294	3,096,525
Acquisitions and self-development [1)]	-	-	-	-	265,440	265,440
Balance as of December 31, 2015	**632,732**	**272,288**	**9,851**	**633,360**	**1,813,734**	**3,361,965**
Acquisitions and self-development [1)]	**-**	**-**	**-**	**-**	**238,349**	**238,349**
Balance as of December 31, 2016	**632,732**	**272,288**	**9,851**	**633,360**	**2,052,083**	**3,600,314**
Amortization and impairment losses						
Balance as of January 1, 2015	84,184	225,386	8,596	624,915	723,754	1,666,835
Amortization for the year	-	5,319	510	3,522	177,515	186,866
Impairment loss	1,616	-	-	-	3,018	4,634
Balance as of December 31, 2015	**85,800**	**230,705**	**9,106**	**628,437**	**904,287**	**1,858,335**
Amortization for the year	**-**	**4,355**	**510**	**2,963**	**194,502**	**202,330**
Impairment loss	**24,600**	**-**	**-**	**-**	**9,646**	**34,246**
Balance as of December 31, 2016	**110,400**	**235,060**	**9,616**	**631,400**	**1,108,435**	**2,094,911**
Book value, net						
Balance as of January 1, 2015	548,548	46,902	1,255	8,445	824,540	1,429,690
Balance as of December 31, 2015	546,932	41,583	745	4,923	909,447	1,503,630
Balance as of December 31, 2016	**522,332**	**37,228**	**235**	**1,960**	**943,648**	**1,505,403**

1) Additions with respect to software programs include additions with respect to self-development in amounts of approximately NIS 138,940 thousand and approximately NIS 152,021 thousand, during the years ended December 31, 2016 and 2015, respectively.
2) For details regarding the policy regarding current amortization and impairment losses, and for details regarding the amortization periods, see Note 3(h).

Note 6- Intangible Assets (Cont.)

B. Impairment test and additional information

Presented below are details regarding the composition of the book value of the intangible assets, excluding software programs:

	Goodwill		Customer portfolios and future management fees		Licenses, trade names, brands and other		Original differences attributed to the value of insurance portfolios	
	As of December 31		As of December 31		As of December 31		As of December 31	
NIS in thousands	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Provident fund operations 1)	**347,411**	372,011	**37,228**	41,583	**235**	745	**-**	-
Pension fund operations with respect to Meitavit Atudot 2)	**134,700**	134,700	**-**	-	**-**	-	**-**	-
Non-life insurance operations - Clal Credit	**2,447**	2,447	**-**	-	**-**	-	**-**	-
Excess cost attributed to the life insurance portfolio	**-**	-	**-**	-	**-**	-	**666**	1,185
Credit and finance 3)	**-**	-	**-**	-	**-**	-	**-**	-
Insurance agencies 4)	**37,774**	37,774	**-**	-	**-**	-	**1,294**	3,738
Total	**522,332**	546,932	**37,228**	41,583	**235**	745	**1,960**	4,923

1. Provident fund management operation

Following the regulatory directives noted in Note 44(h), and the decrease in income from management fees, as a result of the competitive conditions in the segment, the company evaluated the need to record a provision for impairment with respect to the goodwill attributed to the provident fund management operation, through a valuation prepared by an external valuer, based on the method of discounting the cash flows from the operation (value in use) which is based, inter alia, on the company’s forecast regarding the rate of management fees, and its entry into the operation involving provident funds for investment. As of December 31, 2016, in accordance with the valuation, the book value of the provident fund operation was higher than the value in use by approximately NIS 24.6 million, and therefore, the company recognized impairment loss of goodwill before tax in the aforementioned amount.

As of December 31, 2015, in accordance with the valuation, the recoverable amount attributed to the provident fund operation was higher than the operation’s book value, and therefore, impairment loss with respect to goodwill was not recorded.

Presented below are details regarding the key assumptions and main parameters which were used to calculate recoverable value:

	As of December 31, 2016	**As of December 31, 2015**
Valuation methodology	DCF	DCF
WACC before tax **)	12.0%	13.2%
Long term growth rate in the branch, excluding provident fund for investment	0%	0%
Long term growth rate - provident fund for investment	3.0%	N/A
Effective marginal tax *)	35.9%	35.9%
Minimum management fees	Minimum total of NIS 6 per month	Minimum total of NIS 6 per month
Maximum management fees from the accrual	1.05%	1.05%
Number of years in the cash flow forecast	5	5

*) For details regarding the update to the tax rate beginning in 2017, which constituted part of the calculation of recoverable value, see Note 23.

**) In the discounting of cash flows from the provident fund for investment activity, and from the minimum management fees, a premium of 1% and 5%, respectively, was added to the discount rate.

Note 6- Intangible Assets (Cont.)

B. Impairment test and additional information (Cont.)

1. Provident fund management operation (Cont.)

As of September 30, the company evaluated the need to record a provision for impairment with respect to the goodwill attributed to the provident fund management operation, through an internal valuation. In accordance with the valuation, the recoverable amount attributed to the provident fund operation was higher than the operation's book value, and therefore, impairment loss with respect to goodwill was not recorded.

2. Pension fund management operation

For the purpose of preparing the financial statements, the group conducts an impairment test of the goodwill attributed to the pension fund management operation. For this purpose, Clal Insurance prepared a cash flow forecast model which includes projected income less projected expenses from the existing business (value in use). The flows were discounted according to a real, risk-free interest yield curve. As of December 31, 2016 and 2015, the value in use attributed to the pension fund management operation was higher than the value of this operation in the books, and therefore, impairment loss with respect to goodwill was not recorded.

3. Credit and finance operation

As of December 31, 2016, the group has no goodwill with respect to credit and finance activities.

For the purpose of preparing the financial statements, the group performed an impairment test of goodwill as of December 31, 2015, based on the discounted cash flow forecast from the operation (value in use). According to the valuation, the operation's recoverable amount is lower than its book value, and therefore, an amortization for impairment of goodwill was performed in 2015, in the amount of the balance of goodwill of NIS 1.6 million.

4. Agencies

For the purpose of preparing the financial statements, the company conducted an impairment test of the goodwill attributed to the agencies operation. For this purpose, a report from an independent external valuer was obtained, which was based on the discounted cash flows model with respect to the operation (value in use).

As of December 31, 2016 and 2015, the value in use attributed to the agencies operation was higher than the value of this operation in the books, and therefore, impairment loss of goodwill was not recorded.

Note 7- Deferred Acquisition Costs

A. Composition

NIS in thousands	As of December 31 2016	2015
Life insurance and long term savings	**1,246,505**	1,205,253
Health insurance	**439,371**	393,729
Non-life insurance *)	**237,488**	251,236
Total	**1,923,364**	1,850,218

*) For additional details, see Note 19(a).

B. Movement in deferred acquisition costs in the long term savings segment and in the health segment

NIS in thousands	Long term savings: Life insurance	Pension and provident	Total	Health: Long term care	Illness and hospitalization	Total
Balance as of January 1, 2015	914,767	230,122	1,144,889	129,419	220,628	350,047
Additions:						
Acquisition commissions	173,268	82,896	256,164	15,903	72,835	88,738
Other acquisition costs	82,067	-	82,067	13,900	86,281	100,181
Total additions	255,335	82,896	338,231	29,803	159,116	188,919
Current amortization	(110,541)	(25,670)	(136,211)	(12,060)	(59,193)	(71,253)
Amortization with respect to cancellations	(141,656)	-	(141,656)	(16,939)	(57,045)	(73,984)
Balance as of December 31, 2015	917,905	287,348	1,205,253	130,223	263,506	393,729
Additions:						
Acquisition commissions	**192,369**	**40,091**	**232,460**	**12,977**	**86,044**	**99,021**
Other acquisition costs	**91,896**	**-**	**91,896**	**7,552**	**95,469**	**103,021**
Total additions	**284,265**	**40,091**	**324,356**	**20,529**	**181,513**	**202,042**
Current amortization	**(109,839)**	**(29,717)**	**(139,556)**	**(12,463)**	**(69,695)**	**(82,158)**
Amortization with respect to cancellations	**(143,548)**	**-**	**(143,548)**	**(13,379)**	**(60,863)**	**(74,242)**
Balance as of December 31, 2016	**948,783**	**297,722**	**1,246,505**	**124,910**	**314,461**	**439,371**

Note 8- Property, Plant and Equipment

A. Composition and movement [1)]

NIS in thousands	Land and office buildings	Computers and servers	Vehicles	Furniture and office equipment	Leasehold installations and improvements	Total
Cost						
Balance as of January 1, 2015	66,948	176,099	2,110	63,881	172,238	481,276
Acquisitions	-	28,222	-	1,857	23,049	53,128
Write-offs	(8,965)	(134)	(901)	(3,826)	(10)	(13,836)
Change in designation from investment property	3,722	-	-	-	-	3,722
Balance as of December 31, 2015	**61,705**	**204,187**	**1,209**	**61,912**	**195,277**	**524,290**
Acquisitions	-	**13,048**	**818**	**2,822**	**8,344**	**25,032**
Write-offs	-	-	**(1,117)**	-	-	**(1,117)**
Write-off of completely amortized assets	-	**(1,976)**	-	-	-	**(1,976)**
Balance as of December 31, 2016	**61,705**	**215,259**	**910**	**64,734**	**203,621**	**546,229**
Depreciation and impairment losses						
Balance as of January 1, 2015	44,226	98,643	810	26,045	45,443	215,167
Depreciation for the year	1,240	26,368	228	4,392	10,046	42,274
Write-offs	(4,360)	(134)	(488)	(116)	(10)	(5,108)
Accumulated depreciation transferred to investment property	1,670	-	-	-	-	1,670
Balance as of December 31, 2015	**42,776**	**124,877**	**550**	**30,321**	**55,479**	**254,003**
Depreciation for the year	**1,333**	**26,086**	**158**	**3,717**	**10,934**	**42,228**
Write-offs	-	-	**(593)**	-	-	**(593)**
Write-off of completely amortized assets	-	**(1,976)**	-	-	-	**(1,976)**
Balance as of December 31, 2016	**44,109**	**148,987**	**115**	**34,038**	**66,413**	**293,662**
Book value, net						
Balance as of January 1, 2015	22,722	77,456	1,300	37,836	126,795	266,109
Balance as of December 31, 2015	18,929	79,310	659	31,591	139,798	270,287
Balance as of December 31, 2016	**17,596**	**66,272**	**795**	**30,696**	**137,208**	**252,567**

1) For details regarding the amortization periods, see Note 3(g)(3).

B. For additional details regarding leased property, plant and equipment, see Note 28.

Note 9 - Investments in Investee Companies

A. Summary financial data regarding associate companies and joint ventures

As of December 31, 2016

Company name	ADC Holdings [2]	Atudot Pension Fund for Workers & Independent Workers Ltd.	22 Kingsway Limited	Ibex London Limited	1 South Wacker Finance, L.L.C [3]	WC Edgewater Venture, L.L.C [3]	WC 75 Tresser, L.L.C [3]	DCE 1 APS	660 Columbus Ave. Investors, L.L.C [3]	Dominion Tower Holdings, LP	Credit Suisse Emerging Market Credit Opportunity Fund, L.P [1]	Trans Betach	Total
Operating segment	**Holding company**	**Veteran pension fund managing company**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Capital market**	**Marine insurance agency**	
Country of incorporation	**Israel**	**Israel**	**Israel**	**Israel**	**United States**	**United States**	**United States**	**Denmark**	**United States**	**United States**	**Cayman Islands**	**Israel**	
Main location of the business operation	**Israel**	**Israel**	**Israel**	**Israel**	**United States**	**United States**	**United States**	**Denmark**	**United States**	**United States**	**Cayman Islands**	**Israel**	
Ownership rate in capital (%)	**33.33**	**50.00**	**50.00**	**50.00**	**12.25**	**17.15**	**17.15**	**49.00**	**9.75**	**49.00**	**2.69**	**50.00**	
Rate in voting (%)	**33.33**	**50.00**	**50.00**	**50.00**	**12.25**	**17.15**	**17.15**	**49.00**	**9.75**	**49.00**	**2.69**	**50.00**	
Total assets	**46,718**	**31,485**	**64,726**	**81,344**	**13,469**	**216,789**	**524,116**	**292,363**	**263,825**	**310,853**	**326,661**	**2,371**	
Total liabilities	**548**	**10,885**	**-**	**-**	**-**	**131,251**	**316,843**	**249,600**	**215,415**	**210,591**	**4,469**	**599**	
Total net assets (total assets less total liabilities)	**46,170**	**20,600**	**64,726**	**81,344**	**13,469**	**85,538**	**207,273**	**42,763**	**48,410**	**100,262**	**322,192**	**1,772**	
The group's share in net assets (net assets * holding rate)	**15,390**	**10,287**	**32,363**	**40,672**	**1,650**	**14,668**	**35,548**	**20,956**	**4,720**	**49,127**	**8,667**	**886**	
Balance of excess cost and other adjustments	**-**	**35,735**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(625)**	**-**	
Value of the associate company in the group's books	**15,390**	**46,022**	**32,363**	**40,672**	**1,650**	**14,668**	**35,548**	**20,956**	**4,720**	**49,127**	**8,042**	**886**	**270,044**
Revenue	**1,368**	**42,102**	**-**	**4,200**	**17,584**	**2,484**	**16,974**	**34,929**	**11,199**	**23,445**	**142,558**	**1,677**	
Total profit and loss	**512**	**1,847**	**-**	**4,200**	**17,584**	**2,484**	**16,974**	**34,929**	**11,199**	**23,445**	**138,289**	**414**	
The group's share in profit and loss of the investee company	**170**	**894**	**-**	**2,101**	**2,154**	**426**	**2,911**	**17,116**	**1,088**	**11,488**	**3,720**	**207**	
Amortization of adjustments to fair value which were performed on the acquisition date	**-**	**(1,880)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		
Other adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,084**	**-**	
The group's share in the profit (loss) of the investee company, as presented in the books	**170**	**(986)**	**-**	**2,101**	**2,154**	**426**	**2,911**	**17,116**	**1,088**	**11,488**	**4,804**	**207**	**41,479**
Foreign currency translation differences for investee companies	**-**	**-**	**-**	**(8,204)**	**(553)**	**(195)**	**(460)**	**(95)**	**(60)**	**878**	**(118)**	**-**	**(8,807)**
The group's share in the comprehensive income of the investee company, as presented in the books	**170**	**(986)**	**-**	**(6,103)**	**1,601**	**231**	**2,451**	**17,021**	**1,028**	**12,366**	**4,686**	**207**	**32,672**
Commitment to invest funds in an investee company, USD in thousands	-	-	-	-	-	-	-	-	-	-	**593**	-	-

1) As of December 31, 2016, Clal Insurance has significant influence in Amco, due to the fact that it has the power to take part in certain material decision of Amco, such as investment, through the joint representative of the Clal Insurance Group and of Koor Industries Ltd., a member company of the IDB Group. For additional details, see Note 41(e)(2).
2) Clal Insurance received, in the years 2008-2009 two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of the reporting date, amounted to approximately NIS 15.4 million, and which are included under the item for other accounts payable. In 2015, Clal Insurance repaid to ADC Holdings a loan in the amount of approximately NIS 0.2 million, and received a dividend in the same amount.
3) The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "**Nostro**"). In addition to these rates, the company holds investments against investment-linked liabilities (hereinafter: "**Members**") at additional holding rates. The joint holding rates in the nostro portfolio and in the members portfolio confer upon the company significant influence.

Note 9 - Investments in Investee Companies (Cont.)

A. Summary financial data regarding associate companies and joint ventures

As of December 31, 2015

Company name	**ADC Holdings [2]**	**Atudot Pension Fund for Workers & Independent Workers Ltd.**	**22 Kingsway Limited**	**Ibex London Limited**	**1 South Wacker Finance, L.L.C [3]**	**WC Edgewater Venture, L.L.C [3]**	**WC 75 Tresser, L.L.C [3]**	**DCE 1 APS**	**660 Columbus Ave. Investors, L.L.C [3]**	**Credit Suisse Emerging Market Credit Opportunity Fund, L.P[1]**	**Trans Betach**	**Total**
Operating segment	**Holding company**	**Veteran pension fund managing company**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Capital market**	**Marine insurance agency**	
Country of incorporation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	Cayman Islands	Israel	
Main location of the business operation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	Cayman Islands	Israel	
Ownership rate in capital (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	9.75	2.69	50.00	
Rate in voting (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	9.75	2.69	50.00	
Total assets	46,149	29,210	71,776	93,552	10,918	217,282	535,694	216,090	248,948	419,085	2,526	
Total liabilities	491	10,519	-	-	-	134,740	333,465	209,474	211,128	2,236	618	
Total net assets (total assets less total liabilities)	45,658	18,691	71,776	93,552	10,918	82,542	202,229	6,616	37,820	416,849	1,908	
The group's share in net assets (net assets * holding rate)	15,220	9,360	35,888	46,776	1,337	14,157	34,681	3,244	3,688	11,213	956	
Balance of excess cost and other adjustments	-	37,615	-	-	-	-	-	-	-	(467)	-	
Value of the associate company in the group's books	15,220	46,975	35,888	46,776	1,337	14,157	34,681	3,244	3,688	10,746	956	213,668
Revenue	1,616	41,968	18,704	16,636	39,633	7,364	26,869	5,553	(9,076)	(43,201)	1,910	
Total profit and loss	947	2,976	18,704	16,636	39,633	7,364	26,869	5,553	(9,076)	(50,496)	683	
The group's share in profit and loss of the investee company	316	1,488	9,352	8,318	4,855	1,264	4,607	2,723	(885)	(1,358)	341	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	
Other adjustments	-	-	-	-	-	-	-	-	-	(2,349)	-	
The group's share in the profit (loss) of the investee company, as presented in the books	316	(392)	9,352	8,318	4,855	1,264	4,607	2,723	(885)	(3,707)	341	26,792
Foreign currency translation differences for investee companies	-	-	(1,383)	(1,932)	287	44	102	(66)	42	(14)	-	(2,920)
The group's share in the comprehensive income of the investee company, as presented in the books	316	(392)	7,969	6,386	5,142	1,308	4,709	2,657	(843)	(3,721)	341	23,872
Commitment to invest funds in an investee company, USD in thousands	-	-	-	-	-	-	-	-	-	626	-	

1) As of December 31, 2015, Clal Insurance has significant influence in Amco, due to the fact that it has the power to take part in certain material decision of Amco, such as investment, through the joint representative of the Clal Insurance Group and of Koor Industries Ltd., a member company of the IDB Group. For additional details, see Note 41(e)(2).
2) Clal Insurance received, in the years 2008-2009 two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of the reporting date, amounted to approximately NIS 15.2 million, and which are included under the item for other accounts payable. In 2015, Clal Insurance repaid to ADC Holdings a loan in the amount of approximately NIS 3.3 million, and received a dividend in the same amount.
3) The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "**Nostro**"). In addition to these rates, the company holds investments against investment-linked liabilities (hereinafter: "**Members**") at additional holding rates. The joint holding rates in the nostro portfolio and in the members portfolio confer upon the company significant influence.

Note 9 - Investments in Investee Companies (Cont.)

A. Summary financial data regarding associate companies and joint ventures (Cont.)

As of December 31, 2014

Company name	ADC Holdings [2]	Atudot Pension Fund for Workers & Independent Workers Ltd.	22 Kingsway Limited	Ibex London Limited	1 South Wacker Finance, LLC [3]	WC Edgewater Venture, L.L.C [3]	WC 75 Tresser, L.L.C [3]	DCE 1 APS	Credit Suisse Emerging Market Credit Opportunity Fund, L.P[1]	Trans Betach	Total
Operating segment	**Holding company**	**Veteran pension fund managing company**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Investment property**	**Capital market**	**Marine insurance agency**	
Country of incorporation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	Cayman Islands	Israel	
Main location of the business operation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	Cayman Islands	Israel	
Ownership rate in capital (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	2.82	50.00	
Rate in voting (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	2.82	50.00	
Revenue	2,282	38,506	20,716	41,820	68,506	6,455	8,041	-	9,775	1,824	
Total profit and loss	1,560	3,341	20,716	41,820	68,506	6,455	8,041	-	7,319	613	
The group's share in profit and loss of the investee company	520	1,723	10,358	20,910	8,392	1,108	1,380	-	207	306	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	
Other adjustments	-	-	-	-	-	-	-	-	(566)	-	
The group's share in the profit (loss) of the investee company, as presented in the books	520	(157)	10,358	20,910	8,392	1,108	1,380	-	(359)	306	42,458
Foreign currency translation differences for investee companies	-	-	1,101	1,434	1,197	1,197	2,916	-	3,338	-	11,183
The group's share in the comprehensive income of the investee company, as presented in the books	520	(157)	11,459	22,344	9,589	2,305	4,296	-	2,979	306	53,641
Commitment to invest funds in an investee company, USD in thousands	-	-	-	-	-	-	-	-	1,080	-	

1) As of December 31, 2014, Clal Insurance has significant influence in Amco, due to the fact that it has the power to take part in certain material decision of Amco, such as investment, through the joint representative of the Clal Insurance Group and of Koor Industries Ltd., a member company of the IDB Group. For additional details, see Note 41(e)(2).

2) Clal Insurance received, in the years 2008-2009, two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of the reporting date, amounted to approximately NIS 18.1 million, and which are included under the item for other accounts payable. In 2014, Clal Insurance repaid to ADC Holdings a loan in the amount of approximately NIS 15 million, and received a dividend in the same amount.

3) The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "**Nostro**"). In addition to these rates, the company holds investments against investment-linked liabilities (hereinafter: "**Members**") at additional holding rates. The joint holding rate in the nostro portfolio and in members confers upon the company significant influence.

Note 9 - Investments in Investee Companies (Cont.)

B. Movement in investments in investee companies

NIS in thousands	2016	2015
Balance as of January 1	**213,668**	212,326
Investment during the period	**31,102**	3,798
Equity gains	**41,479**	26,792
Other comprehensive income (loss)	**(8,807)**	(2,920)
Erosion of loans	**(1,253)**	-
Dividend received	**(277)**	(3,508)
Other	**34**	(66)
Consideration from sale of investment	**(5,902)**	(22,754)
Balance as of December 31	**270,044**	213,668

C. Additional details regarding main subsidiaries which are directly held by the company

	Note	Country of incorpora-tion	The company's rights in capital %	Investment in the consolidated company
2016				
Clal Insurance Company Ltd. ("Clal Insurance")		Israel	**99.98**	4,512,817
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")	2)	Israel	**100.00**	73,709
Clalbit Systems Ltd.		Israel	**100.00**	5,568
Clal Credit and Financing Ltd.	3)	Israel	**100.00**	56,591
2015				
Clal Insurance Company Ltd. ("Clal Insurance")		Israel	99.98	4,401,294
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")	2)	Israel	100.00	71,978
Clalbit Systems Ltd.		Israel	100.00	4,800
Clal Credit and Financing Ltd.	3)	Israel	100.00	57,602

1) As of December 31, 2016 and 2015, the company did not provide any loans to subsidiaries.
2) In 2015, the company completed processes involving the merger of several wholly owned agencies, in a manner whereby, following the merger, the company has two main agencies: Betach Thorne Ltd., which is engaged in brokerage in the elementary insurance branch, and the other, Tmura Insurance Agency (1987) Ltd., which is an arrangement agency engaged in pension marketing and the provision of operating services in connection with the performance of deposits to pension products for employers.
3) For details regarding guarantees which were given to consolidated companies of Clal Credit and Finance, as of December 31, 2016, in the amount of approximately NIS 3 million (last year - NIS 26 million), see Note 43(f)(1).

Note 10 - Investment Property, Including with Respect to Investment-Linked Contracts

A. Composition and movement

	Investment property									
	Investment-linked contracts									
	Offices in Israel [3]		Commercial centers in Israel		Offices abroad		Residence abroad		Total	
NIS in thousands	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Balance as of January 1	**1,481,467**	1,415,953	**513,934**	499,920	**575,105**	565,514	**179,570**	174,674	**2,750,076**	2,656,061
Additions										
Net acquisitions and additions for current assets	**30,722**	34,027	-	(12,052) [1)]	-	-	-	-	**30,722**	21,975
Discounted costs and expenses	**11,346**	4,709	**3,169**	4,183	-	-	-	-	**14,515**	8,892
Total additions	**42,068**	38,736	**3,169**	(7,869)	-	-	-	-	**45,237**	30,867
Translation differences					**(61,121)**	(13,581)	**(2,820)**	960	**(63,941)**	(12,621)
Changes in fair value with respect to unrealized real estate [2)]	**22,961**	26,778	**(8,139)**	21,883	**(5,315)**	23,172	**1,301**	3,936	**10,808**	75,769
Changes in fair value	**22,961**	26,778	**(8,139)**	21,883	**(66,436)**	9,591	**(1,519)**	4,896	**(53,133)**	63,148
Balance as of December 31	**1,546,496**	1,481,467	**508,964**	513,934	**508,669**	575,105	**178,051**	179,570	**2,742,180**	2,750,076
Details regarding the discount rates which were used for the purpose of determining fair value	**6.5%-10%**	6.75%-10%	**6%-9%**	6%-9%	**4.75%-6.2%**	4.85%-6%	**5%**	5%		

	Other									
	Offices in Israel [3)]		Commercial centers in Israel		Offices abroad		Residence abroad		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
NIS in thousands										
Balance as of January 1	**718,464**	693,747	**94,157**	93,200	**294,768**	288,813	**98,430**	94,054	**1,205,819**	1,169,814
Additions										
Net acquisitions and additions for current assets	**12,198**	14,583	-	(3,015) [1)]	-	-	-	-	**12,198**	11,568
Discounted costs and expenses	**3,165**	2,042	**731**	953	-	-	-	-	**3,896**	2,995
Total additions	**15,363**	16,625	**731**	(2,062)	-	-	-	-	**16,094**	14,563
Write-offs										
Disposals	-	(701)	-	-	-	-	-	-	-	(701)
Transfer to property, plant and equipment	-	(2,052)	-	-	-	-	-	-	-	(2,052)
Total write-offs	-	(2,753)	-	-	-	-	-	-	-	(2,753)
Translation differences	-	-	-	-	**(36,788)**	(8,129)	**(1,436)**	420	**(38,224)**	(7,709)
Changes in fair value with respect to unrealized real estate [2)]	**5,677**	10,845	**(1,572)**	3,019	**(3,100)**	14,084	**1,213**	3,956	**2,218**	31,904
Changes in fair value	**5,677**	10,845	**(1,572)**	3,019	**(39,888)**	5,955	**(223)**	4,376	**(36,006)**	24,195
Balance as of December 31	**739,504**	718,464	**93,316**	94,157	**254,880**	294,768	**98,207**	98,430	**1,185,907**	1,205,819
Details regarding the discount rates which were used for the purpose of determining fair value	**6.5%-10%**	6.75%-10%	**6%-9%**	6%-9%	**4.75%-6.2%**	4.85%-6%	**5%**	5%		

1) With respect to a repayment which was received with respect to the adjustment of the acquisition cost of a commercial center, in accordance with the final settling of accounts which was prepared vis-à-vis the seller.
2) Income from changes in fair value is recognized in the item for investment income, net, and financing income.
3) Including an advance payment with respect to investment property.

Note 10 - Investment Property, Including for Investment-Linked Contracts (Cont.)

B. Determination of fair value

(1) Fair value hierarchy

All fair value measurements are at level 3 of the fair value hierarchy. For the definition of the levels of the hierarchy, see Note 2(e)(3) above.

(2) Valuation techniques which are applied in the group and valuation technique which were used in the determination of fair value

The fair value of investment property represents an estimate of the amount which would be received upon the sale of the investment property, in an ordinary transaction between market participants on the measurement date.

In the absence of current prices on an active market, the fair value of investment property is determined based on valuations prepared by external independent valuers who have the appropriate professional skills and current experience with assets of similar position and type as that of the valuated property. Valuations of investment property are performed according to the appropriate valuation method for the property type, as specified below. External valuations are performed in different periods for different properties in the investment property portfolio. All valuations are submitted for review to the relevant entities in the company.

(3) Data regarding the fair value measurement of investment property

Type of property	Valuation techniques used in the determination of fair value	Significant unobservable inputs	Reciprocal relationships between significant unobservable inputs and fair value measurement
Rental properties for commercial / residential purposes	Fair value was estimated using the discounting income technique: the valuation model is based on the present value of estimated NOI from the property. Real estate valuations are based on the net annual cash flows, discounted by the discount rate which reflects the specific risks embodied therein. When rental agreements are in effect, wherein the payments are different from appropriate rental fees, adjustments are performed in order to reflect the actual rental payments during the agreement period. The valuations take into account the types of tenants which are actually located in the leased property, or who are responsible for the fulfillment of the rental liabilities, or those who may be in the leased property after a vacant property has been leased, including a general assessment regarding their credit reliability; and the property's remaining economic lifetime, in places where those parameters are relevant. The valuation also takes into account negative cash flow which are attributed to betterment levies, expected renovations and lease fees.	• Market value of future rent payments at the end of the agreement period • Cash flow discount rate (4.75% to 10%)	The fair value calculation will increase if: • The NOI from the property increases • The cash flow discount rate decreases
Investment property under construction	The valuation is based on an estimation of the fair value of the investment property, after its construction has been completed, after deducting the present value of the estimated construction costs which are expected to arise for the purpose of its completion, in consideration of a discount rate which is adjusted with respect to the relevant risks and the property's characteristics.	• Total construction costs per square meter (approximately NIS 5 thousand per square meter, depending on location) • Cash flow discount rate (weighted average of 7.63%)	The fair value calculation will increase if: • The cash flow discount rate decreases • The market value of rent in the property's surrounding environment increases

Note 10 - Investment Property, Including for Investment-Linked Contracts (Cont.)

B. Determination of fair value (Cont.)

(4) Sensitivity analysis

The discount rate constitutes a significant estimate in the determination of fair value, due to the fact that the changes therein significantly affect the fair value of the investment property. However, it is noted that the change in fair value of investment property for investment-linked contracts does not affect the group's profit and loss.

The following sensitivity analysis presented presents the impact of a change in the discount rate, by the presented rates:

Investment property for investment-linked contracts

	Increase (decrease) in fair value As of December 31	
NIS in thousands	2016	2015
Increase of 0.5%	**(175,083)**	(177,872)
Decrease of 0.5%	**202,067**	215,472

Investment property for non-investment-linked contracts

	Increase (decrease) in profit and loss before tax for the year ended December 31	
NIS in thousands	2016	2015
Increase of 0.5%	**(75,591)**	(80,136)
Decrease of 0.5%	**85,752**	97,902

C. Amounts recognized in the statement of income (excluding changes in fair value)

	For the year ended December 31		
NIS in thousands	2016	2015	2014
Rental income from investment property	**251,336**	263,256	199,359
Direct operating expenses arising from investment property which generated rental income during the period	**(23,519)**	(23,015)	(7,940)
	227,817	240,241	191,419

D. Details regarding leased investment property

Capitalized lease

Lands on which shopping malls are built, and whose book value (including the building) as of December 31, 2016 is NIS 301,486 thousand (last year - NIS 297,567 thousand), are leased through a capitalized lease the Israel Land Administration from the Israel Land Administration until the year 2022.

Lands on which office buildings are built, and whose book value (including the building) as of December 31, 2016 is NIS 760,154 thousand (last year - NIS 728,574 thousand) are leased through a capitalized lease from the Israel Land Administration for the years 2027 to 2059.

E. For details regarding lease agreements for investment property, see Note 28.

F. The balance of the group's liabilities for additional investments in investment property amounted, as of December 31, 2016, to a total of approximately NIS 78 million, of which a total of approximately NIS 55 million was out of the funds of profit sharing policies (and a total of approximately NIS 76 million last year, of which a total of approximately NIS 53 million was out of the funds of profit sharing policies).

Note 11- Other Accounts Receivable

A. Composition

NIS in thousands	As of December 31 2016	2015*)
Management fees receivable from provident funds and pension funds	**19,310**	30,091
Prepaid expenses	**21,218**	28,477
Advance payments to suppliers	**8,094**	1,195
Collateral with respect to securities	**84,628**	77,414
Advances on account of commissions for insurance agents	**31,329**	45,752
Insurance companies and insurance mediators	**53,419**	57,957
Trade receivables and income receivable	**60,345**	74,667
Subrogation and residuals	**23,339**	27,924
Other	**18,884**	39,252
Total before provision for doubtful debts	**320,566**	382,729
Less the provision for doubtful debts, primarily with respect to reinsurers (see section B below)	**(28,362)**	(33,615)
Total other accounts receivable	**292,204**	349,114

*) Re-classified, see Note 2(f).
For details regarding the group's exposure to credit risks and market risks, see Note 40.
For details regarding other accounts receivable which constitute related parties and interested parties, see Note 41.

B. Movement in the provision for doubtful debts

NIS in thousands	As of December 31 2016	2015
Balance as of January 1	**33,615**	37,271
Receipts and recognition of lost debts	**(1,887)**	(2,812)
Change in provision for the period - charged to profit and loss	**(3,366)**	(844)
	28,362	33,615

Note 12 - Outstanding Premiums

A. Composition [1),2)]

	As of December 31	
NIS in thousands	**2016**	**2015**
Outstanding premiums	**928,664**	918,042
Less provision for doubtful debts	**(62,146)**	(19,811)
Total outstanding premiums	**866,518**	898,231
Includes outstanding checks and standing orders	**368,299**	352,452

1) For details regarding the group's exposure to credit risks and market risks, see Note 40.
2) For details regarding outstanding premiums from related parties and interested parties, see Note 41.

B. Movement in the provision for doubtful debts with respect to outstanding premiums

NIS in thousands	**2016**	**2015**
Balance as of January 1	**19,811**	23,660
Change in provision for the period - charged to profit and loss	**42,335**	(3,004)
Recognition of lost debts	-	(845)
Balance as of December 31	**62,146**	19,811

C. Aging

	As of December 31	
NIS in thousands	**2016**	**2015**
Total non-impaired outstanding premiums		
Without arrears	**526,448**	596,045
In arrears *):		
Less than 90 days	**88,308**	61,441
90 to 180 days	**82,594**	58,507
Over 180 days	**150,658**	173,783
	321,560	293,731
Total non-impaired outstanding premiums	**848,008**	889,776
Impaired outstanding premiums	**18,510**	8,455
Total outstanding premiums	**866,518**	898,231

*) Includes a total of NIS 245,608 thousand (December 31, 2015 - NIS 209,817 thousand) of debts in arrears in the life insurance segment. These debts are primarily backed by the redemption value of the policy.

Note 13- Assets for Investment-Linked Contracts

A. Composition

Details of assets held against investment-linked insurance contracts and investment contracts, presented at fair value through profit or loss [1]:

NIS in thousands	As of December 31 2016	2015
Investment property	**2,742,180**	2,750,076
Financial investments		
Marketable debt assets	**21,106,921**	19,942,157
Non-marketable debt assets	**6,243,667**	6,617,456
Stocks	**8,053,144**	8,662,467
Other financial investments [2]	**16,790,762**	12,622,640
Total financial investments	**52,194,494**	47,844,720
Cash and cash equivalents	**2,953,235**	3,767,810
Other	**505,711**	567,533
Total assets for investment-linked contracts	**58,395,620**	54,930,139

1) For details regarding the exposure to assets for investment-linked contracts, see Note 40.
2) Other financial investments primarily include investments in ETF's, participation certificates in mutual funds, investment funds, derivatives, futures contracts, options and structured products.

B. Fair value of financial assets

(1) Fair value hierarchy of financial assets which are measured at fair value

The table below presents the financial assets which are measured at fair value on a periodic basis, using a valuation technique in accordance with the fair value levels. For the definition of the hierarchy levels, see Note 2(e)(3). For additional details regarding fair value measurement, see Note 14.

For details regarding fair value of investment property for investment-linked assets, see Note 10 above.

NIS in thousands	As of December 31, 2016 Level 1	Level 2	Level 3	Total
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**

NIS in thousands	As of December 31, 2015 Level 1	Level 2	Level 3	Total
Financial investments:				
Marketable debt assets	18,513,512	1,428,645	-	19,942,157
Non-marketable debt assets	-	6,396,894	220,562	6,617,456
Stocks	8,499,741	-	162,726	8,662,467
Other financial investments *)	9,794,031	496,436	2,332,173	12,622,640
Total financial investments	36,807,284	8,321,975	2,715,461	47,844,720
*) Of which, with respect to derivatives	116,133	123,442	691	240,266

Note 13- Assets for investment-linked contracts (Cont.)

B. Fair value of financial assets (Cont.)

(2) Movement in assets measured at fair value level 3

NIS in thousands	Non-marketable debt assets	Stocks	Other financial investments	Total
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)**
Dividend and interest received	**(3,895)**	**(2,305)**	**(9,645)**	**(15,845)**
Transfers to level 3 [2)]	**21,111**	**-**	**-**	**21,111**
Balance 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 [1)]	**3,672**	**(3,941)**	**166,571**	**166,302**

NIS in thousands	Non-marketable debt assets	Stocks	Other financial investments	Total
Balance as of January 1, 2015	208,027	151,346	2,116,767	2,476,140
Total income (loss) recognized in the statement of income	6,387	31,481	173,820	211,688
Acquisitions	10,240	-	581,839	592,079
Sales	-	(12,478)	(531,017)	(543,495)
Redemptions	(63,155)	-	-	(63,155)
Dividend and interest received	(12,448)	(7,623)	(9,236)	(29,307)
Transfers to level 3 [2)]	71,511	-	-	71,511
Balance as of December 31, 2015	220,562	162,726	2,332,173	2,715,461
Total income for the period included under profit and loss with respect to financial assets held as of December 31, 2015 [1)]	6,387	29,188	176,247	211,822

1) In the item for income from investments, net, and financing income.
2) With respect to debt assets for which the use of quotes was discontinued, and which were transferred to level 3.

(3) For details regarding the method used to measure fair value, see Note 14(f)(3).

Note 14- Other Financial Investments

	As of December 31, 2016			
NIS in thousands	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets [a)]	**95,664**	**5,479,395**	**-**	**5,575,059**
Non-marketable debt assets [b)]	**8,290**	**-**	**21,273,423**	**21,281,713**
Stocks [d)]	**-**	**1,139,560**	**-**	**1,139,560**
Others [e)]	**204,423**	**2,139,058**	**-**	**2,343,481**
Total	**308,377**	**8,758,013**	**21,273,423**	**30,339,813**

	As of December 31, 2015			
NIS in thousands	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets [a)]	332,449	6,155,775	-	6,488,224
Non-marketable debt assets [b)]	11,477	-	20,969,101	20,980,578
Stocks [d)]	-	974,810	-	974,810
Others [e)]	287,918	1,797,292	-	2,085,210
Total	631,844	8,927,877	20,969,101	30,528,822

A. Marketable debt assets

Composition

	As of December 31	
NIS in thousands	2016	2015
Government bonds		
Presented at fair value through profit and loss:		
Held for trading	**46,024**	57,262
Available for sale	**3,374,599**	4,057,390
Total government bonds	**3,420,623**	4,114,652
Other debt assets:		
Non-convertible		
Presented at fair value through profit and loss:		
Designated upon initial recognition	**49,503**	273,116
Available for sale	**2,104,796**	2,098,385
Total other non-convertible debt assets	**2,154,299**	2,371,501
Convertible		
Presented at fair value through profit and loss:		
Designated upon initial recognition	**137**	2,071
Total other convertible debt assets	**137**	2,071
Total marketable debt assets	**5,575,059**	6,488,224
Impairment applied to income statement (cumulative)	**2,916**	67,257

Note 14 - Other Financial Investments (Cont.)

B. Non-marketable debt assets

(1) Composition, fair value vs. book value and level in the fair value hierarchy

NIS in thousands	As of December 31, 2016			
		Fair value		
	Book value	Total	Level 2	Level 3
Government bonds treated as loans and receivables				
Designated bonds	**13,212,370**	**19,665,159**	**-**	**19,665,159**
Deposits in treasury	**2,116,745**	**2,826,227**	**-**	**2,826,227**
Total government bonds	**15,329,115**	**22,491,386**	**-**	**22,491,386**
Other non-convertible debt assets				
Presented at fair value through profit and loss:				
Designated upon initial recognition	**8,290**	**8,290**	**8,290**	**-**
Presented as loans and receivables, excluding deposits in banks	**5,046,358**	**5,472,870**	**5,372,006**	**100,864**
Deposits in banks	**897,950**	**1,011,406**	**1,011,406**	**-**
Total other non-convertible debt assets	**5,952,598**	**6,492,566**	**6,391,702**	**100,864**
Total non-marketable debt assets	**21,281,713**	**28,983,952**	**6,391,702**	**22,592,250**
Impairment applied to income statement (cumulative)	**122,021**			

NIS in thousands	As of December 31, 2015			
		Fair value		
	Book value	Total	Level 2	Level 3
Government bonds treated as loans and receivables				
Designated bonds	12,950,616	19,555,801	-	19,555,801
Deposits in treasury	2,093,742	2,810,670	-	2,810,670
Total government bonds	15,044,358	22,366,471	-	22,366,471
Other non-convertible debt assets				
Presented at fair value through profit and loss:				
Designated upon initial recognition	11,477	11,477	11,477	-
Presented as loans and receivables, excluding deposits in banks	4,963,371	5,427,641	5,292,457	135,184
Deposits in banks	961,372	1,109,084	1,109,084	-
Total other non-convertible debt assets	5,936,220	6,548,202	6,413,018	135,184
Total non-marketable debt assets	20,980,578	28,914,673	6,413,018	22,501,655
Impairment applied to income statement (cumulative)	86,207			

Note 14 - Other Financial Investments (Cont.)

B. Non-marketable debt assets (Cont.)

(2) Aging of investments in non-marketable financial debt assets

	As of December 31	
NIS in thousands	**2016**	**2015**
Government bonds	**15,329,115**	15,044,358
Debt assets whose value did not specifically decline, gross:		
Without arrears	**5,905,480**	5,899,390
In arrears *):		
Less than 90 days	**2,625**	3,030
90 to 180 days	**5,409**	2,066
Over 180 days	**3,465**	10,154
	11,499	15,250
Total debt assets whose value did not specifically decline, gross	**21,246,094**	20,958,998
Provision for collective loss	**(6,720)**	(12,400)
Total debt assets whose value did not specifically decline, net	**21,239,374**	20,946,598
Debt assets whose value declined:		
Assets whose value declined, gross	**157,640**	107,787
Provision for loss	**(115,301)**	(73,807)
Debt assets whose value declined, net	**42,339**	33,980
Total non-marketable debt assets	**21,281,713**	20,980,578

*) Primarily loans on policies against which full redemption values and/or mortgages exist.

It should be noted that the above amounts do not represent the actual amount in arrears, but rather the balance of the debt associated with the arrears.

Note 14 - Other Financial Investments (Cont.)

C. Details regarding interest and linkage with respect to debt assets

In percent	As of December 31 2016	2015
Marketable debt assets		
Linkage basis		
Linked to the Consumer Price Index	**0.97**	1.09
NIS	**2.10**	1.89
Linked to foreign currency	**4.77**	3.79
Non-marketable debt assets		
Linkage basis		
Linked to the Consumer Price Index	**4.75**	4.78
NIS	**1.76**	1.82
Linked to foreign currency	**3.64**	4.43

D. Stocks

NIS in thousands	As of December 31 2016	2015
Marketable		
Available for sale	**1,062,558**	893,927
Total marketable stocks	**1,062,558**	893,927
Non-marketable		
Available for sale	**77,002**	80,883
Total non-marketable stocks	**77,002**	80,883
Total stocks	**1,139,560**	974,810
Impairment applied to income statement (cumulative)	**171,000**	155,092

E. Other financial investments

1. Composition

NIS in thousands	As of December 31 2016	2015
Marketable		
Presented at fair value through profit and loss:		
Designated upon initial recognition	**148,713**	222,459
Derivative instruments (2)	**1,673**	3,386
Available for sale	**883,599**	816,845
Total marketable financial investments	**1,033,985**	1,042,690
Non-marketable		
Presented at fair value through profit and loss:		
Designated upon initial recognition	**16,566**	37,023
Derivative instruments (2)	**37,471**	25,050
Available for sale	**1,255,459**	980,447
Total non-marketable financial investments	**1,309,496**	1,042,520
Total other financial investments	**2,343,481**	2,085,210
Impairment applied to income statement (cumulative)	**69,699**	82,388

Other financial investments primarily include investments in ETF's, participation certificates in mutual funds, investment funds, financial derivatives, forward contracts, options and structured products.

Note 14 - Other Financial Investments (Cont.)

E. Other financial investments (Cont.)

2. Additional information regarding derivative instruments

Presented below is the total net exposure amount to the underlying asset, presented in delta terms of the transaction in derivative instruments made as of the dates of the financial statements of insurance companies in the group:

	As of December 31	
NIS in thousands	**2016**	**2015**
Stocks	**15,741**	85,034
CPI	**496,173**	-
Foreign currency	**(672,040)**	(82,652)
Fixed interest	-	79,892

The amount of the net exposure to the underlying asset is presented in terms of the delta in transactions with derivative instruments which were performed as of the dates of the financial statements, which are included under Note 27, liabilities to banking corporations.

F. Fair value

1. Fair value hierarchy of financial assets measured at fair value

The following table presents the financial assets which are measured at fair value on a periodic basis, using a valuation technique in accordance with the fair value level. For details regarding the levels of the hierarchy, see Note 2(e)(3) above.

	As of December 31, 2016			
NIS in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
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**

	As of December 31, 2015			
NIS in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial investments:				
Marketable debt assets	6,331,551	156,673	-	6,488,224
Non-marketable debt assets	-	11,477	-	11,477
Stocks	893,927	-	80,883	974,810
Other financial investments *)	977,898	93,904	1,013,408	2,085,210
Total financial investments	8,203,376	262,054	1,094,291	9,559,721
*) Of which, with respect to derivatives	3,388	24,524	563	28,475

Note 14 - Other Financial Investments (Cont.)

F. Fair value (Cont.)

2. Movement in assets measured at fair value level 3

	Financial assets at fair value through profit and loss and available for sale financial assets		
NIS in thousands	**Stocks**	**Other financial investments**	**Total**
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)**
Dividend and interest received	**(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 financial assets held as of December 31, 2016	**40**	**21,149**	**21,189**

	Financial assets at fair value through profit and loss and available for sale financial assets		
NIS in thousands	**Stocks**	**Other financial investments**	**Total**
Balance as of January 1, 2015	6,190	791,748	797,938
Total recognized income:			
Under profit and loss	3,251	33,187	36,438
Under other comprehensive income	3,043	30,469	33,512
Acquisitions	72,500	308,958	381,458
Sales	(1,201)	(146,682)	(147,883)
Dividend and interest received	(2,900)	(4,272)	(7,172)
Balance as of December 31, 2015	80,883	1,013,408	1,094,291
Total income for the period included under profit and loss with respect to financial assets held as of December 31, 2015	3,584	33,231	36,815

Note 14 - Other Financial Investments (Cont.)

F. Fair value (Cont.)

3. Fair value valuation technique and valuation techniques which are applied in the company

A. Investments in stocks and debt instruments

The fair value of investments which are actively traded on orderly financial markets is determined in reference to their quoted closing bid price as of the close of trading on the reporting date.

With regard to investments traded by in the over counter (OTC) market, the group receives price quotes from recognized pricing services.

For investments which have no active market, fair value is determined by external valuers using valuation methods. These methods include reliance upon transactions recently performed in market conditions, reference to the current market value of another, materially similar instrument, cash flow discounting, or other valuation methods.

The fair value of non-marketable debt assets in Israel, including bonds, loans and deposits, is calculated according to a model which is based on the present value which is obtained by discounting the cash flows, in accordance with the discount rates which are determined by a company providing interest rate quotes (see section 4(a)(1) below).

The fair value of non-marketable debt assets outside of Israel is calculated according to a model which is based on the present value of the present value which is obtained from the discounted cash flows according to a discount rate which is obtained from an expert (see section 4(a)(2) below).

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 valuations, methodology and trends are reviewed and approved by the relevant investment managers and investment accountants.

The fair value of investment funds is based on the net asset value (NAV), which is usually reported by the funds once per quarter. The funds’ reports are reviewed and approved by the investment manager, based on his familiarity with the fund.

The fair value of hybrid instruments is determined according to quotes.

B. Derivatives

The fair value of forward contracts, cross currency swaps and warrants is based on quoted prices, if available. In the absence of quoted prices, as stated above, the fair value of forward contracts and cross currency swaps are estimated by discounting the difference between the forward price specified in the contract and the current forward price with respect to the remaining contract period to redemption, using quotes of appropriate interest rates, while with respect to warrants, fair value is determined according to the Black-Scholes model.

The fair value of interest rate swaps (IRS) is calculated in accordance with the discounted future cash flows economic model, according to the terms of the contract, and is based on price quotes which are received from recognized pricing services.

4. Inputs which were used in the calculation of fair value

A. Interest rates which were used in the determination of fair value

1. The discount rates which were 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 the interest rates which were used for discounting purposes are determined by the company that won the tender published by the Finance Ministry, for the setting up and operation of a database of price quotes and interest rates for institutional entities.

Note 14 - Other Financial Investments (Cont.)

F. Fair value (Cont.)

4. Inputs which were used in the calculation of fair value (Cont.)

A. Interest rates which were used in the determination of fair value (Cont.)

2. The discount rates used to calculate the fair value of non-marketable foreign debt assets, which is determined by discounting the estimated cash flows which are expected from them, are mostly based on the yields of corporate bonds, as measured in trading arenas outside of Israel.

3. Interest rates for non-marketable debt assets - in Israel, according to the local rating:

Interest rates for non-marketable debt assets - in Israel, according to the local rating [1]:

	As of December 31	
In percent	**2016**	**2015**
AA and higher	**0.9**	0.5
BBB to A	**2.5**	2.1
Lower than BBB	**17.0**	-
Unrated	**4.8**	4.0

Interest rate for non-marketable debt assets - foreign, according to international rating [2]:

	As of December 31	
In percent	**2016**	**2015**
A and higher	**2.0**	3.2
Lower than BBB	**5.7**	-
Unrated	**5.4**	5.3

1) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The data of Midroog Ltd. were converted to rating symbols using commonly accepted conversion factors. Each rating includes all ranges, for example, the A rating includes A- to A+.
2) All debt assets which are rated abroad were rated by recognized international rating agencies. Each rating includes all ranges, for example: an A rating includes A- to A+.

Note 15 - Cash and Cash Equivalents

A. Cash and cash equivalents for investment-linked contracts

1. Composition

	As of December 31	
NIS in thousands	**2016**	**2015**
Cash and deposits available for immediate withdrawal	**1,853,230**	3,350,660
Short term deposits	**1,100,005**	417,150
Cash and cash equivalents	**2,953,235**	3,767,810

2. Additional details

Cash in banking corporations bears, as of the financial reporting date, current interest which is based on interest rates with respect to daily bank deposits of 0%-0.07% (as of December 31, 2015 - 0%-0.1%).

Other deposits in banking corporations are for periods of one week to three months. The deposits bear interest at a rate of 0%-0.1% (as of December 31, 2015 - 0%-0.18%).

B. Other cash and cash equivalents

1. Composition

	As of December 31	
NIS in thousands	**2016**	**2015**
Cash and deposits available for immediate withdrawal	**1,374,370**	1,393,590
Short term deposits	**16,405**	45,768
Cash and cash equivalents	**1,390,775**	1,439,358

2. Additional details

Cash in banking corporations bears, as of the financial reporting date, current interest which is based on interest rates with respect to daily bank deposits of 0%-0.07% (as of December 31, 2015 - 0%-0.1%).

Other deposits in banking corporations are for periods of one week to three months. The deposits bear interest at a rate of 0%-0.1% (as of December 31, 2015 - 0%-0.18%).

C. For additional details regarding the group's exposure to interest rate risk, market risk and regarding the sensitivity analysis, see Note 40(c)(2) and (3).

Note 16- Capital and Reserves

A. Share capital

	Ordinary shares *)		
	2016	2015	2014
	In thousands of shares with a par value of NIS 1		
Issued and paid-up share capital as of January 1	**55,412**	55,360	55,354
Exercise of warrants for senior employees **)	**-**	52	6
Issued and paid-up share capital as of December 31	**55,412**	55,412	55,360
Registered capital	**100,000**	100,000	100,000

*) Shares listed for trading on the Tel Aviv Stock Exchange. Holders of ordinary shares are entitled to receive dividends, as announced from time to time, and voting rights in the company's general shareholder assemblies, according to a ratio of one vote per share, along with liquidation rights in the company and director nomination rights in the company.

**) For details regarding the allocation of warrants to employees, see Note 42, regarding share-based payments.

B. Capital reserves

1. The translation reserve for foreign operations is primarily comprised of affects of the GBP and USD.
2. Other capital reserves include a capital reserve with respect to transactions with controlling shareholders, reserve for revaluation of property, plant and equipment, and other immaterial reserves.

C. Dividends

During the last three years, no dividends were distributed.

The balance of distributable earnings as of the reporting date, in accordance with the Companies Law, and in accordance with the capital requirements in light of the permit for control of institutional entities which are held by the company (without taking into account the cancellation of the control permit on May 8, 2014, and its implications on the capital requirements, as specified in section e(5) below), amounts to approximately NIS 1.8 billion.

The company's board of directors decides on the amount of dividends for distribution to the shareholders.

The possibility of a dividend distribution is also affected by the ability of the investee companies to distribute dividends, subject to their capital requirements and liquidity needs. For additional details regarding the dividend distribution restriction which applies to insurance companies, see section E below.

D. The company's capital management and capital requirements

The company's policy is to maintain a stable capital basis in order to maintain the company's ability to continue its activities in order to generate returns for its shareholders, and to comply with external capital requirements to which the company is subject by virtue of its holding in Clal Insurance, and in order to support the capital needs of its consolidated companies, some of which are subject to external capital requirements, as specified in sections E and F below, and future business development.

The company is obligated to supplement the capital required of Clal Insurance in accordance with the Capital Regulations up to 50% of the required capital, if and when the capital of Clal Insurance is negative, and in the amount of the negative capital. This undertaking is valid so long as the company is the controlling shareholder (as defined in the Control Law) in Clal Insurance.

The board of directors supervises capital return, which is defined by the group as income (loss) for the period attributable to shareholders in the company, divided by capital attributable to shareholders in the company.

The board of directors of Clal Insurance determined a capital target at a rate of 12% above the minimum capital required by the Capital Regulations (hereinafter: the **"Capital Target"**). It is hereby clarified that the foregoing does not constitute a binding capital requirement, but rather a capital level which Clal Insurance will strive to maintain, and no certainty exists that Clal Insurance will meet this target at all times. As of the end of the reporting period, Clal Insurance achieved its capital target.

On April 21, 2015, the company published a shelf prospectus based on its financial statements as of December 31, 2014.

Note 16- Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies

(1) Presented below are details regarding capital requirements according to the Capital Regulations and directives issued by the Commissioner which apply to consolidated companies that are insurance companies in Israel:

	2016		2015	
NIS in thousands	**Clal Insurance**	**Clal Credit Insurance**	**Clal Insurance**	**Clal Insurance Credit**
As of December 31				
Minimum capital:				
Amount required pursuant to the amended Capital Regulations [a)]	**4,665,703**	**34,113**	4,607,129	36,235
Current amount as calculated pursuant to the Capital Regulations:				
Basic Tier 1 capital	**4,513,460**	**191,614**	4,401,932	175,968
Tier 2 subordinated capital [b)]	**65,355**	-	222,360	-
Tier 2 hybrid capital	**2,831,680**	-	2,600,322	-
Tier 3 capital	**111,938**	-	111,938	-
Total Tier 2 and Tier 3 capital	**3,008,973**	-	2,934,620	-
Total current capital, calculated according to the Capital Regulations [c)]	**7,522,433**	**191,614**	7,336,552	175,968
Surplus	**2,856,730**	**157,501**	2,729,423	139,733
Actions subsequent to the reporting date:				
Amortization of Tier 2 subordinated capital	-	-	(14,992)	-
Surplus (deficit) in consideration of operations which were performed subsequent to the reporting date	**2,856,730**	**157,501**	2,714,431	139,733
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	**127,298**	-	123,232	-
Capital reduction required with respect to original difference	**194,568**	-	205,329	-
Tax reserve with respect to the acquisition of provident funds	**88,581**	-	90,032	-
Surplus in consideration of operations which were performed subsequent to the reporting date and after deducting tied-up surplus	**2,623,445**	**157,501**	2,475,902	139,733
A) Total required amount, including capital requirements with respect to:				
Non-life insurance operations / required Tier 1 capital	**549,068**	**29,702**	577,724	29,792
Long term care insurance operations	**110,751**	-	106,447	-
Extraordinary risks in life insurance	**420,185**	-	419,001	-
Deferred acquisition costs in life insurance and illness and hospitalization insurance	**1,376,282**	-	1,297,140	-
Requirements with respect to guaranteed return plans	**2,745**	-	4,128	-
Non-recognized assets, as defined in the Capital Regulations	**66,125**	**174**	65,731	343
Investment in consolidated insurance and managing companies (including acquired management operations)	**730,446**	-	760,341	-
Capital reduction required with respect to original difference	**(194,568)**	-	(205,329)	
Capital required with respect to investments	**1,092,117**	**2,097**	1,054,125	3,203
Catastrophe risks in non-life insurance	**120,345**	-	129,831	-
Operational risks	**280,997**	**2,140**	282,132	2,897
Guarantees	**111,210**	-	115,858	-
Total required capital	**4,665,703**	**34,113**	4,607,129	36,235

B) Issued until December 31, 2009.
C) See section 2(B) below.

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(2) Additional details regarding the current capital regime in consolidated insurance companies

(a) Minimum capital

The Capital Regulations prescribe the minimum capital required of insurance companies, and the method used to calculate it. The insurance business operations are conditional upon the existence of minimum required capital. The capital required for the purpose of the above insurance operation is comprised of a first layer which is the higher of either the minimum (floor) capital, or capital which is derived from total activities in non-life insurance, according to the higher of either a calculation based on premiums, or a calculation based on outstanding claims, and additional capital requirement components, as described in section 1 above. Non-fulfillment of the Capital Regulations will require the insurer to increase its capital up to the amount stipulated in the Capital Regulations, or to reduce its business volume accordingly, as applicable, by the publication date of the report, except in exceptional circumstances which will be approved by the Commissioner, in which case the capital supplementation will be postponed.

(B) The capital requirements in accordance with the Capital Regulations are based on the insurance company’s solo report. In order to calculate recognized capital in accordance with the Capital Regulations, an insurance company’s investment in an insurance company or in a controlled managing company, as well as in other investee companies, will be calculated on an equity basis using the linked holding rate therein.

(C) The minimum capital required of Clal Insurance was reduced, with the Commissioner’s approval, due to the balance of the original difference attributed to the managing companies and the provident funds under its control, at a rate of 35% of the balance of the aforementioned original difference. However, in the calculation of the permitted amount for dividend distribution, this reduction will be added to any required capital level, as specified in section 4 below. In September 2013, Clal Insurance received a letter from the Commissioner, specifying that the amount of the amortization which will be added to the required minimum capital amount, in the calculation of the permitted amount for dividend distributions, will be after deducting the tax reserve which has accumulated in Clal Insurance due to the acquisition of provident fund activities. It is further noted that the Commissioner’s approval, as mentioned above, will be canceled upon the entry into effect of the capital requirements according to the Directive (see section D above), which will replace the Capital Regulations, and does not indicate the policy of the Control of Insurance Office regarding the implementation of the aforementioned requirements.

(D) In March 2013, Clal Insurance received a letter from the Commissioner according to which, with regard to the provisions of the law pertaining to credit rating, the rating determined according to the internal credit rating model of Clal Insurance (hereinafter: the “**Internal Model**”) will be considered a rating which corresponds, in terms of risk, to the rating of a rating company, in accordance with conditions and branches which will be determined. According to the Commissioner’s approval, Clal Insurance is entitled to allocate capital with respect to adjusted loans which have been rated according to the internal model based on the rates set forth in the Capital Regulations. In the event that an external rating exists for a loan, the capital allocation will be performed according to the lower of the ratings. The letter specifies that Clal Insurance will be required to submit immediate and periodic reports as set forth in the annex to the Letter. Additionally, until March 2, 2014, required supplementations regarding validation and control were submitted to the Commissioner, as required in the letter. Clal Insurance applied the aforementioned directives, and as a result, the capital requirements decreased by approximately NIS 33 million as of the end of the reporting period.

(E) Insurer’s composition of capital

Presented below are the primary components of the components and instruments which are included in the equity layers of the consolidated insurance companies, their rates and terms, according to the Commissioner’s circular from August 2011 (hereinafter: the “Circular”). This framework will be used as the basis for determining the composition of an insurer’s equity, upon application of the Solvency II directive (hereinafter: the “Directive” or (“Solvency II”) in Israel, including the amendments and updates which may be applied thereto (for additional details, see section 3 below):

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(2) Additional details regarding the current capital regime in consolidated insurance companies (Cont.)

(E) Insurer's composition of capital (Cont.)

1. Tier 1 capital - Includes basic Tier 1 capital (in the amount of the components which are included in capital attributed to Company shareholders). The total rate of Tier 1 capital will not fall below 60% of the insurer's total capital.

2. Tier 2 capital - Includes Tier 2 hybrid capital instruments (excluding periodic accrued interest payments), Tier 2 subordinated capital instruments (as defined in the circular), and other components or instruments approved by the Commissioner. Tier 2 hybrid capital instruments are subordinate to all other instruments, excluding Tier 1 capital, and include financial instruments which are available to absorb the insurer's losses by deferring principal and interest payments. The first repayment date for Tier 2 capital instruments will be after the end of a period which reflects the weighted average of the periods for repayment of the insurance liabilities plus two years, or after 20 years, whichever is earlier, but no earlier than 8 years after the issue date. If a Tier 2 hybrid capital instrument includes an incentive for early redemption, the first date of an early redemption incentive will be no earlier than the end of 5 years after the date of the instrument's issuance.

3. Tier 3 capital - Includes Tier 3 hybrid capital instruments (excluding periodic accrued interest payments) and another component or instrument approved by the Commissioner. Tier 3 capital instruments are subordinate to all other instruments, excluding Tier 1 and Tier 2 capital, and includes financial instruments which are available to absorb the insurer's losses by deferring principal payments only. It can be established that Tier 3 capital will not come before Tier 2 capital, and will be equivalent to it in the order of credit. The first repayment date of Tier 3 capital instruments is no earlier than the end of 5 years after their issue date. If a Tier 3 hybrid capital instrument includes an incentive for early redemption, the first date of an early redemption incentive will be no earlier than the end of 3 years after the date of the instrument's issuance. The total rate of Tier 3 capital may not exceed 15% of an insurer's total capital.

For this purpose, insurance liabilities include non-investment-linked liabilities, without the liability component which is fully backed by a HETZ bond, and less the share of reinsurers.

The inclusion of a hybrid capital instrument (Tier 1, Tier 2 or Tier 3) under equity requires the Commissioner's approval.

It is noted that the circular includes the following transitional provisions:

1. Subordinated Tier 2 capital which was issued until December 31, 2009 will be recognized until the ultimate repayment date according to its conditions for recognition until the publication date of the circular.
2. Subordinated Tier 2 capital which was issued on January 1, 2010 or later will not be recognized upon the adoption of the directive in Israel or from January 31, 2013, and in accordance with its terms, whichever is earlier.
3. Tier 1, Tier 2 and Tier 3 hybrid capital instruments which were issued beginning on January 1, 2010 or later, and which were approved by the Commissioner, will be recognized until their ultimate repayment date, according to their conditions of issuance, and according to the restriction on the rates which apply to the various layers.
4. Tier 1, 2 and 3 hybrid capital instruments which will be issued beginning on the date of the circular's entry into force, according to the conditions specified therein, will be fully recognized upon the implementation of the directive in Israel, until their repayment dates.

The circular also includes a transitional provision with regard to the composition of an insurer's equity (hereinafter: the "**Transitional Provision**"), which will apply until the directive has been applied in Israel, on a date which will be announced by the Commissioner. The transitional provision defines, inter alia, the Tier 2 capital which was issued according to the Capital Regulations prior to their amendment as Tier 2 subordinated capital, and restricts its scope to 50% of basic capital.

For additional details regarding the deferred liability notes, see Note 25.

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(2) Additional details regarding the current capital regime in consolidated insurance companies (Cont.)

(F) Authority to establish capital requirements

Within the framework of the amendment to the Control Law, which was approved in August 2016, and which involved converting the Division of Capital Markets at the Ministry of Finance into an independent authority called the "Capital Market, Insurance and Savings Authority", the Commissioner also received the authority which was previously conferred upon the Minister of Finance, to determine the equity of an insurer / provident fund (excluding Tier 1 capital), and to determine the composition of equity. The Commissioner will be entitled to establish the rules with respect to equity through administrative directives, and not through regulations, subject to the right to object to the directives which is available to Finance Committee of the Knesset. For details regarding directives regarding the implementation of the new Solvency II-based economic solvency regime for insurance companies, which were published in February 2017, in accordance with the amendment to the Control Law, see section 3 below.

(3) Details regarding the Solvency II-based economic solvency regime which is expected to enter into effect in 2017

(A) Entry into effect of Solvency II-based economic solvency regime

The Commissioner is working to adopt an economic solvency regime in Israel which is based on the principles of European directive Solvency II, the adoption of which in Europe began in 2016. Beginning in 2008, the company has conducted quantitative impact studies (IQIS) in accordance with the detailed instructions which were published by the Commissioner for this purpose, and which were based on the provisions of the Directive which were known at that time in Europe, and included additional adjustments of the Commissioner to the local market.

In February 2017, the text of the provisions regarding the implementation of a new Solvency-II based economic solvency regime for insurance companies, which was submitted to the Finance Committee of the Knesset (hereinafter: the "**Updated Document**"), was published. 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 (hereinafter: the "**Application Date**"). In accordance with the updated document, these provisions will enter into effect gradually, as specified below.

(B) Assessment of the solvency ratio and transitional provisions

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 "guidelines regarding the implementation of IQIS for 2015" (hereinafter: the "**Circular**"), according to which the insurance companies are required to submit a 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**") as of December 31, 2015 (hereinafter: the "**Calculation Date**"), in accordance with the provisions of the circular. In accordance with the results of the assessment, as of the calculation date, Clal Insurance has current capital exceeding required capital, according to the new solvency regime, in consideration of the transitional provisions which pertain to the gradual increase of the capital requirements with respect to stock risk, in accordance with the letter which was sent by the Commissioner on the matter in July 2015. Without taking into account the aforementioned transitional provisions, there is an immaterial capital deficit. The results of IQIS5 were submitted to the Commissioner on August 23, 2016.

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(3) Details regarding the Solvency II-based economic solvency regime which is expected to enter into effect in 2017 (Cont.)

The updated document included a determination according to which the transitional provision which was determined in the past, which stated that the capital requirement with respect to shares will gradually be increased up to its full rate, over a period of 7 years, will continue to apply. Additionally, a distribution period was determined until the full application of the solvency capital requirement, in accordance with the provisions of the updated document (hereinafter: "SCR"), based on the following milestones:

Calculation as of	Solvency capital requirement
June 30, 2017	60% of SCR
December 31, 2017	65% of SCR
December 31, 2018	70% of SCR
December 31, 2019 and June 30, 2020	80% of SCR
December 31, 2020 and June 30, 2021	90% of SCR
December 31, 2021	SCR

Clal Insurance conducted 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 IQSI5 as of the calculation date, without performing the calculation in its entirety, in accordance with the provisions of the updated document. According to the assessment of Clal Insurance, the impact of these changes would have resulted in an improvement in its solvency ratio, such that, as of the calculation date, its current capital would have exceeded its required capital, even without taking into account the transitional provision regarding the capital requirement with respect to holding of shares, and without taking into account the distribution arrangements described above.

(C) MCR and supervisory intervention hierarchy

The updated document defines, in addition to SCR, also a minimum capital requirement (MCR), which must be no less than 25% of SCR and no more than 45% of SCR. Additionally, a supervisory intervention hierarchy was established, according to which a company which does not meet the required solvency ratio, or regarding which there is a significant concern that its solvency ratio will be lower than the minimum requirement, will submit to the Commissioner a plan to ensure its fulfillment of the solvency ratio requirement within 6 months after the date of its submission. If the insurance company has not fulfilled the requirements of the plan, in accordance with the terms specified in the updated document, the Commissioner will consider supervisory intervention in accordance with his authorities. A company which does not meet the minimum capital requirement, or regarding which there is a real concern that it will not meet the minimum capital requirement, will submit to the Commissioner for approval a plan to ensure its fulfillment of the minimum capital requirement within three months after the date of its submission. If the insurance company has not fulfilled the requirements of the plan, in accordance with the terms specified in the updated document, the Commissioner will take supervisory measures in accordance with the authorities which are conferred upon him under the Control Law.

(D) Composition of recognized economic capital

The updated document establishes provisions regarding the composition of recognized capital, on an economic basis, which are based on the provisions of the Commissioner's circular, as specified in section B above. According to the provisions of the updated document, equity must amount to the total of Tier 1 and Tier 2 capital, as defined in the updated document, such that Tier 2 subordinated, Tier 2 hybrid and Tier 3 instruments which were issued before the application date will be classified as Tier 2 capital, and will be recognized in accordance with the terms of their recognition before the application date. It was further determined that the maximum scope of Tier 2 capital will amount to 40% of SCR, and 50% of SCR during the distribution period. With reference to the fulfillment of MCR, it was determined that the maximum scope of Tier 2 capital will amount to 20%.

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(3) Details regarding the Solvency II-based economic solvency regime which is expected to enter into effect in 2017 (Cont.)

(E) Preparations and implications

It is noted that in May 2015, the company's board of directors and the board of directors of Clal Insurance instructed the board of directors' risk management committee, which also functions as the solvency committee (hereinafter: the "Committee"), to evaluate, together with company management, means which will allow Clal Insurance to work towards improving the capital ratio, in accordance with the new solvency regime, and to issue recommendations to the board of directors regarding possible methods of action, including with respect to the performance of business adjustments and/or the performance of financial actions which are associated with the capital of Clal Insurance, its composition and/or its liabilities.

The committee and management have commenced this evaluation, and as part of it, recommended raisings of Tier 2 capital to the board of directors, which were performed as specified in Note 25 below.

The committee, together with management, are continuing to evaluate possible methods of action in connection with the capital and the capital requirements, within the framework of Solvency, in parallel with the clarification of the regulatory guidelines on the matter, and with reference to the results of the studies which were performed and will be performed.

The implementation of the provisions of the solvency regime may change both the recognized regulatory capital and the required regulatory capital, and according to the company's estimate, is expected to result, according to a full calculation, in a significant decrease in the solvency ratio of Clal Insurance relative to the significant decrease in accordance with the Capital Regulations. However, in general, the capital requirements in the solvency regime are intended to represent an absorption buffer for more severe events, with a lower probability, than the capital requirements under the current governance. According to the company's estimate, the changes in the provisions which pertain to the composition of recognized capital, and the conditions in Tier 1 and Tier 2 capital instruments which are included in the updated document, may affect the capital management in Clal Insurance, and future raisings. Additionally, the company has not yet determined an internal target for the required solvency ratio in accordance with the new regime, which is inherently more volatile.

The implications of the Solvency II-based solvency regime constitute forward looking information. As of the present date, it is not possible to estimate the entire implications of the foregoing on the solvency ratio of Clal Insurance, 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. The capital status as of the date of initial application may differ from the capital status as of the calculation date, in light of the inherent sensitivity of the capital calculation model and the capital requirements under the solvency regime, changes in market variables, demographic variables and other variables, and developments in the company's business operations, which may result in fluctuations in the capital ratio between periods.

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(4) Dividends

Save 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, including the effect of the maximum limit regarding Tier 2 and Tier 3 capital.

In August 2016, the Commissioner sent a letter to the managers of the insurance companies on the subject of "dividend distributions by insurance companies" (hereinafter: the "Letter"). The letter constitutes an update to a previous letter from December 2011. In accordance with the letter, 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, according to the rates specified below:

Reporting date	**Up to and including the financial statements as of December 31, 2017**	**Up to and including the financial statements as of December 31, 2018**	**Beginning with the financial statements as of March 31, 2019**
Required solvency ratio	115%	120%	130%

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

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 section C above, Clal Insurance is prevented from distributing dividends until its solvency ratio under this regime exceeds the required rate, as specified above. 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.

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(5) Permit given by the Commissioner to the former controlling shareholders of IDB Holdings, with respect to the holding of control of the company and of 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) 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 from 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, regarding Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds (the "**Institutional Entities**"), (the "**Permit**"), in which IDB Holdings undertook to supplement (or 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, 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.

The company was further informed 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 2.8 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.

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 regarding the control of the company, and regarding undertakings given to the Commissioner regarding the control of the company by the Elsztain-Extra Group, in connection with the debt settlement in IDB Holdings, see Note 1(b)(2) above.

For details regarding the transfer of control in IDB Development (indirectly) to Mr. Eduardo Elsztain and to Mr. Mordechai Ben Moshe, and for details regarding the completion of the separation mechanism, in which Mr. Eduardo Elsztain became the controlling shareholder in IDB Development, see Note 1(a) above.

(6) Clal Insurance is obligated to supplement the capital required of Clal Credit Insurance in accordance with the Capital Regulations, up to 50% of the required capital, if and when the capital of Clal Credit Insurance is negative, effective so long as Clal Insurance is the controlling shareholder of Clal Credit Insurance.

(7) Clal Insurance has undertaken to supplement, at any time, the equity of Clal Pension and Provident Funds Ltd., to the amount stipulated in the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964. The undertaking will remain in effect so long as the company controls Clal Pension and Provident Funds, either directly or indirectly. For details regarding the capital requirements, see section F below.

Note 16 - Capital and Reserves (Cont.)

F. Capital requirements for managing companies of pension funds and provident funds

1. In February 2012, the Control of Financial Services Regulations (Provident Funds) (Minimum Equity Required of Managing Companies of Provident Funds or Pension Funds), 2012 and the Income Tax Regulations (Rules for Approval and Management of Provident Funds) (Amendment No. 2), 2012 (hereinafter: the "**New Regulations**") were published. In accordance with the new regulations, the capital requirements for managing companies were expanded, and include capital requirements in accordance with the scope of managed assets and annual expenses, however, no less than initial capital of NIS 10 million. Liquidity requirements were also established.

   A managing company will be entitled to distribute dividends only if its equity is at least the minimum equity required of it according to these Regulations. A managing company will also be required to provide additional capital with respect to controlled managing companies.

   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 capital required pursuant to the Capital Regulations for Managing Companies.

2. In light of the publication of the Capital Regulations for Managing Companies, and for the purpose of financing the operating activities and investing activities in the automation system (see Note 45(c) below) of Clal Pension and Provident Funds Ltd., and for the existence of future liquidity, in 2015 and in 2014, the boards of directors of Clal Insurance and Clal Pension and Provident Funds Ltd. approved an injection of approximately NIS 100 million and approximately NIS 80 million, respectively, against an allocation of the shares of Clal Pension and Provident Funds Ltd., according to its value.

Note 17 - Liabilities with Respect to Non-Investment-Linked Insurance Contracts and Investment Contracts [1)]

	As of December 31					
	2016	2015	2016	2015	2016	2015
NIS in thousands	**Gross**		**Reinsurance**		**Retention**	
Life insurance and long-term savings						
Insurance contracts	19,057,372	18,783,432	43,476	44,058	19,013,896	18,739,374
Investment contracts	2,328,313	2,354,722	-	-	2,328,313	2,354,722
Total insurance contracts and investment contracts	21,385,685	21,138,154	43,476	44,058	21,342,209	21,094,096
Less amounts deposited in a consolidated company as part of a defined benefit plan for employees of the group	(1,690)	(2,398)	-	-	(1,690)	(2,398)
Total long term savings	21,383,995	21,135,756	43,476	44,058	21,340,519	21,091,698
Insurance contracts included in the health insurance segment (Note 21)	1,895,640	1,750,868	359,348	336,697	1,536,292	1,414,171
Insurance contracts which are included in the non-life insurance segment (Note 19)	6,489,344	6,907,609	1,638,056	1,750,757	4,851,288	5,156,852
Total liabilities with respect to non-investment-linked insurance contracts and investment contracts	29,768,979	29,794,233	2,040,880	2,131,512	27,728,099	27,662,721

Note 18 - Liabilities with Respect to Investment-Linked Insurance Contracts and Investment Contracts [1)]

	As of December 31					
	2016	2015	2016	2015	2016	2015
NIS in thousands	**Gross**		**Reinsurance**		**Retention**	
Life insurance and long-term savings						
Insurance contracts	**51,732,309**	48,953,995	**179,633**	178,391	**51,552,676**	48,775,604
Investment contracts	**2,027,482**	2,150,374	-	-	**2,027,482**	2,150,374
Total insurance contracts and investment contracts	**53,759,791**	51,104,369	**179,633**	178,391	**53,580,158**	50,925,978
Less amounts deposited in a consolidated company as part of a defined benefit plan for employees of the group	**(18,681)**	(18,789)	-	-	**(18,681)**	(18,789)
Total long term savings	**53,741,110**	51,085,580	**179,633**	178,391	**53,561,477**	50,907,189
Insurance contracts included in the health insurance segment (Note 21)	**3,534,683**	3,260,969	**7,526**	8,572	**3,527,157**	3,252,397
Total liabilities with respect to investment-linked insurance contracts and investment contracts	**57,275,793**	54,346,549	**187,159**	186,963	**57,088,634**	54,159,586

1) In investment-linked insurance contracts, insurance benefits which the beneficiary is entitled to receive are contingent upon or linked to returns produced by certain investments of the group, less management fees. These contracts include, inter alia, insurance plans which credit / charge to the policyholder a bonus / malus, according to the investment results achieved by the policies which share in the group's investment income. In non-investment-linked insurance contracts, the insurance benefits to which a policyholder is entitled are not dependent on the income or loss resulting from investments made by the group.

   The distinction between investment-linked contracts and non-investment-linked contracts is made on the level of the individual coverage, such that insurance policies exist which include several coverages, some of which are investment-linked, while others are non-investment-linked.

Note 19-Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment

A. Liabilities with respect to insurance contracts included under non-life insurance segments, by type

	As of December 31					
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
NIS in thousands	**Gross**		**Reinsurance**		**Retention**	
Compulsory motor and liabilities branches						
Unearned premium reserve	**351,970**	366,094	**67,083**	76,881	**284,887**	289,213
Outstanding claims and premium deficiency reserve	**4,519,133**	4,620,611	**1,027,487**	899,703	**3,491,646**	3,720,908
Total compulsory motor and liabilities branches	**4,871,103**	4,986,705	**1,094,570**	976,584	**3,776,533**	4,010,121
Of which, total liabilities with respect to the compulsory motor insurance branch	**2,380,386**	2,566,840	**119,659**	103,484	**2,260,727**	2,463,356
Property and others branches						
Unearned premium reserve	**628,885**	696,661	**233,143**	239,152	**395,742**	457,509
Premium deficiency reserve	**21,448**	27,642	**-**	-	**21,448**	27,642
Outstanding claims	**967,908**	1,196,601	**310,343**	535,021	**657,565**	661,580
Total property and others branches	**1,618,241**	1,920,904	**543,486**	774,173	**1,074,755**	1,146,731
Total liabilities with respect to insurance contracts included under non-life insurance segments	**6,489,344**	6,907,609	**1,638,056**	1,750,757	**4,851,288**	5,156,852
Deferred acquisition costs						
Compulsory motor and liabilities branches	**74,998**	77,132	**8,734**	9,721	**66,264**	67,411
Property and others branches	**162,490**	174,104	**52,810**	50,744	**109,680**	123,360
Total deferred acquisition costs	**237,488**	251,236	**61,544**	60,465	**175,944**	190,771
Liabilities with respect to non-life insurance contracts less deferred acquisition costs						
Compulsory motor and liabilities branches (see section C1 below)	**4,796,105**	4,909,573	**1,085,836**	966,863	**3,710,269**	3,942,710
Property and others branches (See 2C below)	**1,455,751**	1,746,800	**490,676**	723,429	**965,075**	1,023,371
Total liabilities with respect to non-life insurance contracts less deferred acquisition costs	**6,251,856**	6,656,373	**1,576,512**	1,690,292	**4,675,344**	4,966,081

B. Liabilities with respect to insurance contracts included in the non-life insurance segment, by calculation method

	As of December 31					
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	Gross		**Reinsurance**		**Retention**	
Actuarial valuations						
Mr. Yaakov Mauser 1)	**5,362,749**	5,626,614	**1,260,026**	1,293,290	**4,102,723**	4,333,324
Provisions on the basis of other estimates						
Estimate of the claims department regarding known outstanding claims	**70,486**	63,010	**46,030**	42,270	**24,456**	20,739
Addition for outstanding claims with respect to incurred but not reported (IBNR) claims	**19,299**	80,193	**13,027**	68,561	**6,272**	11,633
Unearned premium reserve	**980,855**	1,062,755	**300,226**	316,033	**680,629**	746,722
Other estimates	**455**	771	**-**	-	**455**	771
Net surplus revenues (accrual)	**55,500**	74,266	**18,747**	30,603	**36,753**	43,663
Total liabilities with respect to insurance contracts included in the non-life insurance segment in Israel	**6,489,344**	6,907,609	**1,638,056**	1,750,757	**4,851,288**	5,156,852

1) See the certifications by the chief actuary in non-life insurance in Israel, which are attached as an annex to the financial statements. No addition / deficiency exists between the actuarial valuations and the amount included in the financial statements.

Note 19-Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

C. Movement in liabilities with respect to insurance contracts included under the non-life insurance segment, less deferred acquisition costs

1. Compulsory motor and liabilities branches

	As of December 31					
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
NIS in thousands	**Gross**		**Reinsurance**		**Retention**	
Balance at beginning of year	**4,909,573**	5,427,424	**966,863**	1,014,844	**3,942,710**	4,412,580
Cumulative claim costs with respect to the current underwriting year	**638,224**	661,196	**62,393**	83,547	**575,831**	577,649
Change in balances as of the beginning of the year resulting from the indexation to the CPI and the investment income, according to the discount assumption embodied in the liability.	**44,437**	19,425	**9,126**	3,735	**35,311**	15,690
Impact of change in discount rate *)	-	(75)	-	915	-	(990)
Impact of the provision with respect to the Winograd Committee **)	**176,886**	-	**35,493**	-	**141,393**	-
Balance of change in estimated cumulative claims cost with respect to previous underwriting years ***)	**(92,339)**	(328,082)	**109,267**	(54,162)	**(201,606)**	(273,920)
Total change in cumulative claim costs	**767,208**	352,464	**216,279**	34,035	**550,929**	318,429
Claim settlement payments during the year:						
With respect to the current underwriting year	**(3,631)**	(2,186)	**(2)**	(5)	**(3,629)**	(2,181)
With respect to previous underwriting years	**(877,045)**	(818,459)	**(97,304)**	(59,573)	**(779,741)**	(758,886)
Total payments	**(880,676)**	(820,645)	**(97,306)**	(59,578)	**(783,370)**	(761,067)
With respect to the current underwriting year	-	844	-	308	-	536
Accrual charged to income with respect to the released underwriting year	-	(36,388)	-	(19,012)	-	(17,376)
Balance of the change in accrual	-	24,057	-	1,964	-	22,093
Total change in accrual	-	(11,487)	-	(16,740)	-	5,253
Impact of the cancellation of the accrual and the initial application of best practices (see Note 3(d)).	-	(38,183)	-	(5,698)	-	(32,485)
Balance at end of year	**4,796,105**	4,909,573	**1,085,836**	966,863	**3,710,269**	3,942,710

1. The opening and closing balances include: outstanding claims, premium deficiency reserve, accrual (opening balances only), and unearned premiums, less deferred acquisition costs.
2. The cumulative (ultimate) cost of claims is the balance of outstanding claims (without accrual), the premium deficiency reserve, unearned premiums less deferred acquisition costs, plus total claim payments, including direct and indirect claim settlement payments.
3. The payments include indirect claim settlement expenses (general and administrative expenses recorded for claims) attributed to the underwriting years.

*) For additional details, see Note 40(e)(e2)(4).
**) For additional details, see Note 42(e2)(4)(g).
***) The change in estimated cumulative claims costs with respect to the previous underwriting years is due, inter alia, to the decrease in individual claim costs, and the impact of the actuarial model, less the increase in estimated claims (which is affected, inter alia, by the change in the discount rate - see Note 40(e)(e2)), and the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Note 19-Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

C. Movement in liabilities with respect to insurance contracts included under the non-life insurance segment, less deferred acquisition costs (Cont.)

2. Property and others branches

	As of December 31					
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
NIS in thousands	**Gross**		**Reinsurance**		**Retention**	
Balance at beginning of year	**1,746,800**	1,596,625	**723,429**	572,248	**1,023,371**	1,024,377
Cumulative claim costs with respect to events during the reporting year	**894,729**	1,161,212	**222,802**	411,815	**671,927**	749,397
Change in cumulative claim costs with respect to events prior to the reporting year	**(57,956)**	22,367	**(89,971)**	(57)	**32,015**	22,424
Total change in cumulative claim costs	**836,773**	1,183,579	**132,831**	411,758	**703,942**	771,821
Claim settlement payments during the year:						
With respect to events during the reporting year	**(506,204)**	(609,745)	**(101,420)**	(121,300)	**(404,784)**	(488,445)
With respect to events prior to the reporting year	**(559,270)**	(445,574)	**(256,068)**	(132,774)	**(303,202)**	(312,800)
Total payments	**(1,065,474)**	(1,055,319)	**(357,488)**	(254,074)	**(707,986)**	(801,245)
Change in the unearned premium reserve, net of deferred acquisition costs	**(56,155)**	(65,065)	**(8,096)**	(32,586)	**(48,059)**	(32,479)
Change in the premium deficiency reserve	**(6,193)**	1,876	**-**	-	**(6,193)**	1,876
Impact of the cancellation of the accrual and the initial application of best practices	**-**	85,104	**-**	26,083	**-**	59,021
Balance at end of year	**1,455,751**	1,746,800	**490,676**	723,429	**965,075**	1,023,371

1. The opening and closing balances include outstanding claims with the addition of the premium deficiency reserve and unearned premiums, less deferred acquisition costs.
2. The cumulative cost of claims with respect to events during the reporting year includes the balance of outstanding claims as of the end of the reporting year, with the addition of total claim payments during the reporting period, including direct and indirect claim settlement expenses.
3. Claim settlement payments during the year include payments with respect to events prior to the reporting year, with the addition of the change in the balance of outstanding claims with respect to events prior to the reporting year.
4. The claim settlement payments include direct and indirect expenses for the settlement of those claims (general and administrative expenses recorded for claims), as attributed to the damage years.

Note 19- Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D1. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, gross, in the compulsory motor and liabilities branches in Israel, and branches assessed on the basis of underwriting years in Europe

	As of December 31, 2016										
	Underwriting Year										
NIS in thousands, adjusted to CPI for November 2016 [1])	**2007 [2])**	**2008 [2])**	**2009 [2])**	**2010 [2])**	**2011 [2])**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Claims paid (cumulative) at end of year											
After one year	35,444	68,780	32,725	30,909	75,714	5,206	4,322	4,255	2,179	3,631	
After two years	285,991	276,357	340,797	411,612	128,596	52,461	43,785	40,991	33,309		
After three years	515,173	443,048	567,268	505,229	222,297	154,035	137,684	131,039			
After four years	640,560	563,918	694,699	601,141	344,495	269,008	265,463				
After five years	846,764	676,670	804,661	699,686	465,495	406,186					
After six years	950,581	790,608	899,268	793,452	575,133						
After seven years	1,049,323	878,782	995,455	894,765							
After eight years	1,119,503	959,702	1,088,042								
After nine years	1,157,117	1,017,325									
After ten years	1,189,547										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year [3])	1,379,976	1,433,905	1,377,221	1,347,921	1,184,872*)	935,111	871,540	773,130	659,193	638,224	
After two years	1,421,848	1,356,332	1,624,754	1,711,273*)	966,493	1,010,602	856,461	780,264	668,677		
After three years	1,423,296	1,292,651	1,485,389*)	1,308,105	1,033,264	1,022,211	834,360	789,517			
After four years	1,402,501	1,251,770*)	1,394,953	1,26,4011	1,022,432	946,025	818,371				
After five years	1,444,356*)	1,244,723	1,380,492	1,241,334	1,026,605	994,148					
After six years	1,429,073	1,225,577	1,374,726	1,196,290	1,119,121						
After seven years	1,387,948	1,209,364	1,330,939	1,200,984							
After eight years	1,364,508	1,190,885	1,348,661								
After nine years	1,331,879	1,197,834									
After ten years	1,322,390										
Surplus (deficit) relative to the first year which did not include accrual [4])	80,111	53,936	46,292	63,027	(96,689)	(48,123)	15,989	(9,253)	(9,484)		114,774
Rate of the deviation relative to the first year which did not include accrual, in percent	5.71%	4.31%	3.32%	4.99%	(9.46%)	(5.09%)	1.9%	(1.2%)	(1.4%)		1.2%
Cumulative cost of claims as of December 31, 2016	1,322,390	1,197,834	1,348,661	1,200,984	1,119,121	994,148	818,371	789,517	668,677	638,224	10,097,927
Cumulative payments until December 31, 2016	1,189,547	1,017,325	1,088,042	894,765	575,133	406,186	265,463	131,039	33,309	3,631	5,604,440
Total liabilities as of December 31	132,843	180,509	260,619	306,219	543,988	587,962	552,908	658,478	635,368	634,593	4,493,487
Outstanding claims for years up to and including the 2006 underwriting year											302,618
Total gross liability with respect to insurance contracts in the compulsory motor and liabilities branches in Israel, less deferred acquisition costs as of December 31, 2016											4,796,105
	Up to and including the 2007 underwriting year										
*) Less outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	13,560	21,871	67,467	422,147	233,596						758,641

1) The above amounts are presented according to inflation adjusted values (arising from operations in Israel), or revaluated values based on the exchange rate as of the reporting date (arising from consolidated companies abroad), in order to allow examination of the development on the basis of real values.
2) From 2007 to 2011, including Broadgate data.
3) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.
4) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

The change in estimated cumulative claim costs with respect to the previous underwriting years is due, inter alia, to the decline in individual claim costs, to the impact of the actuarial model, including in Broadgate, to underwriting year such as the transfer of insurance responsibility for the and provision of medical services due to physical injury for road accident victims from the insurance companies to the health funds, and to the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Note 19-Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D2. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, on self-retention, in the compulsory motor insurance and liabilities branches in Israel, and branches assessed on the basis of underwriting years in Europe

	As of December 31, 2016										
	Underwriting Year										
	2007 [2]	2008 [2]	2009 [2]	2010 [2]	2011 [2]	2012	2013	2014	2015	2016	Total
	NIS in thousands, adjusted to CPI for November 2016 [1])										
Claims paid (cumulative) at end of year											
After one year	33,983	68,671	27,025	24,256	44,340	5,123	4,311	4,255	2,174	3,629	
After two years	250,104	267,788	256,162	204,105	95,072	48,561	42,969	36,994	32,734		
After three years	459,000	425,863	409,769	294,263	185,510	141,010	129,673	121,183			
After four years	581,866	539,537	516,994	387,226	301,735	243,612	250,427				
After five years	696,186	637,827	618,277	481,140	417,312	349,670					
After six years	795,592	739,949	706,788	573,464	518,337						
After seven years	884,731	826,096	799,748	671,778							
After eight years	946,981	899,774	880,258								
After nine years	983,365	944,649									
After ten years	1,014,365										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year [3)]	1,134,028	1,148,239	1,037,582	1,049,461	963,914*)	792,829	745,360	668,851	568,693	575,829	
After two years	1,162,233	1,121,082	1,249,433	1,119,598*)	793,561	790,238	737,909	649,364	582,281		
After three years	1,193,607	1,135,774	1,154,669*)	962,904	820,474	799,380	728,184	654,820			
After four years	1,191,382	1,109,224*)	1,088,970	948,949	809,516	774,097	707,000				
After five years	1,192,354*)	1,109,011	1,082,938	930,550	813,351	771,184					
After six years	1,182,049	1,103,390	1,084,914	902,597	829,421						
After seven years	1,163,775	1,090,917	1,063,229	906,010							
After eight years	1,144,053	1,067,723	1,067,647								
After nine years	1,112,126	1,066,962									
After ten years	1,103,480										
Surplus (deficit) relative to the first year which did not include accrual [4)]	87,902	42,262	21,323	42,939	(19,905)	2,913	21,184	(5,456)	(13,588)		179,574
Rate of the deviation relative to the first year which did not include accrual, in percent	7.38%	3.81%	1.96%	4.52%	(2.46%)	0.38%	2.91%	(0.84%)	(2.39%)		2.28%
Cumulative cost of claims as of December 31, 2016	1,103,480	1,066,962	1,067,647	906,010	829,421	771,184	707,000	654,820	582,281	575,829	8,264,634
Cumulative payments until December 31, 2016	1,014,365	944,649	880,258	671,778	518,337	349,670	250,427	121,183	32,734	3,629	4,787,030
Balance of outstanding claims	89,115	122,313	187,389	234,232	311,084	421,514	456,573	533,637	549,547	572,200	3,477,604
Outstanding claims for years up to and including the 2006 underwriting year											232,665
Total liabilities on self-retention with respect to insurance contracts in the compulsory motor and liabilities branches, less deferred acquisition costs as of December 31, 2016											3,710,269
	Up to and including the 2007 underwriting year										
*) Less outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	11,075	18,640	41,636	176,033	174,244						421,628

1) The above amounts are presented according to inflation adjusted values (arising from operations in Israel), or revaluated values based on the exchange rate as of the reporting date (arising from consolidated companies abroad), in order to allow examination of the development on the basis of real values.
2) From 2007 to 2011, including Broadgate data.
3) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.
4) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

The change in estimated cumulative claim costs with respect to the previous underwriting years is due, inter alia, to the decline in individual claim costs, to the impact of the actuarial model, including in Broadgate, to underwriting year such as the transfer of insurance responsibility for the and provision of medical services due to physical injury for road accident victims from the insurance companies to the health funds, and to the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Note 19- Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D3. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, gross, in the compulsory motor branch

	As of December 31, 2016										
	Underwriting Year										
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
	NIS in thousands, adjusted to CPI for November 2016 [1])										
Claims paid (cumulative) at end of year											
After one year	16,205	10,631	10,442	3,753	3,712	2,858	3,231	1,644	1,456	1,488	
After two years	94,340	80,120	62,770	41,368	39,273	34,414	33,262	24,769	23,667		
After three years	182,027	157,860	130,434	105,168	107,857	106,479	91,192	84,464			
After four years	262,059	235,107	205,170	175,558	187,268	171,622	178,374				
After five years	349,649	297,863	276,119	228,657	257,067	237,974					
After six years	426,209	371,265	334,797	280,828	323,811						
After seven years	493,997	438,538	398,270	350,709							
After eight years	544,551	497,649	453,807								
After nine years	565,188	528,804									
After ten years	583,490										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year [2)]	689,321	629,075	612,095	548,355	516,290	522,952	511,391	470,115	395,020	397,662	
After two years	699,638	643,503	618,200	557,085	521,530	524,034	502,524	456,662	399,373		
After three years	713,048	657,044	631,732	569,793	533,257	536,605	502,413	456,795			
After four years	709,193	623,835	587,958	527,767	503,092	503,867	477,064				
After five years	702,247	630,515	573,057	500,687	498,051	488,865					
After six years	697,241	625,193	566,029	461,988	507,824						
After seven years	682,718	624,491	543,228	463,212							
After eight years	666,418	605,471	543,011								
After nine years	636,367	601,947									
After ten years	629,769										
Surplus (deficit) relative to the first year which did not include accrual [3)]	79,424	21,888	44,947	64,555	(4,732)	15,002	25,349	(133)	(4,353)		241,947
Rate of the deviation relative to the first year which did not include accrual, in percent	11.2%	3.5%	7.6%	12.2%	(0.9%)	3.0%	5.05%	(0.03%)	(1.1%)		5.03%
Cumulative cost of claims as of December 31, 2016	629,769	601,947	543,011	463,212	507,824	488,865	477,064	456,795	399,373	397,662	4,965,522
Cumulative payments until December 31, 2016	583,490	528,804	453,807	350,709	323,811	237,974	178,374	84,464	23,667	1,488	2,766,588
Total liabilities as of December 31, 2016	46,279	73,143	89,204	112,503	184,013	250,891	298,690	372,331	375,706	396,174	2,198,934
Outstanding claims for years up to and including the 2006 underwriting year											153,852
Total gross liabilities with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2016											2,352,786

1) The above amounts are adjusted for inflation values to allow evaluation of the development on the basis of real values.
2) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.
3) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

The change in estimated cumulative claim costs with respect to the previous underwriting years is due, inter alia, to the decline in individual claim costs, to the impact of the actuarial model, including in Broadgate, to underwriting year such as the transfer of insurance responsibility for the and provision of medical services due to physical injury for road accident victims from the insurance companies to the health funds, and to the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Note 19- Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D4. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, on self-retention, in the compulsory motor branch

	As of December 31, 2016										
	Underwriting Year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	NIS in thousands, adjusted to CPI for November 2016 [1]										
Claims paid (cumulative) at end of year											
After one year	16,205	10,631	10,442	3,753	3,712	2,858	3,231	1,644	1,456	1,488	
After two years	94,340	80,120	62,770	41,368	39,273	34,414	33,262	24,769	23,667		
After three years	182,027	157,860	130,434	105,168	107,857	106,479	91,192	84,464			
After four years	262,059	235,107	205,170	175,558	187,268	171,622	175,007				
After five years	341,863	297,863	276,119	228,657	257,067	237,974					
After six years	415,208	369,953	333,479	280,828	322,876						
After seven years	480,835	435,100	394,279	350,709							
After eight years	526,539	487,702	447,058								
After nine years	547,176	516,027									
After ten years	565,478										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year [2]	676,604	620,672	601,805	538,688	505,703	510,758	498,583	458,355	386,885	389,256	
After two years	682,418	628,956	601,611	541,007	503,831	503,801	489,422	445,859	388,766		
After three years	696,465	642,823	615,555	553,952	515,884	516,355	491,632	445,391			
After four years	686,706	611,574	574,334	519,645	494,290	493,957	465,299				
After five years	678,087	617,972	564,610	492,430	489,243	477,642					
After six years	672,366	612,932	559,746	460,833	487,309						
After seven years	657,670	606,109	536,766	457,624							
After eight years	647,051	583,886	533,595								
After nine years	617,313	581,300									
After ten years	610,436										
Surplus (deficit) relative to the first year which did not include accrual [3]	76,270	30,274	40,739	62,021	6,981	16,315	26,333	468	(1,881)		257,520
Rate of the deviation relative to the first year which did not include accrual, in percent	11.11%	4.95%	7.09%	11.94%	1.41%	3.30%	5.36%	0.1%	(0.49%)		5.47%
Cumulative cost of claims as of December 31, 2016	610,436	581,300	533,595	457,624	487,309	477,642	465,299	445,391	388,766	389,256	4,836,618
Cumulative payments until December 31, 2016	565,478	516,027	447,058	350,709	322,876	237,974	175,007	84,464	23,667	1,488	2,724,748
Total liabilities as of December 31, 2016	44,958	65,273	86,537	106,915	164,433	239,668	290,292	360,927	365,099	387,768	2,111,870
Outstanding claims for years up to and including the 2006 underwriting year											121,257
Total liabilities on self-retention with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2016											2,233,127

1) The above amounts are adjusted for inflation values to allow evaluation of the development on the basis of real values.
2) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.
3) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

The change in estimated cumulative claim costs with respect to the previous underwriting years is due, inter alia, to the decline in individual claim costs, to the impact of the actuarial model, including in Broadgate, to underwriting year such as the transfer of insurance responsibility for the and provision of medical services due to physical injury for road accident victims from the insurance companies to the health funds, and to the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Note 19-Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D5. Segmentation of income on retention in the compulsory motor insurance branch (NIS thousands)

Reporting year	Income (loss) with respect to current underwriting year	Comprehensive income (loss) with respect to the open years	Comprehensive income with respect to the underwriting year which was released during the reporting year [1]	Adjustments with respect to previous underwriting years	Total Profit Total reported	Operation not included in the reserves calculation and not attributed to underwriting years *)
2016	**(26,936)**	-	-	**100,272**	**73,336**	-
2015	-	(3,316)	35,523	198,534	230,741	6,853
2014	-	5,612	35,670	158,845	200,127	2,132

*) Included under reported comprehensive income (loss).
Adjustments with respect to the underwriting years that matured in previous years derives primarily from the change in investment revenues and changes in the costs of claims for the previous years.
In an operation which is not included in the calculation of the reserves, which was allocated to the underwriting years, the difference was recorded between total investment income used to calculate the amount of net surplus revenues (the "accrual amount") and total income from investments charged to the statement of income, as well as the difference between general and administrative and expenses which are used in order to calculate the accrual amount in accordance with the Commissioner's directives, and actual general and administrative expenses.

1) The underwriting years which were released during the 2014 and 2015 reporting years were 2012 and 2011, respectively. See Note 3(d)(2)(b). Changes in the calculation of insurance reserves in non-life insurance, beginning on December 31, 2015.

D6. Data regarding the 2010-2016 underwriting years in the compulsory motor branch (NIS in thousands)

	Underwriting years						
NIS in thousands	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Gross premiums (including fees)	**451,584**	450,890	541,155	568,482	572,912	560,332	585,292
Comprehensive income (loss) on retention in the underwriting year, accumulated until the reporting date	**(26,936)**	(21,229)	7,318	43,105	74,560	70,574	143,036
Includes the balance of the net surplus revenues on retention which was applied directly to retained earnings in 2015, in the amount of	-	313	8,734	8,050	-	-	-
Impact of revenues from investments on the profits/accumulated surplus for the underwriting year	**4,194**	13,738	23,978	50,751	79,254	94,532	113,407

D7. Distribution of profit on retention in the other liabilities insurance branch (NIS thousands)

Reporting year	Profit (loss) with respect to current underwriting year	Comprehensive income (loss) with respect to the open years	Comprehensive income (loss) with respect to the underwriting year which was released during the reporting year [1]	Adjustments with respect to previous underwriting years	Total reported comprehensive income (loss)	Operation not included in the reserves calculation and not attributed to underwriting years
2016	**(58,545)**	-	-	**(18,119)**	**(76,664)**	-
2015 *)	-	(27,828)	11,841	57,833	41,846	(24,005)
2014 *)	-	(45,046)	(2,428)	90,433	42,959	(21,613)

*) Included under reported comprehensive income (loss).
Adjustments with respect to the underwriting years that matured in previous years derives primarily from the change in investment revenues and changes in the costs of claims for the previous years.
In an operation which is not included in the calculation of the reserves, which was allocated to the underwriting years, the difference was recorded between total investment income used to calculate the amount of net surplus revenues (the "accrual amount") and total income from investments charged to the statement of income, as well as the difference between general and administrative and expenses which are used in order to calculate the accrual amount in accordance with the Commissioner's directives, and actual general and administrative expenses.

1) The underwriting years which were released during the 2014 and 2015 reporting years were 2012 and 2011, respectively. See Note 3(d)(2)(b). Changes in the calculation of insurance reserves in non-life insurance, beginning on December 31, 2015.

Note 19-Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D8. Data regarding the 2010-2016 underwriting years in the other liabilities insurance branch (NIS in thousands)

	Underwriting years						
	2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Gross premiums (including fees)	**290,920**	308,040	357,336	379,743	454,033	401,322	412,713
Comprehensive income (loss) on retention in the underwriting year, accumulated until the reporting date	**(58,545)**	**(61,489)**	**(54,648)**	**(52,467)**	**(69,129)**	**(84,547)**	**(76,634)**
Includes the balance of the net surplus revenues on retention which was applied directly to retained earnings in 2015, in the amount of	-	223	1,380	6,578	-	-	-
Impact of revenues from investments on the profits/accumulated surplus for the underwriting year	**1,526**	5,932	9,281	23,924	42,312	48,365	56,631

Note 19- Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

E1. Examination of the development of the assessment of gross outstanding claims in property and others branches

	As of December 31, 2016										
	Damage year										
NIS in thousands, adjusted to CPI for November 2016 1)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Claims paid (cumulative) at end of year											
After one year	845,098 **)	848,694	844,312	802,745	946,213	788,566	836,498	555,822	593,297	472,559	
After two years	1,287,213	1,273,174	1,266,340	1,315,149	1,604,728	1,084,671	1,243,461	662,564	1,021,722		
After three years	1,426,335	1,386,171	1,398,359	1,457,114	1,671,103	1,131,904	1,281,578	723,294			
After four years	1,500,703	1,453,910	1,462,027	1,483,991	1,695,997	1,151,712	1,320,275				
After five years	1,542,382	1,466,452	1,485,852	1,503,868	1,709,977	1,174,049					
After six years	1,565,972	1,476,250	1,498,571	1,513,331	1,726,044						
After seven years	1,573,341	1,482,327	1,504,578	1,504,843							
After eight years	1,578,614	1,488,586	1,514,584								
After nine years	1,585,120	1,495,939									
After ten years	1,589,931										
Cumulative claims (including payments)											
After one year	1,835,849	1,893,550	1,824,255 *)	1,845,290	1,579,331	1,870,978	1,380,361	951,482	1,202,345	861,083	
After two years	1,813,982	1,806,505*)	1,749,730	1,865,475	2,429,475	1,246,476	1,452,113	824,469	1,201,503		
After three years	1,750,398 *)	1,707,192	1,707,801	1,852,362	2,255,360	1,254,069	1,428,699	834,621			
After four years	1,714,464	1,676,673	1,716,338	1,845,513	1,776,442	1,228,345	1,406,862				
After five years	1,716,254	1,639,552	1,714,931	1,571,673	1,764,346	1,228,128					
After six years	1,716,289	1,500,239	1,546,595	1,528,906	1,760,538						
After seven years	1,605,813	1,514,283	1,543,145	1,534,312							
After eight years	1,606,202	1,512,565	1,540,732								
After nine years	1,605,822	1,512,261									
After ten years	1,606,407										
Estimated cumulative cost of claims as of December 31, 2016	1,606,407	1,512,261	1,540,732	1,534,312	1,760,538	1,228,128	1,406,862	834,621	1,201,503	861,083	13,486,446
Cumulative payments until December 31, 2016	1,589,931	1,495,939	1,514,584	1,504,843	1,726,044	1,174,049	1,320,275	723,294	1,021,722	472,559	12,543,239
Balance of outstanding claims	16,476	16,322	26,148	29,469	34,494	54,079	86,587	111,327	179,781	388,524	943,207
Outstanding claims for years up to and including the 2006 damage year											24,701
Total outstanding claims in the property and others branches as of December 31, 2016											967,908
*) Outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	253	5,402	5,258								10,913

**) Includes payments before the business combination in a consolidated company in the United States, in the amount of NIS 22,604 thousand.

1) The above amounts are presented in values adjusted for inflation, in order to allow an evaluation of their development based on real values.

Note 19- Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

E2. Evaluation of the development of the assessment of outstanding claims on retention in the property and others branches

	As of December 31, 2016										
	Damage year										
NIS in thousands, adjusted to CPI for November 2016 [1])	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Claims paid (cumulative) at end of year											
After one year	678,348 **)	679,011	649,915	655,402	668,484	599,555	526,995	458,873	473,399	371,135	
After two years	999,883	957,615	966,897	1,006,889	1,038,095	806,198	729,151	478,386	686,124		
After three years	1,103,245	1,037,543	1,078,067	1,129,036	1,075,592	841,890	738,343	524,399			
After four years	1,165,387	1,097,426	1,135,738	1,150,479	1,099,554	855,459	759,008				
After five years	1,201,683	1,107,190	1,151,673	1,169,064	1,113,764	872,479					
After six years	1,219,613	1,116,550	1,162,665	1,177,556	1,125,511						
After seven years	1,227,322	1,121,484	1,164,765	1,167,100							
After eight years	1,230,706	1,127,941	1,174,895								
After nine years	1,233,509	1,133,795									
After ten years	1,236,022										
Cumulative claims (including payments)											
After one year	1,374,686	1,417,375	1,408,009 *)	1,409,523	893,848	1,378,831	784,856	743,368	770,625	638,283	
After two years	1,364,646	1,347,943 *)	1,340,322	1,430,061	1,738,338	909,049	846,515	584,526	797,134		
After three years	1,330,297*)	1,279,419	1,313,744	1,444,464	1,635,654	924,345	821,875	598,912			
After four years	1,327,761	1,274,006	1,323,981	1,484,891	1,161,562	908,383	817,097				
After five years	1,325,900	1,248,924	1,352,283	1,217,359	1,152,377	918,913					
After six years	1,326,836	1,126,535	1,187,974	1,204,208	1,157,051						
After seven years	1,241,595	1,138,819	1,184,021	1,190,673							
After eight years	1,241,721	1,140,899	1,191,417								
After nine years	1,242,097	1,142,241									
After ten years	1,243,088										
Cumulative cost of claims as of December 31, 2016	1,243,088	1,142,241	1,191,417	1,190,673	1,157,051	918,913	817,097	598,912	797,134	638,283	9,694,810
Cumulative payments until December 31, 2016	1,236,022	1,133,795	1,174,895	1,167,100	1,125,511	872,479	759,008	524,399	686,124	371,135	9,050,468
Total balance of outstanding claims in the branch as of December 31, 2016	7,066	8,446	16,522	23,573	31,540	46,434	58,089	74,512	111,011	267,148	644,341
Outstanding claims for years up to and including the 2006 damage year											13,225
Total outstanding claims in the property and others branches as of December 31, 2016											657,565
*) Outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	225	1,956	626								2,807

**) Includes payments before the business combination in a consolidated company in the United States, in the amount of NIS 22,577 thousand.

1) The above amounts are presented in values adjusted for inflation, in order to allow an evaluation of their development based on real values.

Note 20- Additional Details Regarding the Long Term Savings Segment

A. Liabilities with respect to insurance contracts and investment contracts, by exposure

Data as of December 31, 2016:

		Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
				From 2004		Risk sold as a single policy		
	NIS in thousands	**Until 1990** [1]	**Until 2003**	**Non-investment-linked**	**Investment-linked**	**Individual**	**Collective**	**Total**
1	**By insurance exposure**							
	Liabilities with respect to insurance contracts							
	Annuity without guaranteed factors	-	-	-	374,237	-	-	374,237
	Annuity with guaranteed factors							
	Until May 2001	11,043,795	22,538,088	-	-	-	-	33,581,883
	From June 2001	-	3,813,195	131,275	12,253,292	-	-	16,197,762
	Paid annuity	2,413,506	1,241,894	-	158,193	-	-	3,813,593
	Capital-based (without annuity option)	2,627,318	7,358,205	2,443	2,420,195	-	-	12,408,161
	Supplementary pension reserve [2]	1,569,691	498,197	-	7,768	-	-	2,075,656
	Other risk components	172,489	740,672	4,258	509,180	598,986	312,804	2,338,389
	Total with respect to insurance contracts	17,826,799	36,190,251	137,976	15,722,865	598,986	312,804	70,789,681
	Liabilities with respect to investment contracts in life insurance	-	-	2,988	2,027,483	-	-	2,030,471
	Total life insurance	17,826,799	36,190,251	140,964	17,750,348	598,986	312,804	72,820,152
	Liabilities with respect to consolidated managing companies of provident funds [3]							2,325,325
	Total							75,145,477
2	**By financial exposure**							
	Non-investment-linked	17,500,157	353,734	138,002	326,367	429,296	312,804	19,060,360
	Investment-linked	326,641	35,836,517	2,962	17,423,981	169,690	-	53,759,791
	Total life insurance	17,826,799	36,190,251	140,964	17,750,348	598,986	312,804	72,820,152
	Guaranteed-return liabilities with respect to managing companies of provident funds which were consolidated [3]							2,325,325
	Total							75,145,477

1) Products issued by 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2) In addition to the supplementary pension reserve which is included under liabilities with respect to insurance contracts, there is also a provision in the amount of NIS 1,798 million, which will be applied to the statement of income throughout the remaining lifetime of the policy until retirement age. For additional details, see Note 40(e)(1)(a)(4).
3) For details regarding the financial exposure with respect to the provident fund Bar A Provident Fund, where the company is a guarantor for the minimum returns of its members, see Note 40(d)(1)(c).

Note 20 Additional Details Regarding the Long Term Savings Segment (Cont.)

A. Liabilities with respect to insurance contracts and investment contracts, by exposure (Cont.)

Data as of December 31, 2015: *)

NIS in thousands	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
			From 2004		Risk sold as a single policy		
	Until 1990 [1]	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
1 By insurance exposure							
Liabilities with respect to insurance contracts							
Annuity without guaranteed factors	-	-	-	256,168	-	-	256,168
Annuity with guaranteed factors							
Until May 2001	11,101,290	21,735,273	-	-	-	-	32,836,563
From June 2001	-	3,575,899	182,796	10,940,237	-	-	14,698,932
Paid annuity	2,065,891	993,082	-	115,956	-	-	3,174,929
Capital-based (without annuity option)	2,665,779	7,579,548	19,890	2,266,574	-	-	12,531,791
Supplementary pension reserve [2]	1,512,331	386,792	-	6,250	-	-	1,905,373
Other risk components	180,631	772,372	5,830	445,924	581,984	346,930	2,333,671
Total with respect to insurance contracts	17,525,922	35,042,966	208,516	14,031,109	581,984	346,930	67,737,427
Liabilities with respect to investment contracts in life insurance	-	-	3,128	2,150,374	-	-	2,153,502
Total life insurance	17,525,922	35,042,966	211,644	16,181,483	581,984	346,930	69,890,929
Liabilities with respect to consolidated managing companies of provident funds [3]							2,351,594
Total							72,242,523
2 By financial exposure							
Non-investment-linked	17,186,952	325,188	207,294	303,628	416,568	346,930	18,786,560
Investment-linked	338,970	34,717,778	4,350	15,877,855	165,416	-	51,104,369
Total life insurance	17,525,922	35,042,966	211,644	16,181,483	581,984	346,930	69,890,929
Guaranteed-return liabilities with respect to managing companies of provident funds which were consolidated [3]							2,351,594
Total							72,242,523

*) Re-classified - during the reporting period, classifications were implemented to the amounts of insurance reserves between product generations, and within the same product, classifications were implemented between types of insurance exposure. The classifications which were implemented had no impact on the company's comprehensive income.

1) Products issued by 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2) In addition to the supplementary pension reserve which is included under liabilities with respect to insurance contracts, there is a provision in the amount of NIS 1,749 million, which will be applied to the statement of income throughout the remaining lifetime of the policy until retirement age. For additional details, see Note 40(e)(1)(a)(4).
3) For details regarding the financial exposure with respect to the provident fund Bar A Provident Fund, where the company is a guarantor for the minimum returns of its members, see Note 40(d)(1)(c).

Note 20 Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types

Data for the year ended December 31, 2016:

NIS in thousands	Policies which include a savings component (including appendices) by policy issue date		From 2004		Policies with no savings component – Risk sold as a single policy		
	Until 1990 [1]	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
Gross premiums:							
Traditional / mixed	32,496	24,037	-	-	-	-	56,533
Savings component	177,399	1,353,781	11,718	2,129,830	-	-	3,672,728
Other	50,768	276,860	1,127	284,778	552,660	103,160	1,269,353
Total	260,663	1,654,678	12,845	2,414,608	552,660	103,160	4,998,614
Financial margin including management fees [3]	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	10,992	2,620,699	276,988	77,708	6,699,442
Payments and changes in liabilities with respect to investment contracts	-	-	17	30,200	-	-	30,217
Comprehensive income (loss) from life insurance businesses	(56,442)	74,279	5,919	(168,766)	(1,885)	15,149	(131,746)
Other comprehensive income (loss) from life insurance businesses	13,516	1,280	629	1,124	1,411	1,109	19,069
Total comprehensive income (loss) from life insurance businesses	(42,926)	75,559	6,548	(167,642)	(474)	16,258	(112,677)
Income from pension and provident funds							51,513
Other comprehensive income from pension and provident funds							37
Total comprehensive income from pension and provident funds							51,550
Total loss from life insurance and long term savings							(80,233)
Total comprehensive loss from life insurance and long term savings							(61,127)
Receipts with respect to investment contracts charged directly to insurance reserves [4]	-	-	-	469,704	-	-	469,704
Annualized premium with respect to insurance contracts - new business [2]	49	1,307	-	403,728	82,339	-	487,423
One-time premium with respect to insurance contracts	143	3,070	-	179,374	-	-	182,587
Annualized premium with respect to investment contracts - new business	-	-	-	4,735	-	-	4,735
One-time premium with respect to investment contracts	-	-	-	358,370	-	-	358,370
Transfers to the company with respect to insurance contracts and investment contracts [5]	-	-	-	22,464	-	-	22,464
Transfers from the company with respect to insurance contracts and investment contracts [5]	15,914	131,632	-	223,361	-	-	370,907

1. Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2. Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
3. 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.
4. Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 2,657 thousand.
5. Not including internal transfers.

Note 20 Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types (Cont.)

Data for the year ended December 31, 2015:

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
			From 2004		Risk sold as a single policy		
NIS in thousands	**Until 1990 [1)]**	**Until 2003**	**Non-investment-linked**	**Investment-linked**	**Individual**	**Collective**	**Total**
Gross premiums:							
Traditional / mixed	50,308	29,272	-	-	-	-	79,580
Savings component	182,354	1,328,578	15,907	1,920,986	-	-	3,447,825
Other	48,589	299,998	3,313	275,526	558,492	147,060	1,332,978
Total	281,251	1,657,848	19,220	2,196,512	558,492	147,060	4,860,383
Financial margin including management fees [3)]	250,530	363,428	(874)	169,681	-	-	782,765
Payments and changes in liabilities with respect to insurance contracts, gross	1,096,277	2,871,090	19,142	2,364,093	174,780	163,183	6,688,566
Payments and changes in liabilities with respect to investment contracts	-	-	(19)	21,655	-	-	21,635
Comprehensive income (loss) from life insurance businesses	26,156	58,705	6,214	(153,595)	146,138	(24,003)	59,615
Other comprehensive loss from life insurance businesses	(87,615)	(8,017)	(5,442)	(6,723)	(10,822)	(6,288)	(124,907)
Total comprehensive income (loss) from life insurance businesses	(61,459)	50,688	772	(160,318)	135,316	(30,291)	(65,292)
Income from pension and provident funds							110,108
Other comprehensive loss from pension and provident funds							(681)
Total comprehensive income from pension and provident funds							109,427
Total income from life insurance and long term savings							169,723
Total comprehensive income from life insurance and long term savings							44,135
Receipts with respect to investment contracts charged directly to insurance reserves [4)]	-	-	-	799,903	-	-	799,903
Annualized premium with respect to insurance contracts - new business [2)]	35	1,047	-	292,710	72,226	-	366,018
One-time premium with respect to insurance contracts	347	2,412	-	119,955	-	-	122,714
Annualized premium with respect to investment contracts - new business	-	-	-	-	-	-	-
One-time premium with respect to investment contracts	-	-	-	668,298	-	-	668,298
Transfers to the company with respect to insurance contracts and investment contracts [5)]	-	-	-	17,749	-	-	17,749
Transfers from the company with respect to insurance contracts and investment contracts [5)]	16,264	160,649	-	136,415	-	-	313,328

1. Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2. Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
3. 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.
4. Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 3,551 thousand.
5. Not including internal transfers.

Note 20 Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types (Cont.)

Data for the year ended December 31, 2014:

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
			From 2004		Risk sold as a single policy		
NIS in thousands	**Until 1990 [1)]**	**Until 2003**	**Non-investment-linked**	**Investment-linked**	**Individual**	**Collective**	**Total**
Gross premiums:							
Traditional / mixed	57,629	33,832	-	-	-	-	91,461
Savings component	183,760	1,318,154	24,635	1,743,998	-	-	3,270,547
Other	68,979	314,254	2,942	257,730	547,126	168,344	1,359,375
Total	310,368	1,666,240	27,577	2,001,728	547,126	168,344	4,721,383
Financial margin including management fees [3)]	310,015	409,381	23,408	151,666	-	-	894,470
Payments and changes in liabilities with respect to insurance contracts, gross	1,357,184	3,479,389	27,017	2,391,930	267,188	132,440	7,655,148
Payments and changes in liabilities with respect to investment contracts	-	-	39	78,497	-	-	78,536
Comprehensive income (loss) from life insurance businesses	(256,858)	183,793	18,471	(146,459)	24,506	13,854	(162,693)
Other comprehensive income (loss) from life insurance businesses	132,241	11,872	11,388	9,778	16,108	10,535	191,922
Total comprehensive income (loss) from life insurance businesses	(124,617)	195,665	29,859	(136,681)	40,614	24,389	29,229
Income from pension and provident funds							126,986
Other comprehensive income from pension and provident funds							153
Total comprehensive income from pension and provident funds							127,139
Total loss from life insurance and long term savings							(35,707)
Total comprehensive income from life insurance and long term savings							156,368
Receipts with respect to investment contracts charged directly to insurance reserves [4)]	-	-	-	540,805	-	-	540,805
Annualized premium with respect to insurance contracts - new business [2)]	55	1,355	-	224,749	69,010	-	295,169
One-time premium with respect to insurance contracts	71	3,523	-	115,080	-	-	118,674
Annualized premium with respect to investment contracts - new business	-	-	-	18,785	-	-	18,785
One-time premium with respect to investment contracts	-	-	-	362,988	-	-	362,988
Transfers to the company with respect to insurance contracts and investment contracts [5)]	-	-	-	37,213	-	-	37,213
Transfers from the company with respect to insurance contracts and investment contracts [5)]	4,992	95,300	-	211,975	-	-	312,267

1. Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2. Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
3. 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.
4. Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 5,391 thousand.
5. Not including internal transfers.

Note 20 Additional Details Regarding the Long Term Savings Segment (Cont.)

C. Information regarding returns and management fees with respect to investment-linked liabilities

	Gross nominal annual return					Average nominal annual return - 5 years		Management fees for the year ended December 31, 2016
	2016	2015	2014	2013	2012	Before management fees	After management fees	
	Percent							NIS in thousands
Fund J	**2.64**	**3.40**	**5.88**	**12.43**	**12.07**	**7.16**	**5.92**	**285,307**
General track in policies beginning in 2004	**2.15**	**2.56**	**5.55**	**12.03**	**12.31**	**6.83**	**5.65**	**54,472**
Other								**144,918**
Total								**484,697**

D. Information regarding money transfers

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Transfers to the company from other entities			
Transfers from other insurance companies	**7,242**	8,052	31,118
Transfers from pension funds	**7,633**	2,634	1,860
Transfers from provident funds	**7,589**	7,063	4,235
Total transfers to the company	**22,464**	17,749	37,213
Transfers from the company to other entities			
Transfers to other insurance companies	**89,297**	45,403	167,467
Transfers to pension funds	**120,052**	88,139	65,325
Transfers to provident funds	**161,558**	179,786	79,475
Total transfers from the company	**370,907**	313,328	312,267
Net transfers	**(348,443)**	(295,579)	(275,054)

Note 21- Additional Details Regarding The Health Insurance Segment

A. Liabilities with respect to insurance contracts

1. Details of liabilities with respect to insurance contracts, by financial exposure

As of December 31, 2016

NIS in thousands	Long term care		Illness and hospitalization *)		
	Individual	Collective	Long term	Short term	Total
Investment-linked	**722,640**	**2,812,043**	**-**	**-**	**3,534,683**
Other	**577,268**	**900,017**	**375,758**	**42,597**	**1,895,640**
Total insurance liabilities	**1,299,908**	**3,712,060**	**375,758**	**42,597**	**5,430,323**

As of December 31, 2015

NIS in thousands	Long term care		Illness and hospitalization *)		
	Individual	Collective	Long term	Short term	Total
Investment-linked	686,531	2,574,438	-	-	3,260,969
Other	466,489	873,763	362,098	48,518	1,750,868
Total insurance liabilities	1,153,020	3,448,201	362,098	48,518	5,011,837

*) See details in section A(3) below.

Note 21 - Additional Data Regarding the Health Insurance Segment (Cont.)

A. Liabilities with respect to insurance contracts (Cont.)

2. Details of liabilities with respect to insurance contracts, by insurance exposure

As of December 31, 2016

NIS in thousands	Long term care		Illness and hospitalization		
	Individual	Collective	Long term	Short term	Total
Reserve for payable claims	**88,626**	**688,914**	**5,319**	**-**	**782,859**
Other risk components	**1,211,282**	**3,023,146**	**370,439**	**42,597**	**4,647,464**
Total insurance liabilities	**1,299,908**	**3,712,060**	**375,758**	**42,597**	**5,430,323**

The most material coverage included in long term illness and hospitalization insurance is medical expenses; with respect to short term, it is international travel.

As of December 31, 2015

NIS in thousands	Long term care		Illness and hospitalization		
	Individual	Collective	Long term	Short term	Total
Reserve for payable claims	80,765	680,475	3,995	-	765,235
Other risk components	1,072,255	2,767,726	358,103	48,518	4,246,602
Total insurance liabilities	1,153,020	3,448,201	362,098	48,518	5,011,837

The most material coverage included in long term illness and hospitalization insurance is medical expenses; with respect to short term, it is international travel.

3. The following are details regarding the composition and valuation basis in the illness and hospitalization branch

NIS in thousands	As of December 31					
	2016	2015	2016	2015	2016	2015
	Gross		Reinsurance		Retention	
Unearned premium reserve	20,503	20,400	-	-	20,503	20,400
Insurance reserves and premium deficiency reserve	220,053	225,577	9,389	8,972	210,664	216,605
Outstanding claims	177,799	164,639	11,531	14,999	166,268	149,640
Total for the illness and hospitalization branch *)	**418,355**	410,616	**20,920**	23,971	**397,435**	386,645
***) Of which - actuarial estimates**	**397,852**	390,216	**20,920**	23,971	**376,932**	366,245
Provisions on the basis of other estimates:						
Unearned premium reserve	**20,503**	20,400	-	-	**20,503**	20,400
Total for the illness and hospitalization branch	418,355	410,616	20,920	23,971	397,435	386,645

Note 21 - Additional Data Regarding the Health Insurance Segment (Cont.)

B. Details of results by policy types

Data as of December 31, 2016

NIS in thousands	Long term care		Illness and hospitalization		
	Individual	Collective	Long term	Short term	Total
Gross premiums	**235,789**	**752,455**	**668,887 [1])**	**141,749 [1])**	**1,798,880**
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**189,005**	**644,457**	**322,569**	**71,825**	**1,227,856**
Income from health insurance businesses	**7,214**	**83,632**	**91,157**	**20,615**	**202,618**
Other comprehensive income from health insurance businesses	**4,277**	**7,543**	**1,331**	**322**	**13,473**
Total comprehensive income from health insurance businesses	**11,491**	**91,175**	**92,488**	**20,937**	**216,091**
Annualized individual premium - new	**16,200**	**-**	**132,484 [2])**	**-**	**148,684**

1) Of which, individual premiums in the amount of NIS 569,306 thousand, and collective premiums in the amount of NIS 241,330 thousand.
2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

Data as of December 31, 2015

NIS in thousands	Long term care		Illness and hospitalization		
	Individual	Collective	Long term	Short term	Total
Gross premiums	231,664	708,074	588,026 [1])	150,610 [1])	1,678,374
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	199,456	637,009	236,567	80,289	1,153,321
Comprehensive income (loss) from health insurance businesses	(6,785)	60,521	133,239	10,964	197,939
Other comprehensive loss from health insurance businesses	(1,910)	(4,090)	(11,508)	(2,915)	(20,423)
Total comprehensive income (loss) from health insurance businesses	(8,695)	56,431	121,731	8,049	177,516
Annualized individual premium - new	16,356		115,550 [2])		131,906

1) Of which, individual premiums in the amount of NIS 488,059 thousand, and collective premiums in the amount of NIS 250,577 thousand.
2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

Data as of December 31, 2014

NIS in thousands	Long term care		Illness and hospitalization		
	Individual	Collective	Long term	Short term	Total
Gross premiums	224,833	698,301	528,530 [1])	149,737 [1])	1,601,401
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	205,896	688,651	295,871	93,557	1,283,975
Comprehensive income (loss) from health insurance businesses	(4,753)	58,173	51,275	4,561	109,256
Other comprehensive income (loss) from health insurance businesses	(157)	(763)	6,082	149	5,311
Total comprehensive income (loss) from health insurance businesses	(4,910)	57,410	57,357	4,710	114,567
Annualized individual premium - new	28,812		85,951 [2])		114,763

1) Of which, individual premiums in the amount of NIS 444,297 thousand, and collective premiums in the amount of NIS 233,970 thousand.
2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

Note 22- Movement in Liabilities with Respect to Life Insurance Contracts, Investment Contracts and Health Insurance

	Life insurance and long term savings			
NIS in thousands	**Insurance contracts**	**Investment contracts**	**Total**	**Health insurance**
Balance as of January 1, 2015	64,450,076	4,166,690	68,616,766	4,664,605
Interest, linkage differentials and investment income 1)	1,716,180	161,558	1,877,738	71,456
Increase with respect to premiums charged to liabilities 2)	3,973,771	544,355	4,518,126	375,414
Decrease in rate of management fees from accrual	(165,631)	-	(165,631)	-
Decrease with respect to claims, redemptions and end of period	(2,565,456)	(480,461)	(3,045,917)	-
Changes due to change in assumptions	203,181 **)	-	203,181	(52,314) *)
Other changes 3)	125,306	112,954	238,260	(47,324)
Balance as of December 31, 2015	**67,737,427**	**4,505,096**	**72,242,523**	**5,011,837**
Interest, linkage differentials and investment income 1)	**1,721,201**	**123,382**	**1,844,583**	**89,980**
Increase with respect to premiums charged to liabilities 2)	**3,899,732**	**472,295**	**4,372,027**	**365,705**
Decrease in rate of management fees from accrual	**(104,699)**	**-**	**(104,699)**	**-**
Decrease with respect to claims, redemptions and end of period	**(2,795,144)**	**(744,978)**	**(3,540,122)**	**-**
Changes due to change in assumptions	**50,913 **)**	**-**	**50,913**	**(18,969) *)**
Other changes 3)	**280,251**	**-**	**280,251**	**(18,230)**
Balance as of December 31, 2016	**70,789,681**	**4,355,795**	**75,145,476**	**5,430,323**

*) Derived from accumulated experience regarding the cost and frequency of claims, and their impact on expected results.

**) See Note 40(e)(e1)(a) - item regarding main assumptions used to calculate insurance liabilities.

1) This section including interest, linkage differentials and investment gains with respect to the balance at the start of the year, plus interest, linkage differentials and investment income with respect to the savings premiums only which were recorded during the reporting period.

2) These premiums include the savings premiums and part of the premiums in products with a fixed premium, after deducting management fees which are collected as a percentage of premiums, and do not include the entire premium which was recorded as income.

3) The section includes changes in the reserve with respect to outstanding claims, reserve for seasonal claims, IBNR claims, paid annuities, etc., according to the assumptions which were applied at the end of the previous year. The section also includes the impact of interest, linkage differentials and investment gains which were not included under the item for “interest, linkage differentials and investment income”, such as interest, linkage differentials and investment income on claim payments and non-savings premiums.

Note 23- Taxes on Income

A. Tax rates applicable to the group's member companies

1. General

Some of the consolidated companies (insurance companies, pension fund management companies, provident fund management companies and other companies) constitute "financial institutions" as defined in the Value Added Tax Law, 1975. The tax that is applicable to income of financial institutions consists of corporate tax and capital gains tax.

Corporate tax applies to the company's income and to the income of the other investee companies in Israel.

2. Tax arrangements which are unique to the insurance branch

There is an agreement between the Israel Insurance Association and the tax authorities (hereinafter: the "**Tax Agreement**"), which is renewed and updated on an annual basis, and which regulates tax issues that are unique to the branch. The provision for taxes in the financial statements for 2014 was prepared based on an agreement for 2012. The provision in the financial statements for 2015 and 2016 is based on an agreement which was signed in February 2016, with respect to the years 2013 to 2015. The implementation of the aforementioned agreement had an immaterial impact in the reporting period. The period of the 2015 agreement is the years 2015-2020. The tax arrangements refer, inter alia, to the following issues:

A. Deferred acquisition costs (DAC) - direct expenses of insurance companies for the acquisition of life insurance contracts, with respect to underwriting years up to and including 2014, will be deductible for tax purposes in equal parts, distributed over four years, and with respect to the underwriting years 2015 to 2020, over ten years. Acquisition costs of pension and provident funds (as defined in the agreement) with respect to the underwriting years 2015 to 2020 will be deductible for tax purposes in equal parts, distributed over 10 years, or according to their distribution in the books, as chosen by the company. Early expenses with respect to canceled pension and provident contracts will not be permitted.
Deferred acquisition costs in illness and hospitalization insurance are amortized over a period of 6 years, similarly to the amortization rate in the books.

B. Attribution of expenses to preferred income - regarding income received in Clal Insurance which is subject to the reduced tax rates or which is tax exempt (hereinafter: "**Preferred Income**"), attribution of expenses will be performed when it signifies turning a part of the preferred income into fully taxable income, according to the attribution rate. The attribution rate stipulated in the agreement is dependent upon the financial source yielding the preferred income.

C. Taxation method with respect to income from assets held as investments which overlap with investment-linked liabilities.

D. Provision for indirect claim settlement expenses - partial adjustment of the provision for indirect claim settlement expenses in the non-life and health insurance segment was performed with respect to the 2012 underwriting year. The amount was recognized for tax purposes in the years 2013 and 2014. Additionally, from 2013 to 2020, part of the increase in the provision will be adjusted, and the adjusted amount will be recognized for tax purposes over the following three tax years.

E. Taxation of marketable and derivative securities - it was agreed that income and/or expenses from securities will be reported, for tax purposes, on a realization basis. Excluding the following exceptions:
   - Linkage differentials, interest and amortization of discount with respect to marketable bonds will be reported on an accrual basis.
   - Impairment applied to the statement of income will not be considered loss for tax purposes except on a realization basis.
   - Income and/or expenses with respect to derivatives of various types will be reported on an accrual basis.

Note 23 - Taxes on Income (Cont.)

B. Tax rates applicable to the group's member companies

1. The statutory tax applicable to financial institutions which constitute the majority of the group's operations is comprised of corporate tax and capital gains tax.

2. A. Update to value added tax, payroll tax and capital gains tax

In September 2015, a value added tax order was published which reduced the value added tax rates by 1%, in a manner whereby it amounted to 17% as of October 1, 2015. As a supplementary measure towards updating the value added tax, as stated above, in November 2015, a value added tax order was published which determined that the capital gains and payroll tax rates which apply to financial institutions will be reduced from 18% to 17%, beginning on October 1, 2015. The order applies with respect to the 2015 tax year, regarding salaries which are paid for work performed in October 2015 and thereafter, and regarding the relative share of the profit in this tax year.

B. Update to corporate tax rate

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 35.90%.

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 in the Official Gazette 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%.

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.

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:			
2014	26.50	18.00	37.71
2015	26.50	17.75 [1)]	37.58
2016	25.00	17.00	35.90
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.18

1) Weighted annual rate.

Current taxes for reporting periods are calculated in accordance with the tax rates presented in the above table.

Note 23 - Taxes on Income (Cont.)

B. Tax rates applicable to the group's member companies (Cont.)

3. On January 12, 2012, Amendment 188 to the Income Tax Ordinance (New Version), 1961 was published in the Official Gazette (hereinafter: the "**Ordinance**"), in which section 87a of the ordinance was amended in a manner whereby it was determined, in a transitional provision, that Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards ("IFRS")", as published by the Israel Accounting Standards Board, will not apply with respect to the determination of taxable income for the tax years 2007 to 2011, even if this standard was applied in the financial statements (hereinafter: the "**Transitional Provision**"). On July 31, 2014, amendment 202 to the ordinance was published, in which the validity period of the transitional provision was extended to apply also to the tax years 2012 and 2013.

C. Components of expenses (income) in taxes on income

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Current tax expenses (income)			
With respect to the current period	**(2,130)**	201,275	76,132
Adjustments with respect to previous years, net	**(7,778)**	4,641	(18,278)
	(9,908)	205,916	57,854
Deferred tax expenses (income)			
Creation and reversal of temporary differences	**15,544**	73,408	81,262
Adjustments with respect to previous years, net	**1,617**	-	-
Adjustment of deferred tax balances due to the change in tax rates	**(20,966)**	(4,694)	-
	(3,806)	68,714	81,262
Total taxes on income	**(13,713)**	274,630	139,116

D. 1. Taxes on income which were recognized directly under capital

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
The effect of the cancellation of the recording of accrual and the initial application of best practices in non-life insurance (see Note 3(d)(2)(b)(5))	-	9,972	-

2. Tax on income with respect to components of other comprehensive income

	For the year ended December 31		
	2016	**2015**	**2014**
	NIS in thousands		
Foreign currency translation differences for foreign operations	**(6,710)**	(1,607)	7,980
Revaluation fund with respect to components of property, plant and equipment	**-**	-	8,350
Available for sale financial assets	**(3,271)**	(118,904)	41,675
Revaluation fund with respect to components of property, plant and equipment	**-**	-	8,350
Actuarial income (loss) from defined benefit plan	**938**	2,935	3,905
Total tax benefit (tax expense) with respect to components of other comprehensive income	**(9,043)**	(117,586)	70,260

Note 23 - Taxes on Income (Cont.)

E. Adjustment between theoretical tax on income before tax, and tax expenses

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Income before taxes on income	**85,868**	755,069	365,690
The group's primary tax rate	35.90%	37.58%	37.71%
Tax is calculated according to the group's primary tax rate	**30,822**	283,771	137,910
Addition to (savings in) tax liability with respect to:			
Adjustment with respect to a lower tax rate in investee companies which are not insurance companies	**(1,807)**	(1,770)	4,302
Tax neutralization is calculated with respect to the company's share in the income of investee companies accounted by the equity method	**(12,085)**	(7,155) *)	(1,958) *)
Differences in the measurement of assets and liabilities for tax purposes, and for the purpose of the adjusted reports	**3,503**	2,848	(3,293)
Difference with respect to the tax rate used to calculate deferred taxes	**(475)**	(3,390)	(2,065)
Rental income exempt from capital gains tax	**(3,250)**	(3,448)	(3,555)
Income for tax purposes recorded under other comprehensive income	**-**	-	14,615
Tax-exempt income	**(7,717)**	(6,037)	(10,745)
Unrecognized expenses	**2,236**	7,250	6,619
Unrecognized expenses with respect to share-based payment (see Note 42)	**1,662**	3,341	4,547
Use of losses and benefits from previous years with respect to which no deferred taxes were recorded	**(696)**	(1,538)	(2,958)
Creation of deferred taxes with respect to losses for which deferred taxes were not recorded in the past	**(1,822)**	(860)	(1,402)
Losses and benefits for tax purposes for the period with respect to which no deferred taxes were recorded	**3,044**	1,671	15,377
Taxes with respect to previous years	**(6,162)**	4,641	(18,278)
Update of deferred tax balances with respect to changes in tax rates	**(20,966)**	(4,694)	-
Total taxes on income	**(13,713)**	274,630	139,116
Effective tax rate	**(15.97%)**	**36.37%**	**38.04%**

*) Re-classified, see Note 2(f).

Note 23 - Taxes on Income (Cont.)

F. Deferred tax assets and liabilities

1. Deferred tax assets and liabilities which were recognized

Deferred tax assets and liabilities are attributable to the following items:

NIS in thousands	Intangible assets	Property, plant and equipment	Investment property	Financial instruments	Deferred acquisition costs in life insurance	Transferable deductions and losses for tax purposes	Employee benefits	Investee companies 1)	Others 2)	Total
Balance of deferred tax asset (liability) as of January 1, 2015	(134,988)	(403)	(40,974)	(126,510)	(247,384)	47,818	30,453	(3,523)	33,853	(441,658)
Changes applied to income statement	(29,846)	(3,145)	(15,720)	(37,406)	6,246	(6,819)	1,762	50	11,470	(73,408)
Changes applied to other comprehensive income	-	-	2,251	117,560	-	-	(2,856)	-	(61)	116,894
Sorting of current taxes to deferred taxes	(356)	-	(5,132)	(328)	205	(23,840)	5,119	-	3,230	(21,102)
Impact of change in tax rate	2,203	24	(28)	692	3,401	-	(358)	104	(652)	5,386
Balance of deferred tax asset (liability) as of December 31, 2015	**(162,987)**	**(3,524)**	**(59,603)**	**(45,992)**	**(237,532)**	**17,159**	**34,120**	**(3,369)**	**47,840**	**(413,888)**
Changes applied to income statement	**5,000**	**(2,255)**	**7,513**	**(24,730)**	**47,443**	**13,997**	**(6,459)**	**(25)**	**(8,442)**	**31,350**
Changes applied to other comprehensive income	**-**	**-**	**2,728**	**16,341**	**-**	**-**	**(235)**	**-**	**-**	**18,834**
Sorting of current taxes to deferred taxes	**11**	**204**	**(1,443)**	**312**	**3,343**	**(3,679)**	**(162)**	**-**	**(10,191)**	**(11,605)**
Impact of change in tax rate	**(16,046)**	**137**	**(6,345)**	**(9,791)**	**(14,960)**	**3,246**	**1,630**	**-**	**4,489**	**(37,640)**
Balance of deferred tax asset (liability) as of December 31, 2016	**(174,022)**	**(5,438)**	**(57,150)**	**(63,860)**	**(201,706)**	**30,723**	**28,894**	**(3,394)**	**33,695**	**(412,979)**

1) As of December 31, 2015 and 2016, the group has a balance of liabilities for deferred taxes with respect to a temporary difference due to the investment in investee companies, where the temporary difference with respect to them is expected to reverse in the foreseeable future.
2) Primarily due to the provision for doubtful debts.

Note 23 - Taxes on Income (Cont.)

F. Deferred tax assets and liabilities (Cont.)

1. Deferred tax assets and liabilities which were recognized (Cont.)

Deferred taxes are presented in the statement of financial position as follows:

	As of December 31	
NIS in thousands	**2016**	**2015**
Deferred tax assets	**10,344**	25,460
Liability with respect to deferred taxes	**(423,293)**	(439,348)
Total	**(412,949)**	(413,888)

2. Deferred tax assets which were not recognized

Deferred tax assets which were not recognized are with respect to the following items:

	As of December 31	
NIS in thousands	**2016**	**2015**
Losses for tax purposes	**101,209**	92,250
Capital losses and real difference from marketable securities	**679,193**	679,208
Total	**780,402**	771,458

According to the currently existing tax laws in Israel, there is no time restriction, in some of the group's member companies, on the usage of losses for tax purposes or on the usage of the deductible temporary differences. However, deferred tax assets were not recognized with respect to these items, since it is not expected that taxable income will arise in the future against which the tax benefits may be used.

G. Tax assessments

(1) Final tax assessments:

A. The tax reports of the group's member companies up to and including the 2012 tax year are considered final tax assessments in accordance with the provisions of section 145 of the Income Tax Ordinance.
B. Final tax assessments have been issued for Clal Insurance up to and including the 2013 tax year.
C. Final tax assessments have been issued for Clal Pension and Provident Funds up to and including the 2013 tax year.

(2) Ruling of the Supreme Court regarding the non-permissibility of amortization of goodwill:

On December 29, 2014, the Supreme Court gave a ruling in which it dismissed the appeal of Clal Insurance, and accepted the position of the tax authorities. The foregoing had no significant impact on the financial statements, in light of the fact that Clal Insurance, in its financial statements, adopted an approach which corresponds to the approach of the Supreme Court, and therefore, an additional tax payment is not required, and no loss has been recorded in its books as a result of the determination.

H. Tax arrangement with respect to structural change

On March 12, 2013, approval was received from the Income Tax Authority regarding the structural change in which Clal Health was merged with and into Clal Insurance, in a manner whereby all of the assets and liabilities of Clal Health were transferred to Clal Insurance. The structural change which was completed on March 19, 2013, and which is in effect as of December 31, 2012, imposed on Clal Insurance certain restrictions, including, inter alia, a restriction on offsetting of losses. Additionally, restrictions were imposed on the company with respect to the holding of Clal Insurance shares which expired on December 31, 2014.

Note 24- Employee Benefits

Employee benefits include post-employment benefits, severance benefits, other long term benefits and short term benefits, as well as share-based payments.

For details regarding benefits to key management personnel, see Note 41.

For details regarding share-based payments, see Note 42.

		For the year ended December 31	
NIS in thousands	**Details**	**2016**	**2015**
Present value of funded obligations		**73,399**	71,771
Present value of unfunded obligations		**36,978**	38,492
Total present value of obligations	A(2)	**110,377**	110,263
Fair value of plan assets	A(2)	**41,790**	35,167
Impact of the maximum limit for assets		**(410)**	(341)
Liability which was recognized with respect to defined benefit plan		**68,997**	75,437
Recognized liability with respect to other long term benefits	C	**5,489**	5,328
Liabilities with respect to short term benefits *)		**144,791**	179,762
Total employee benefits		**219,277**	260,527
Presented under the following sections:			
Other accounts receivable		**712**	912
Other accounts payable		**145,412**	180,409
Long term employee benefits		**74,577**	81,030

*) The liabilities with respect to short term benefits include liabilities with respect to salary, holiday, compensation and annual bonuses to employees.

For details regarding amounts which are deposited in Clal Insurance, as part of a defined benefit plan for the group's employees, see Notes 17 and 18.

A. Post-employment benefit plans - defined benefit plan

The group has defined benefit plans with respect to which amounts are deposited in provident funds, pension funds, appropriate insurance policies and insurance policies which were issued by Clal Insurance.

Labor laws and the Severance Pay Law, 1963 (hereinafter: the "**Severance Pay Law**") in Israel require the group to pay severance to employees upon termination of employment, or upon retirement. The group's liability with respect to employee benefits is calculated according to a valid employment agreement, and is based on the salary of an employee which, in management's opinion, creates the right to receive severance pay.

For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees, see section D below.

Note 24 - Employee Benefits (Cont.)

A. Post-employment benefit plans - defined benefit plans (Cont.)

1. Composition of plan assets

The composition of plan assets is as follows:

In percent	As of December 31 2016	As of December 31 2015
Central severance pay funds	**5**	6
Managers insurance	**33**	38
Provident funds and pension funds	**62**	56
	100	**100**

2. Movement in liabilities (assets), net, with respect to defined benefit plans and components thereof

NIS in thousands	Liability with respect to defined benefit plan 2016	Liability with respect to defined benefit plan 2015	Fair value of Plan assets 2016	Fair value of Plan assets 2015	Total liability (asset) net recognized with respect to the plan Defined benefit 2016	Total liability (asset) net recognized with respect to the plan Defined benefit 2015
Balance as of January 1	**110,263**	119,866	**34,826**	33,782	**75,437**	86,084
Expense/income applied to the statement of income *)						
Current service cost	**15,824**	18,467	**-**	-	**15,824**	18,467
Past service cost	**(1,646)**		**-**	-	**(1,646)**	-
Interest costs / income	**4,419**	4,621	**1,386**	1,249	**3,033**	3,372
Settlements [1)]	**-**	(870)	**-**	(205)	**-**	(665)
Total expense/income applied to the statement of income	**18,597**	22,218	**1,386**	1,044	**17,211**	21,174
Recognized under other comprehensive income:						
Actuarial gains due to changes in financial assumptions [2)]	**(123)**	(5,951)	**-**	-	**(123)**	(5,951)
Other actuarial gains	**(4,214)**	(3,703)	**-**	-	**(4,214)**	(3,703)
Actual returns less interest income	**-**	-	**(1,171)**	(488)	**1,171**	488
Total amount recognized under other comprehensive income:	**(4,337)**	(9,654)	**(1,171)**	(488)	**(3,166)**	(9,166)
Additional movements						
Benefits paid	**(14,146)**	(22,167)	**(5,457)**	(6,284)	**(8,689)**	(15,883)
Amounts deposited by the group	**-**	-	**11,796**	6,772	**(11,796)**	(6,772)
Total additional movements	**(14,146)**	(22,167)	**6,339**	488	**(20,485)**	(22,655)
Balance as of December 31	**110,377**	110,263	**41,380**	34,826	**68,997**	75,437

*) Expenses are included under general and administrative expenses in the statement of income. See Note 36.

1) For details regarding a collective agreement and the signing of an annex thereto, including its implications regarding the issue of supplementing the severance pay fund for employees prior to the signing of the agreement in accordance with section 14 of the Severance Pay Law, see section D below.

2) Such as the discount rate.

Note 24 - Employee Benefits (Cont.)

A. Post-employment benefit plans - defined benefit plans (Cont.)

3. Actuarial assumptions and sensitivity analysis

Main actuarial assumptions as of the end of the reporting period (by weighted average):

In percent	2016	2015	2014
Average real discount rate as of December 31	**2.69**	2.61	2.34
Rate of real future wage increases	**2.00-3.00**	2.00-3.00	2.00-3.00

The assets' total expected long term rate of return is based on the entire assets portfolio, and not on the returns amount of a separate group of assets. The returns are based on historical returns, without adjustments.

The assumptions made regarding the future mortality rate are based on published statistical data and commonly accepted mortality tables.

Reasonably possible changes on the reporting date in one of the actuarial assumptions, assuming that the other assumptions remain unchanged, affect the defined benefit liability as follows:

	As of December 31, 2016	
NIS in thousands	Increase of one percent	Decrease of one percent
Rate of future salary increases	**12,789**	**(8,379)**
Discount rate	**(8,116)**	**12,453**

4. Impact of the plan on the group's future cash flows

For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees, see section D below.

The company's estimate regarding expected deposits in 2016 in defined benefit plans, financed for the plan assets, amounts to NIS 5,019 thousand.

The group's estimate throughout the lifetime of the plan (according to a weighted average) at the end of the reporting period is 11.5 years (for 2014 - 11.3 years).

5. Actual returns

	For the year ended December 31		
NIS in thousands	2016	2015	2014
Actual returns on plan assets	**366**	893	1,623

Note 24 - Employee Benefits (Cont.)

B. Post-employment benefit plans - defined deposit plan

The group has the following defined deposit plans:

1. Most severance payments are subject to the terms of section 14 of the Severance Pay Law, 1963, according to which the company's current deposits in pension funds and/or in policies in insurance companies exempt it from any additional undertaking towards employees, for which the aforementioned amounts were deposited. See section D below on this matter as well.

2. Deposits for compensation in Israel.

   For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees, see section D below.

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Amount recognized as expenditure with respect to defined deposit plans	**74,704**	69,413	70,765

C. Liabilities with respect to other long term benefits

	As of December 31	
NIS in thousands	**2016**	**2015**
Liabilities with respect to sick days	**5,489**	5,328

D. Signing of a collective agreement and an annex to an agreement between the group's member companies and the employee committee in the group

Further to the recognition of several of the group's member companies of the Histadrut New General Federation of Labor (hereinafter: the "**Histadrut**"), on January 2, 2014, the company's subsidiaries, Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems Ltd. and Clal Credit and Finance Ltd. (hereinafter: the "**Companies**") signed a collective agreement between them and the group's employee committee (hereinafter: the "**Committee**" and the "**Agreement**", respectively). The agreement applies to the employees of all companies, excluding employees in specific positions which have been defined in the agreement, and managers of a rank defined in the agreement. In December 2015, Clal Insurance, Clal Financial Management Ltd. (hereinafter: "**Canaf**") (a subsidiary of Clal Insurance which is engaged in investment management), and the group's employee committee signed an annex to the collective agreement, which applies the provisions of the agreement on some of the employees of Canaf, except managers at the determined rank and employees in specific roles which were defined.

The principle terms of the agreement are as follows:

1. During the agreement period, salary increases for employees will be implemented in 4 stages, in which a budget will be allocated for salary increases to employees in an amount constituting 3%, in each step, of the employees' base salary. Additionally, insofar as the group fulfills the entire (100%) comprehensive income target (after tax) which will be determined by the board of directors with respect to that year (hereinafter: the "**Profit Target**") - an additional budget will be allocated for salary additions at a rate of 0.75% of the employees' base salary. Some of the salary additions will be paid as a fixed addition to all employees, and others according to the managers' decision.
   Insofar as in a certain year, the group finishes the year with comprehensive loss (after tax) attributed to shareholders, in accordance with the annual financial statements, then the employees will not be entitled to the payment of any salary increases in the subsequent year.
2. Employer's provisions for compensation were increased to 6.5% (instead of 5% today). Additionally, with respect to employees where the rate of the employer's provision for study funds with respect to them is lower than 7.5%, the rate of the employer's provisions for them was increased to 7.5%, beginning from their receipt of permanent status.

Note 24 - Employee Benefits (Cont.)

D. Signing of a collective agreement between the group's member companies and the group's employee committee (Cont.)

3. The trial period for employees employed as of the signing date of the agreement is one year and a half, and the trial period for new employees is two years and a half. After the trial period, a decision will be reached regarding whether to grant permanent status to the employee.
4. An arrangement in accordance with section 14 of the Severance Pay Law, 1963, will be applied to the employees, both retrospectively and prospectively. The severance pay amounts in the funds of employees who are included the agreement were supplemented up to the total amount of severance pay which was owed to them prior to the signing of the agreement, were exempted, and accordingly, the group is expected from the supplementation of seniority debt with respect to all salary increases which will be given beginning from the implementation date of the agreement.
5. Insofar as the group completely (100%) meets the profit targets which will be determined with respect to that year - employees will receive bonuses whose total cost will be in an amount equal to 2.5% of the annual cost of salary; insofar as the group fulfills less than 70% of the profit targets which were determined with respect to that year - employees will receive bonuses whose total cost will be in an amount equal to 1.4% of the annual cost of salary; insofar as the group fulfills over 130% of the profit targets which were determined with respect to that year - employees will receive bonuses whose total cost will be in an amount equal to 3% of the annual cost of salary. With respect to the fulfillment of targets in the range between 70%-130% of the profit target, the bonus budget will be increased in a linear, proportional fashion, within the relevant range. Insofar as the group does not fulfill 70% of the profit targets which were determined with respect to that year - no bonus whatsoever will be distributed with respect to that year.
6. The agreement includes arrangements regarding employee transfers, filling of positions, employee promotion and termination of employment of permanent employees.
7. The agreement exhausts the claims and demands also with respect to special events which the company predicted, including a change in the control of the company (see Note 1), and events which took place, such as the transition of the company's offices to Kiryat Atidim.

The agreement formalizes and replaces human resources increases and expenses which would have been given by the companies, had it not been signed.

As a result of the application of section 14 of the Severance Pay Law, 1963, to the employees, as specified in section 4 above, the severance pay amounts in the employees' funds which are included in the agreement were supplemented up to the entire amount of severance pay which would have been owed to them, by law, prior to the signing of the agreement, had they been dismissed, and accordingly, the companies will be exempt from supplementations of seniority debt with respect to any salary increases which may be given, beginning from the effective date of the agreement. The liability with respect to termination of employment was classified as a liability of the defined deposit type, in place of classification as a defined benefit plan, as was the case prior to the signing of the agreement. The above excludes certain components, which will continue being classified as a defined benefit plan, and will be measured accordingly.

The aforementioned change in the liability to employees did not have a significant impact on the results of operations.

The agreement (including the annex thereto) is in effect until December 31, 2016; however, in accordance with the agreement, industrial silence will be kept until March 31, 2017, and no salary increases will be given beyond that specified in the agreement with respect to the period until June 30, 2017. The parties are conducting negotiations towards the renewal of the agreement, against the background of significant and ongoing business and regulatory changes which occurred during the agreement period, and which have a significant impact on the company's operating environment, on the competitive conditions and on profitability.

On December 13, 2016, the Histadrut notified the companies which are party to the agreement regarding a labor dispute in accordance with sections 5A and 5B of the Resolution of Labor Disputes Law, 1957. The announcement included, inter alia, assertions by the employee committee regarding actions performed by management without negotiating with the employee committee, as well as assertions in connection with the conducting of negotiations towards a new collective agreement between the Histadrut, Clal Insurance and the employee committee. According to the aforementioned announcements of the Histadrut, the employees of the companies which are party to the agreement will be able to take organizational action beginning on December 28, 2016. During the period proximate to the publication of the report, the employees of Clal Group who are party to the collective agreement initiated organizational steps, including disruption of work proceedings and partial strikes in specific units of the organization, in light of gaps between the positions of the parties to the negotiations.

Note 25- Deferred Liability Notes

A. Composition as of December 31

	Additional information	Issuing entity	Capital type *)	Linkage terms	Interest type	Annual interest rate Effective %	Annual interest rate Nominal %	Marketable / Non-marketable	Fair value Level **)	Fair value Interest in %	Original amount issued	Book value 2016	Book value 2015	Fair value 2016	Fair value 2015
												NIS in thousands			
Issued in March 2003	(1)	Clal Insurance	Tier 2 subordinated	CPI-linked	Fixed	7.04	7.00	Non-marketable	2	1.37	200,000	**29,881**	44,974	**32,782**	50,536
Issued in July 2004	(2)	Clal Insurance	Tier 2 subordinated	CPI-linked	Fixed	5.54	5.50	Non-marketable	2	-	400,000	**-**	36,659	**-**	38,556
Liability certificates (Series A)	(3)	Clalbit Finance	Tier 2 subordinated	CPI-linked	Fixed	4.99	4.89	Marketable	1	-	400,000	**109,031**	256,468	**122,577**	290,926
Loan from bank	(4)	Clal Insurance	Tier 3 hybrid	Unlinked	Variable	2.40	2.40	Non-marketable	2	2.39	111,938	**111,938**	111,938	**112,867**	111,064
Liability certificates (Series B)	(5)	Clalbit Finance	Tier 2 hybrid	CPI-linked	Fixed	5.35	5.20	Marketable	1	-	100,000	**27,531**	110,412	**29,373**	120,000
Liability certificates (Series C)	(6)	Clalbit Finance	Tier 2 hybrid	CPI-linked	Fixed	2.97-4.29	3.75	Marketable	1	-	774,701	**818,850**	820,419	**921,352**	934,677
Liability certificates (Series F)	(6)	Clalbit Finance	Tier 2 hybrid	Unlinked	Fixed	4.39-6.68	5.70	Marketable	1	-	743,428	**29,298**	741,588	**31,468**	817,176
Liability certificates (Series G)	(6)	Clalbit Finance	Tier 2 hybrid	CPI-linked	Fixed	2.39-2.45	2.32	Marketable	1	-	364,846	**360,776**	162,487	**364,700**	166,344
Liability certificates (Series H)	(6)	Clalbit Finance	Tier 2 hybrid	Unlinked	Fixed	2.98-4.31	4.14	Marketable	1	-	469,388	**473,215**	351,393	**499,664**	378,839
Liability certificates (Series I)	(6)	Clalbit Finance	Tier 2 hybrid	CPI-linked	Fixed	2.51-3.84	2.48	Marketable	1	-	423,486	**409,375**	254,625	**427,509**	260,883
Liability certificates (Series J)	(6)	Clalbit Finance	Tier 2 hybrid	Unlinked	Fixed	3.38-4.61	3.92	Marketable	1	-	959,854	**945,438**	328,693	**1,004,967**	350,274
												3,315,333	3,219,656	**3,547,259**	3,519,275

*) For details regarding the inclusion of deferred liability notes in the calculation of recognized capital, see Note 16(e).
**) For the definition of the hierarchy levels, see Note 2(e)(3).

Note 25 - Deferred Liability Notes (Cont.)

A. Composition (Cont.)

1. The liability certificates were issued in March 2003 (hereinafter: the "**2003 Liability Certificates**"). The principal is being repaid in ten equal annual installments, beginning on January 31, 2009. The interest is being paid on an annual basis beginning on January 31, 2004. For details regarding the exchange of these liability certificates by way of an expansion of the liability certificates (Series C), see section 6 below.

2. The liability certificates were issued in July 2004 (hereinafter: the "**2004 Liability Certificates**"). The principal was repaid in eight equal annual installments, beginning on July 1, 2009. The interest was paid each year beginning on July 1, 2005. For details regarding the exchange of these liability certificates by way of an extension of the liability certificates (Series C), see section 6 below.

3. The liability certificates (Series A) were issued in May 2006. The principal is repaid in 11 equal annual installments, in each of the years 2011 to 2021. The interest will be repaid in 15 annual installments, on June 1 of each calendar year, from 2007 until the final repayment date in 2021. For details regarding the exchange of some of these liability certificates within the framework of an exchange offer, in consideration of the issuance of liability certificates (Series I), see section 6 below.

4. The original loan was received in October 2008, and in accordance with its terms, the principal will be repaid in sixteen equal quarterly installments, beginning on January 28, 2015, and the interest will be paid in quarterly installments, beginning on January 28, 2009. In March 2015, Clal Insurance repaid, through an early repayment, a total of approximately NIS 96 million from the balance of the loan, which was not recognized as capital, and additionally, replaced the balance of the loan, in the amount of approximately NIS 112 million, with a new deferred liability note towards the same banking corporation, the consideration for which is recognized as Tier 3 hybrid capital of Clal Insurance.

    A. The annual interest rate with respect to the new letter of undertaking is prime + 0.8% (and, in parallel, a transaction was performed in which the variable interest was swapped with fixed interest, for a period of 6 years, in a manner whereby the interest was pegged at a rate of 3.48%).

    B. The principal of the new letter of undertaking will be repaid in a one-time payment, 8 years after the date of issuance of the letter of undertaking. The interest will be repaid in semi-annual installments.

    C. The cost of the early repayment and the exchange of the loan balance of the deferred liability note to a banking corporation which is an interested party amounted to a total of approximately NIS 10 million.

    D. In light of the fact that the aforementioned banking corporation is an entity which could be considered, on the date of execution of the early repayment and exchange of the loan balance, a material creditor of the controlling shareholders in the company (in addition to its status as an interested party in the company), as specified in Note 41 to the annual financial statements, and for the sake of caution, in light of the fact that the controlling shareholders in the company may be considered as having a personal interest in the performance of the early repayment and exchange of the loan balance (although IDB Development Corporation Ltd. does not have a permit for control of the company and the control shares in the company are held by a trustee), the company's audit committee determined, on March 16, 2015, that the exchange of the loan with the new deferred liability note, and the execution of the early repayment of the loan balance do not constitute an "extraordinary transaction", as defined in the Companies Law, 1999, and approved the transaction. The above is in consideration of the extension of the average lifetime of the liability which is recognized as capital, the interest rate with respect to the new letter of undertaking and the cost of the interest swap transaction, the paid early repayment fee, and in light of the savings in the financing expenses of Clal Insurance with respect to the liability which is not recognized as capital.

Note 25 - Deferred Liability Notes (Cont.)

A. Composition (Cont.)

4. (Cont.)

E. Additional terms of the letter of undertaking:

1. Right to early redemption

   A. The first date when Clal Insurance will be entitled to perform a full or partial early redemption of the letter of undertaking, is two years before the principal repayment date.
   B. After the first early redemption date, there is the right to perform an early redemption on the date of each interest payment.
   C. Insofar as Clal Insurance does not exercise this right to an early repayment of the principal payment, then beginning from the effective date for the early repayment, the margin specified in section a(4)a above will be increased by 45 percentage points (which constitutes no more than 30% of the original credit margin, as this term is defined in the Commissioner's circular, on the signing date of the letter of undertaking), and will amount to prime + approximately 1.25% per year.
   D. The conditions for early redemption are any of the following:
      1. In parallel, the company will issue a capital instrument of identical or superior quality;
      2. Subject to the advance approval of the Commissioner, and to the conditions which will be determined.
      3. If the capital of Clal Insurance, after the early redemption, exceeds 120% of the minimum capital required of it under the Capital Regulations.

2. Upon the fulfillment of any of the suspending circumstances, as specified below, the principal payment of the deferred liability note will be deferred:

   A. The recognized capital amount of Clal Insurance has decreased below the minimum capital required of it, in accordance with the most recent financial statements (annual or quarterly) before the relevant principal repayment date, and Clal Insurance has not performed a capital supplementation as of the publication date of the report.
   B. The Commissioner ordered the deferral of the principal payment, if he views a near and present concern regarding the ability of Clal Insurance Company to fulfill the minimum required capital which is required of it (according to the Capital Regulations).
   C. In case suspending circumstances have been fulfilled on the principal repayment date of the liability note, the repayment of principal will be deferred until the date when the suspending circumstances cease to be fulfilled, with the approval of the board of directors of Clal Insurance (provided that notice of the above has been given to the Commissioner seven business days before the execution of the deferred payment, and the Commissioner has not announced, within the aforementioned period, her objection), or until a period of three years after the originally specified principal repayment date (hereinafter: the "**Maximum Principal Deferral Period**"), whichever is earlier (hereinafter: the "**New Principal Repayment Date**"), unless the Commissioner has approved the principal repayment on an earlier date. For the avoidance of doubt, it is hereby clarified that the principal payment will be paid no later than the new principal repayment date, even if suspending circumstances exist on the same date.
   D. The principal amount which was deferred, as stated above, will not accrue interest in arrears, but rather will accrue interest beginning from the date of the deferral until the new principal repayment date, according to the stated interest rate or the updated interest rate with respect to non-early repayment of the loan.

F. The new liability note will have a status equal to the deferred liability notes and to the components and instruments which will be included under the Tier 2 and/or Tier 3 capital of Clal Insurance (however, it is hereby clarified that insofar as Tier 3 hybrid capital instruments will be issued in the future, which have a superior status relative to the Tier 2 capital of Clal Insurance, the status of the new letter of undertaking will be superior to those Tier 2 capital instruments); a status higher than the components and instruments which will be included under the company's Tier 1 capital; and a status lower than the remaining liabilities of Clal Insurance towards its creditors.

Note 25 - Deferred Liability Notes (Cont.)

A. Composition (Cont.)

5. The liability certificates (Series B) were issued in June 2009. The principal is repaid in three equal annual installments, in each of the years 2016 to 2018. The interest on the liability certificates is paid in nine annual installments, on June 9 of each calendar year, from 2010 until the final repayment date in 2018. For details regarding the exchange of some of these liability certificates within the framework of an exchange offer, in consideration of the issuance of liability certificates (Series I), by way of a series extension, see section 6 below.

6. A. Liability certificates (Series C) were issued in July 2010, and the series was extended in June 2011 and December 2012, within the framework of private allocations, and in May 2013, within the framework of an exchange. The principal will be repaid in a single payment on August 1, 2024, subject to the early redemption right, as specified in section h(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on February 1 and August 1 of each calendar year, between the years 2011 and 2024.

B. Liability certificates (Series F) were issued in July 2010, and the series was extended in June 2011 and December 2012, within the framework of private allocations. The principal will be repaid in a single payment on August 1, 2020, subject to the early redemption right, as specified in section h(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on February 1 and August 1 of each calendar year, between the years 2011 and 2020. For details regarding the exchange of these liability certificates by way of an expansion of the liability certificates (Series J and H), see section H below.

C. Liability certificates (Series G) were issued in July 2014, and the series was extended in December 2016. The principal will be repaid in a single payment in December 2026, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on June 30 and December 31 of each calendar year, between the years 2014 and 2026.

D. Liability certificates (Series F) were issued in July 2014, and the series was extended in December 2016. The principal will be repaid in a single payment in December 2025, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on June 30 and December 31 of each calendar year, between the years 2014 and 2025.

E. Liability certificates (Series I) were issued in July 2015, and the series was extended in December 2016. The principal will be repaid in a single payment in July 2028, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on January 31 and July 31 of each calendar year, between the years 2016 and 2028.

F. Liability certificates (Series J) were issued in July 2015, and the series was extended in April 2016, as specified in section H below. The principal will be repaid in a single payment in July 2027, subject to an early redemption right, as specified in section H(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on January 31 and July 31 of each calendar year, between the years 2016 and 2027.

Note 25 - Deferred Liability Notes (Cont.)

A. Composition (Cont.)

G. 1. In April 2016, 600 million par value of outstanding bonds (Series F) which are traded on the stock exchange, were exchanged by way of a partial exchange offer, in consideration of an issuance of approximately NIS 628 million par value of liability certificates (Series J), by way of a series extension, which reflects an exchange ratio of 1.05; i.e., with respect to each NIS 1 par value of liability certificates (Series F), Clalbit Finance issued NIS 1.05 par value of liability certificates (Series J).

The liability certificates (Series J) which were issued, as stated above, were recognized (subject to restrictions) as Tier 2 hybrid capital of Clal Insurance, in place of liability certificates (Series F) which were exchanged, and which were recognized as Tier 2 hybrid capital.

The terms of some of the liability certificates (Series J) are different from the terms of the liability certificates (Series J), and accordingly, were treated as an exchange of debt instruments with significantly different terms, where the cost of their exchange, as stated above, amounted to a total of approximately NIS 17 million.

2. In December 2016, Clalbit Finance published a shelf offering report which also constitutes a specification for a full exchange offer, according to which exchanges of liability certificates were performed, as specified below:

A. To the holders of approximately NIS 114 million par value of outstanding bonds (Series F) which are traded on the stock exchange, these were replaced in consideration of the issuance of approximately NIS 115 million par value of liability certificates (Series H), by way of a series extension which reflects an exchange rate of 1.01, i.e., with respect to each NIS 1 par value of liability certificates (Series F), Clalbit Finance issued NIS 1.01 par value of liability certificates (Series H).

The liability certificates (Series H) which were issued, as stated above, were recognized (subject to restrictions) as Tier 2 hybrid capital of Clal Insurance, in place of liability certificates (Series F) which were exchanged, and which were recognized as Tier 2 hybrid capital.

B. To the holders of approximately NIS 89 million par value of outstanding bonds (Series A) which are traded on the stock exchange, these were exchanged in consideration of the issuance of approximately NIS 117 million par value of liability certificates (Series I), by way of a series extension, which reflects an exchange rate of 1.32, i.e., with respect to each NIS 1 par value of liability certificates (Series A), Clalbit Finance issued NIS 1.32, par value of liability certificates (Series I).

The liability certificates (Series J) which were issued, as stated above, were recognized (subject to restrictions) as Tier 2 hybrid capital of Clal Insurance, in place of liability certificates (Series F) which were exchanged, and which were recognized as Tier 2 hybrid capital.

C. To the holders of approximately NIS 42 million par value of outstanding bonds (Series B) which are traded on the stock exchange, these were exchanged in consideration of the issuance of approximately NIS 49 million par value of liability certificates (Series I), by way of a series extension, which reflects an exchange rate of 1.18, i.e., with respect to each NIS 1 par value of liability certificates (Series A), Clalbit Finance issued NIS 1.18, par value of liability certificates (Series I).

The liability certificates (Series I) which were issued, as stated above, were recognized (subject to restrictions) as Tier 2 hybrid capital of Clal Insurance, in place of liability certificates (Series F) which were exchanged, and which were recognized as Tier 2 hybrid capital.

The terms of some of the liability certificates (Series F, A and B) are different from the terms of the liability certificates (Series H and I), respectively, and they were accordingly were treated as an exchange of debt instruments with significantly different terms, where the cost of their exchange, as stated above, amounted to a total of approximately NIS 7 million.

Note 25 - Deferred Liability Notes (Cont.)

A. Composition (Cont.)

H. Additional terms of the liability certificates

1. Right to early redemption

A. Clalbit Finance will be entitled, without providing the right of choice to the holders of liability certificates and/or to the trustee, to redeem all or some of the liability certificates, upon the fulfillment of the following conditions (if required):

The first date when Clalbit Finance will be entitled to repay, through a full or partial early redemption, the liability certificates (hereinafter, with respect to each series: the "**First Early Redemption Date**"), is as follows:

Series C - On August 1, 2021;
Series F - On August 1, 2017;
Series G - On December 31, 2023;
Series H - On December 31, 2022;
Series I - On July 31, 2025;
Series J - On July 31, 2024;

After the first early redemption date, there is the right to perform an early redemption on the date of each interest payment, with respect to each liability certificate of the relevant series.

B. Insofar as the right to early redemption will not be exercised on the first date for early redemption, an interest addition will be paid to the holders of the relevant liability certificates, in addition to the interest paid which the liability certificates bear at the time, with respect to the remainder of the period (from the first early redemption date which was not exercised, as stated above, until the actual repayment date), at a rate of 50% of the original risk margin which was determined in the issuance regarding the liability certificates of the relevant series.

The original risk margin is as follows:

Series C - 1.50%;
Series F - 1.27%;
Series G - 1.35%;
Series H - 1.05%;
Series I - 1.83%;
Series J - 1.76%;

C. The minimum amount required to perform the early redemption, with respect to each series of liability certificates, is NIS 25,000,000 par value of liability certificates of the relevant series.

D. The conditions for early redemption are as follows:

(1) Receipt of advance approval from the Commissioner, in accordance with the conditions which will be determined. In general, early redemption will be possible if the capital of Clal Insurance, after the early redemption, exceeds 120% of the minimum capital required of it under the Capital Regulations. It should be emphasized that the Commissioner's directives may change from time to time.
(2) With respect to Series G, H, I and J, an early redemption is possible even if, in parallel, the company issues a capital instrument of identical or superior quality;

Note 25 - Deferred Liability Notes (Cont.)

A. Composition (Cont.)

6. (Cont.)

H. Additional terms of the liability certificates (Cont.)

2. Deferral of principal and/or interest payments in case of suspending circumstances

Upon fulfillment of any of the suspending circumstances described below, the principal payment and/or interest payments with respect to the liability certificates, as relevant, will be deferred:

A. With regard to the deferral of interest payments only - a lack of distributable earnings by Clal Insurance, as defined in the Companies Law, according to the last financial statements (annual or quarterly) prior to the relevant repayment date.

With respect to the deferral of principal and/or interest payments:

B. The recognized capital amount of Clal Insurance has decreased below the minimum capital required of it, in accordance with the most recent financial statements (annual or quarterly) which were published before the relevant principal and/or interest repayment date, and with respect to Series G, H, I and J, insofar as Clal Insurance has not performed a capital supplementation as of the publication date of the report (as this term is defined in the Commissioner's directive regarding "Composition of an insurer's recognized capital" from August 2011).

C. The board of directors of Clal Insurance instructs the deferral of the principal and/or interest payment in the event that it finds that a near and present concern has arisen with regard to the ability of Clal Insurance to meet its minimum required capital, on the condition that advance approval for such action has been received from the Insurance Commissioner.

D. The board of directors of Clal Insurance instructs a deferral of the principal and/or interest payment in the event that it finds that a near and present concern has arisen with regard to Clal Insurance's ability to repay, on time, liabilities whose priority rating is higher than that of the liability certificates, provided that advance approval for such action has been received from the Insurance Commissioner.

E. The Commissioner instructed a deferral of the principal and/or interest payment, due to significant harm to the recognized capital of Clal Insurance, or in the event that he observes real and near concern regarding Clal Insurance's ability to meet its minimum capital requirements (according to the Capital Regulations).

F. Principal and/or interest amounts which have been deferred, as stated above, will accrue linkage differentials, insofar as the original principal is linked, beginning from the date of the deferral until the date of actual payment, according to the known index on the actual payment date, as well as interest beginning from the date of the deferral until the actual payment date:

1. With respect to Series G, H, I and J - according to the interest rate specified in the terms of the liability certificates, on the date of the deferral.
2. With respect to Series C and F, according to the interest rate specified in the terms of the liability certificates on the date of the deferral, plus 50% of the original risk margin which was determined in the issuance with respect to each series, or the market interest rate (as defined in section 3.1.9.3 of the amended shelf prospectus which was published on July 12 and 13, 2010), according to whichever rate results in the higher amount.

Note 25 - Deferred Liability Notes (Cont.)

A. Composition (Cont.)

6. (Cont.)

I. In accordance with the amendment to the agreement between Clalbit Finance and Clal Insurance dated March 17, 2014 (hereinafter: the "**Amendment to the Agreement**"), the priority order of Clal Insurance's liabilities will be changed as follows:

1. The deposits which will be deposited in Clal Insurance out of the consideration from issuances of liability certificates which will be issued after the amendment date of the agreement, and which will be considered as Tier 3 hybrid capital of Clal Insurance, and the undertaking of Clal Insurance to comply with the terms of the aforementioned liability certificates, will have the following status:

   - The same status as the deferred liability notes which were issued by Clal Insurance and/or Clalbit Finance until the date of the amendment to the agreement.
   - An equal status to that of the components and instruments which will be included in the Tier 3 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
   - A status equal to or higher than the components and instruments which will be included in the Tier 2 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance from the date of the amendment to the agreement, as specified in the issuance terms of the aforementioned liability certificates (which will be recognized as Tier 3 hybrid capital).
   - With a status higher than the components and instruments which will be included in the Tier 1 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
   - With a status lower than the remaining liabilities of Clal Insurance towards its creditors.

2. The deposits which will be deposited in Clal Insurance out of the consideration from the issuances of liability certificates which will be issued after the amendment date of the agreement will be considered Tier 2 hybrid capital of Clal Insurance, and the undertaking of Clal Insurance to comply with the terms of the aforementioned liability certificates will have the following status:

   - A status equal to the deferred liability notes which were issued by Clal Insurance and/or Clalbit Finance until the date of the amendment to the agreement.
   - A status equal to the components and instruments which will be included in the Tier 2 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
   - A status equal to or lower than the components and instruments which will be included in the Tier 3 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance from the date of the amendment to the agreement, as specified in the issuance terms of the aforementioned liability certificates (which will be recognized as Tier 2 hybrid capital).
   - A status higher than the components and instruments which will be included in the Tier 1 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
   - With a status lower than the remaining liabilities of Clal Insurance towards its creditors.

   It is clarified that any priority level which was determined in any letter of undertaking cannot be changed in any subsequent letter of undertaking.

Note 25 - Deferred Liability Notes (Cont.)

A. Composition (Cont.)

7. In addition to that stated in section 4 above, during the year ended December 31, 2016, in accordance with the original amortization schedule, the balance of principal of the deferred liability notes, in the amount of approximately NIS 131 million, was repaid.

8. The balance of the liability certificates is after deducting issuance costs in the amount of NIS 16 million, which are amortized using the effective interest method.

B. Repayment dates

Presented below are the contractual repayment dates of the deferred liability notes: *)

	As of December 31	
NIS in thousands	**2016**	**2015**
First year	**75,900**	127,898
Second year	**46,492**	835,068
Third year	**17,635**	92,408
Fourth year	**17,488**	40,546
Fifth year and thereafter	**3,157,818**	2,123,736
	3,315,333	3,219,656

*) Assuming early redemption, see section A(6)(h)(1) above.

C. Rating of Clal Insurance and deferred liability notes

For details regarding the rating of Clal Insurance and deferred liability notes, see Note 27(f).

D. Shelf prospectus in Clalbit Finance

On May 29, 2014, Clalbit Finance published a shelf prospectus (hereinafter: the "**Shelf Prospectus**"). The shelf prospectus allows Clalbit Finance, inter alia, to issue bonds and warrants exercisable into bonds, the consideration for which will be deposited in Clal Insurance, which will be responsible, towards the bond holders, for their repayment, and which will be recognized by Clal Insurance as Tier 2 hybrid capital and/or as Tier 3 hybrid capital, as applicable, as these terms are defined in the shelf prospectus. On May 22, 2016, the offering period with respect to securities in accordance with the shelf prospectus was extended until May 28, 2017.

Note 26-Other Accounts Payable

A. Composition

	As of December 31	
NIS in thousands	**2016**	**2015**
Employees and other wage and salary commitments [1]	**145,412**	180,409
Expenses payable	**155,779**	128,792
Provisions with respect to legal claims [2]	**25,794**	25,172
Suppliers and service providers	**30,231**	38,224
Government institutions and authorities	**10,465**	10,366
Reinsurers' share in deferred acquisition costs in non-life insurance	**61,544**	60,465
Insurance companies and insurance mediators:		
Deposits of reinsurers	**671,139**	659,816
Other accounts	**121,501**	155,870
Total insurance companies	**792,640**	815,686
Insurance agents	**416,486**	393,653
Policyholders and members	**533,960**	385,438
Provision for profit sharing of policyholders	**42,593**	86,730
Interest payable with respect to deferred liability notes	**40,249**	54,466
Prepaid premiums	**92,321**	105,194
Securities with respect to non-marketable futures contracts	**26,108**	-
Other	**25,078**	27,906
Total other accounts payable	**2,398,660**	2,312,501

1) Movement in the provisions with respect to legal claims

	For the year ended December 31	
NIS in thousands	**2016**	**2015**
Balance as of January 1	**25,172**	25,652
Provisions realized during the year	**(3,879)**	(6,665)
Provisions created during the year	**4,501**	6,185
Balance as of December 31	**25,794**	25,172

2) For details regarding changes in calculations in non-life insurance which entered into effect, and their impact in 2015, see Note 3(d)(2)(b).

For details regarding the exposure with respect to currency and linkage risk, see Note 40(c)(4).

For details regarding other accounts payable vis-à-vis related parties, see Note 41(c).

Note 27 - Liabilities to Banking Corporations and Others

A. Composition

	As of December 31				Interest rate as of December 31	Interest rates which were used in the determination of fair value of financial liabilities as of December 31, 2016 **)
	Book value		Fair value *)			
	2016	2015	2016	2015	2016	
	NIS in thousands				Percent	
Total financial liabilities presented at amortized cost:						
Loans from banking corporations:						
The company (see B, D below)	**70,000**	70,000	**72,153**	71,800	2.45	1.14
Clal Credit and Finance	**3,089**	25,853	**3,095**	25,899	2.85-3.75	2.47
Total liabilities presented at amortized cost	**73,089**	95,853	**75,248**	97,699		
Liabilities measured at fair value through profit and loss:						
Liabilities with respect to derivative financial instruments and short sales:						
Future contracts	**183,008**	160,034	**183,008**	160,034		
Foreign currency swap transactions	**62,796**	83,471	**62,796**	83,471		
Maof options	**66**	3,713	**66**	3,713		
Other	**703**	138	**703**	138		
Total liabilities with respect to derivative financial instruments and short sales [1)]	**246,573**	247,356	**246,573**	247,356		
Total financial liabilities	**319,662**	343,209	**321,821**	345,055		
1) Of which, with respect to investment-linked liabilities	**214,853**	196,983	**214,853**	196,983		

For additional information regarding the group's exposure to interest rate, foreign currency and liquidity risks, see Note 40(d).

*) Includes an approximation of fair value, in cases where the gap is immaterial. For additional information regarding fair value measurement, see section H below.

**) The fair value measurements of these liabilities are at level 3 of the fair value hierarchy. For the definition of the levels of the hierarchy, see Note 2(e)(3) above.

Note 27 - Liabilities to Banking Corporations and Others (Cont.)

B. Details regarding loans from banking corporations, contractual restrictions and financial covenants which were accepted by the company:

NIS in thousands	Balance as of December 31, 2016	Balance as of December 31, 2015	Prime margin rate as of the reporting date	Repayment terms	Covenant	Restriction	Result of the restriction: As of the reporting date	Result of the restriction: As of the approval date of the reports	Fulfillment of covenants
From an interested party bank in November 2014	70,000	70,000	0.85%	Quarterly interest. Principal repayment in two payments, in November 2018 and November 2019.	A) Total financial liabilities [1]	No more than NIS 750 million	(31)	(35)	Yes
					B) Ratio between the value of the holdings of subsidiaries and investee companies, plus cash[2], and total financial debt [3]	No less than 3.5	61	61	Yes
Total	70,000	70,000							

1) "**Financial liabilities**": Loans (short term and long term) from banks and from other financial institutions, liabilities with respect to financial leasing, bonds and convertible bonds, as well as liabilities with respect to bank guarantees which were issued at the request of the company by banking corporations and/or any other financial institutions, excluding bank guarantees which were issued at the request of the company to secure the debts of its subsidiary, and with the addition of guarantees signed by the company to secure the debts and liabilities of any third party which is not a subsidiary of the company to banking corporations or other financial institutions, less cash and cash equivalents as defined in the accounting principles, and less deposits in banking corporations, monetary funds, and less government bonds and short term bills, according to the company's annual separate (solo) financial statements, and according to the company's quarterly separate (solo) financial statements.
2) "**Cash**": Cash and cash equivalents, plus deposits in banking corporations, and plus monetary funds, government bonds and short term bills, as specified in the company's annual financial statements, on a separate (solo) basis.
3) **"Total financial debt":** The debts, liabilities and charges (general obligo) of the company towards all of its creditors and/or towards third parties and/or towards the entire banking and/or extra-banking system, in the most comprehensive, inclusive and general manner, of any type or kind whatsoever, and with no exceptions, from time to time and at any moment in time whatsoever (including and without excepting debt balances to customers as reported the company's solo financial statements), and excluding bank guarantees which have been issued at the request of the company to secure the debts of its subsidiary.

The loan agreement included the specification of conditions for demanding the immediate repayment of the loan, inter alia, in the following cases: arrears in the repayment of the loan to the bank; Breach of the company's undertakings towards the bank, including undertakings under the loan agreement; Demand for immediate repayment of the company's debts and obligations towards other creditors or towards the bank; Any event which could significantly harm the company's financial ability, and which could, in the bank's reasonable judgment, harm the company's ability to repay the loan (including discontinuation of debt repayments or business management); Initiation of insolvency proceedings vis-à-vis the company; Imposition of liens on the company's assets; A merger in the company; Change in the control of the company; Decrease in the company's rate of ownership and/or control of Clal Insurance and/or Clal Pension and Provident Funds; Discontinuation of business activities for a period exceeding 30 days; Non-submission of the financial reports on time. In this context, it is noted that the banking corporation which provided credit and a credit facility to the company affirmed that it would not initiate proceedings against the company due to the appointment of the trustee and his actions, in accordance with the instructions issued by the Commissioner, and due to the transfer of IDB Development shares, within the framework of the creditors' settlement in IDB Holdings (for additional details, see Note 1).

Note 27 - Liabilities to Banking Corporations and Others (Cont.)

C. Contractual restrictions and other financial covenants

1. Clal Finance

Presented below are details regarding the undertakings to indemnify which the company and Clal Finance accepted, following the disposal of Clal Finance's significant operations in 2013, and the capital reduction in Clal Finance:

A. Sale of mutual fund and portfolio management operation

On April 4, 2013, a transaction was completed in which Clal Finance and Clal Finance Batucha Investment Management Ltd. (hereinafter: "Clal Finance Batucha") sold to Harel Finance Investment Management Ltd. and Harel Finance Holdings Ltd., both member companies of the Harel Group (hereinafter, jointly: "**Harel**"), the entire holdings of Clal Finance Batucha in Clal Mutual Funds, and the portfolio management operation of Clal Finance Batucha (except for the management of financial savings policies), in consideration of a total amount of NIS 207.5 million, in cash.

The agreement includes representations regarding the transferred operation and the sold shares, as well as an undertaking to indemnify on the part of Clal Finance Batucha and Clal Finance, due to a breach of representations or obligations with respect to the period prior to the agreement completion date. This liability is restricted to a period of 36 months or 60 months, in accordance with the grounds for indemnification, or in case of a breach of a representation regarding the sold share capital - with no time restriction. It was further determined that the cumulative indemnification amount would not exceed a total of half of the consideration, except with respect to indemnification which given with respect to tax liability, fines or financial sanctions with respect to causes of action which were created prior to the completion date of the transaction, and breach of a representation regarding the sold share capital. In these cases, the total indemnification amount was limited to the consideration amount, CPI-linked. The company guarantees Clal Finance's undertaking to indemnify. For details regarding a class action against Harel, to which the aforementioned undertaking to indemnify applies, see Note 43(a)(a2)(18) below.

B. Sale of Clal Finance Batucha to Bank of Jerusalem

On December 15, 2013, Clal Finance sold to Bank of Jerusalem Ltd. (hereinafter: the "**Bank**") the entire holdings of Clal Finance in Clal Finance Batucha. As part of the completion of the transaction, Clal Finance received payment of a consideration in the total amount of approximately NIS 239 million, and the balance of the consideration, in the amount of approximately NIS 18.1 million, was received in 2014.

As part of the agreement, the company and Clal Finance undertook, jointly and severally, to indemnify the Bank due to the series of events specified in the agreement in connection with any damage or liability with respect to the period prior to the completion date of the agreement, including due to a breach of representations. The aforementioned undertaking to indemnify was restricted to a period of 36 months, or 84 months (or the end of the obsolescence period, whichever is earlier), according to the grounds for indemnification. It was further determined that the cumulative indemnification amount will not exceed a total of NIS 190 million, except as regards damage which was incurred with respect to tax liability, liabilities due to working relationships, payments to any authority, expenses in connection with the initiation of criminal investigations, damage in connection with the Harel transaction (see section A above), or the Mabat transaction (the sale of designated companies which issue index products to the Meitav investment house in 2011), or in connection with specific events which were specified in the agreement - in which case, the cumulative indemnification amount will not exceed NIS 250 million. For details regarding the class actions against Bank of Jerusalem, to which the aforementioned undertaking to indemnify applies, see Notes 44(a)(a2)(17) below.

C. Capital reduction in Clal Finance

On December 17, 2014, the District Court approved a motion which was filed by Clal Finance for the performance of a capital reduction by way of a distribution (as this term is defined in the Companies Law, 1999) to the company, and approved the performance of a distribution in the amount of NIS 250 million to the company. It is noted that the company accepted upon itself, in connection with the aforementioned distribution, an undertaking to bear certain contingent liabilities of Clal Finance, including in connection with the transactions specified in subsections (a) and (b) above.

Note 27 - Liabilities to Banking Corporations and Others (Cont.)

C. Contractual restrictions and other financial covenants (Cont.)

2. Clal Factoring

In July 2013, a collaboration agreement was signed between Clal Factoring and Bank Otsar Ha-Hayal Ltd. (hereinafter: "**Otsar Ha-Hayal**"), for the transfer of the customers of Clal Factoring, in the factoring segment, to receive services from Otsar Ha-Hayal. The transfer of customers within the framework of the transaction concluded in 2014.

Under the agreement, Clal Factoring and the company undertook a non-competition agreement regarding factoring activities, for a period of 4 years.

As of December 31, 2015 and 2016, Clal Factoring and the company fulfilled their undertakings.

3. Clal Finance Consumer Credit

According to the resolution of the board of directors of Clal Finance Consumer Credit Ltd. (hereinafter: "**Clal Finance Consumer Credit**"), a subsidiary of Clal Credit and Finance, the consumer loan provision operation and credit card marketing operation were reduced, in advance of the sale of the operation to a third party, or to its closure. Following the foregoing, beginning in May 2013, Clal Finance Consumer Credit stopped extending new loans.

Following the foregoing, in the fourth quarter of 2013 and the third quarter of 2014, the financial covenants pertaining to the capital covenants under the agreements with the banking corporations were canceled, such that, as of December 31, 2016, the company is subject to one covenant. The cancellation of the aforementioned covenants was implemented together with the provision of complete guarantee of the company for the debts of Clal Finance Consumer Credit towards the banking corporations.

As of December 31, 2015 and 2016, the consolidated company fulfilled the aforementioned financial covenant.

D. Early repayments

1. **The company**

In April 2015, the company performed an early and self-initiated repayment of the entire balance of the loan to a banking corporation, in the amount of NIS 60 million.

It is noted that the loan agreement with the banking corporation included provisions regarding the company's right to perform an early repayment of the loans (including as regards the formula used to calculate the early repayment fee).

2. **Companies in the financing group**

In 2015, and as part of the group's strategy of reducing financing expenses which do not constitute capital in Clal Insurance, the company performed, with respect to the financing groups, an early and contractual repayment of loans in the amount of approximately NIS 59 million.

E. Details regarding credit facilities from banks corporations

Unused credit facilities which are available to the company in millions of NIS

	As of December 31	
	2016	**2015**
Banking corporation	-	60*)
	-	60

*) During the reporting period, in accordance with the date specified in the agreement, the company's credit facility in the amount of NIS 60 million expired. the company chose not to renew the credit facility.

Note 27 - Liabilities to Banking Corporations and Others (Cont.)

F. Rating

Presented below are details regarding the ratings of the company and the group's member companies, as well as liability certificates which were issued by them, as of the publication date of the report, and changes during the reporting period:

Rating company	Company name	Rating		Outlook	Date of last update	Date of last ratification
Maalot	Clal Insurance	(IFSR)[1]	(AA+)	Stable	Jun 14	Dec 16 [4]
		Debt rating for deferred liability notes	(AA)	Stable		
		Debt rating (Tier 2 hybrid capital) [2]	(AA-)	Stable		
Midroog	Clal Insurance	(IFSR)[1]	Aa1	Stable	Jul 14	Dec 16 [5]
		Debt rating - subordinated Tier 2 liability certificates	(Aa2)	Stable		
		Debt rating - liability certificates under Tier 3 hybrid capital [3]	(Aa3)	Stable		

1) Financial stability rating of an insurer.
2) The rating also refers to Series G and H, in the total amount of NIS 316 million par value, which were issued in December 2016. For additional details, see Note 25(a)(6).
3) The rating also refers to the extension of Series I in the amount of NIS 166 million par value, which was issued in December 2016. For additional details, see Note 25(a)(6).
4) In 2015, and in September and December 2016, Maalot left unchanged the ratings presented in the above table.
5) In 2015, and in March, October and December 2016, Maalot left unchanged the ratings presented in the above table.

	As of December 31	
In percent	**2016**	**2015**
Linkage basis		
Linked to the Consumer Price Index	**2.85-3.75**	2.55-3.85
NIS	**2.45**	2.45

G. Fair value of liabilities with respect to derivative financial instruments and short sales

1) Fair value measurement

The fair value of the financial liabilities was determined with reference to their quoted closing asking price, as of the reporting date. In the event that no quoted price exists, the fair value is measured using a valuation technique which includes the discounted future cash flow method with respect to the principal and interest components, which are discounted using market interest rates for similar liabilities as of the calculation date, which are determined by a company supplying interest rate quotes (for additional details, see Note 14(b)).

2) Fair value hierarchy

The following table presents the financial liabilities distributed by levels in the fair value hierarchy. For details regarding the levels of the hierarchy, see Note 2(e)(3) above.

	As of December 31, 2016		
NIS in thousands	**Level 1**	**Level 2**	**Total**
Derivatives and short sales	**768**	**245,805**	**246,573**

	As of December 31, 2015		
NIS in thousands	**Level 1**	**Level 2**	**Total**
Derivatives and short sales	3,851	243,505	247,356

Note 27 - Liabilities to Banking Corporations and Others (Cont.)

H. Additional information regarding derivatives

Presented below is the total net exposure to the underlying asset, according to the delta terms of the transaction in derivative instruments made as of the dates of the financial statements by member companies in the group which are insurance companies in Israel:

	As of December 31	
NIS in thousands	**2016**	**2015**
Stocks	**3,369**	32,676
CPI	**806,539**	301,242
Foreign currency	**(1,941,666)**	(2,370,921)
Fixed interest	**123,423**	(265,138)

Note 28- Operating Leases

A. Leases in which the group is the lessee

The group is engaged in an operating lease agreement with respect to a property which serves as the group's office. This lease is non-cancellable, and is in effect until 2030, with an option to extend the lease term by an additional 8 years.

The group's member companies have non-cancelable operating lease agreements with respect to their vehicle fleets, for an average period of approximately 3 years.

As of the end of the reporting period, the minimum future lease fees required for payment with respect to the non-cancellable operating lease agreements are as follows *):

	As of December 31	
NIS in thousands	**2016**	**2015**
Up to one year	**55,167**	**42,399**
One year to five years	**145,739**	**149,808**
Over five years	**287,091**	**311,216**
	487,997	503,423

Presented below are the lease payments and income with respect to subleases which were applied to the statement of income: *)

	As of December 31		
NIS in thousands	**2016**	**2015**	**2014**
Minimum lease payments recognized as expenses	**57,554**	**71,167**	69,997
Income from subleasing	**(6,252)**	**(1,616)**	(1,202)
	51,302	**69,551**	68,795

*) For details regarding an onerous contract, see Note 37.

Note 28- Operating Leases (Cont.)

B. Leases in which the group is the lessor

The group leases several commercial buildings and office buildings (which are classified as investment property) to external entities. The leasing agreements are for varying periods (up to approximately 38 years), and are non-terminable, in consideration of the lessees' options to renew the contracts at the end of the period.

The following are the minimum lease payments which are expected to be received with respect to lease agreements, including with respect to the optional contract renewal periods, whose disposal was considered likely as of the date of engagement in the agreement:

	As of December 31	
NIS in thousands	**2016**	**2015**
Up to one year	**235,407**	**230,564**
One year to five years	**818,703**	**777,131**
Over five years	**1,885,313**	**1,725,543**
	2,939,423	**2,733,238**
Of which, receivable future minimum lease payments attributed to properties in which the company is the lessee under a finance lease	**591,050**	**588,491**

For additional information regarding leasing agreements in connection with investment property, see Note 10.

Note 29- Premiums Earned

NIS in thousands	For the year ended December 31, 2016 Gross	Reinsurance	Retention
Premiums in life insurance	**4,998,614**	**168,386**	**4,830,228**
Premiums in health insurance	**1,798,880**	**212,416**	**1,586,464**
Premiums in non-life insurance	**2,232,680**	**645,637**	**1,587,043**
Total premiums	**9,030,174**	**1,026,439**	**8,003,735**
Change in unearned premium balance and other changes *)	**79,829**	**15,808**	**64,021**
Total premiums earned	**9,110,003**	**1,042,247**	**8,067,756**

NIS in thousands	For the year ended December 31, 2015 Gross	Reinsurance	Retention
Premiums in life insurance	4,860,383	163,571	4,696,812
Premiums in health insurance	1,678,374	186,941	1,491,433
Premiums in non-life insurance	2,395,289	665,150	1,730,139
Total premiums	8,934,046	1,015,662	7,918,384
Change in unearned premium balance and other changes *)	120,679	41,720	78,959
Total premiums earned	9,054,725	1,057,382	7,997,343

NIS in thousands	For the year ended December 31, 2014 Gross	Reinsurance	Retention
Premiums in life insurance	4,721,383	188,277	4,533,106
Premiums in health insurance	1,601,401	193,652	1,407,749
Premiums in non-life insurance	2,663,464	739,227	1,924,237
Total premiums	8,986,248	1,121,156	7,865,092
Change in unearned premium balance and other changes *)	43,164	12,195	30,969
Total premiums earned	9,029,412	1,133,351	7,896,061

*) For details regarding changes in unearned premiums in non-life insurance, see Note 19.
There are also changes which are due to a deduction with respect to amounts deposited in the company within the framework of a defined benefit plan for the group's employees.

Note 30 - Income (Loss) from Investments, Net, and Financing Income

NIS in thousands	For the year ended December 31 2016	2015	2014
Income (loss) from assets held against investment-linked liabilities			
Investment property	**106,240**	225,367	180,218
Financial investments			
Marketable debt assets	**260,519**	111,096	900,980
Non-marketable debt assets	**107,773**	211,731	289,215
Stocks	**(11,451)**	495,935	166,999
Other	**884,962**	466,795	1,023,270
Cash and cash equivalents	**(10,163)**	(6,370)	20,777
Other	**(22,413)**	(52,538)	42,778
Total income from assets held against investment-linked liabilities, net	**1,315,467**	1,452,016	2,624,237
Income (loss) from assets held against non-investment-linked liabilities, capital and others			
Income from investment property			
Revaluation of investment property	**2,218**	31,018	23,240
Current income with respect to investment property	**41,632**	71,254	57,025
Total income from investment property	**43,850**	102,272	80,265
Income (loss) from financial investments, excluding interest, linkage differentials, foreign currency differences and dividends with respect to:			
Available for sale assets (A)	**133,161**	382,367	250,580
Assets presented at fair value through profit or loss (B)	**58,915**	33,058	(150,864)
Assets presented as loans and receivables (C)	**52,424**	14,256	19,045
Total	**244,500**	429,681	118,761
Interest income [1] and linkage differentials from financial assets not at fair value through profit and loss	**985,476**	972,092	1,125,725
Interest income and linkage differentials from financial assets at fair value through profit and loss	**(4,128)**	10,559	11,290
Income (loss) from foreign currency differences with respect to investments which are not measured at fair value through profit or loss and from other assets [2]	**(15,524)**	(8,264)	46,750
Income from dividends	**46,733**	52,037	38,489
Total income from investments, net, and financing income	**2,616,374**	3,010,393	4,045,517
1) The aforementioned income includes interest with respect to impaired financial assets which are not measured at fair value through profit or loss	**712**	1,829	1,501

2) For details regarding foreign currency differences with respect to financial liabilities, see Note 39.

Note 30 - Income (Loss) from Investments, Net, and Financing Income (Cont.)

A. Net profits from investments with respect to available for sale financial assets

NIS in thousands	For the year ended December 31 2016	2015	2014
Net gains from disposed securities	**234,497**	451,739	331,078
Net impairment charged to profit and loss	**(101,336)**	(69,372) *)	(80,498)
Total income from investments with respect to available for sale financial assets	**133,161**	382,367	250,580

*) Re-classified, see Note 2(f).

B. Income (loss) from investments with respect to assets presented at fair value through profit and loss

NIS in thousands	For the year ended December 31 2016	2015	2014
Net changes in fair value, including profit from disposal			
With respect to assets designated upon initial recognition	**(16,046)**	(21,285)	24,350
With respect to assets held for trading	**74,961**	54,343	(175,214)
Total income (loss) from investments with respect to assets presented at fair value through profit or loss	**58,915**	33,058	(150,864)

C. Income (loss) from investments with respect to assets presented as loans and receivables

NIS in thousands	For the year ended December 31 2016	2015	2014
Income (loss) from disposal of assets presented as loans and receivables	**51,357**	27,353	20,204
Reversal of impairment (impairment) charged to profit and loss	**1,067**	(13,097) *)	(1,159)
Total gains from investments with respect to assets presented as loans and receivables	**52,424**	14,256	19,045

*) Re-classified, see Note 2(f).

Note 31- Income from Management Fees

A. Composition

NIS in thousands	For the year ended December 31 2016	2015	2014
Management fees in the pension and provident fund branches	**471,760**	502,873	499,962
Variable management fees with respect to life insurance contracts *)	**106,048**	167,566	223,047
Fixed management fees with respect to life insurance contracts	**354,173**	343,035	317,177
Management fees with respect to investment contracts	**24,476**	25,923	24,954
Total income from management fees	**956,457**	1,039,397	1,065,140

***)** For details regarding the method used to calculate variable management fees, see Note 3(n)(3)(a).

Note 32- Income from Commissions

NIS in thousands	For the year ended December 31 2016	2015	2014
Insurance agency commissions	**50,281**	53,216	51,413
Reinsurance commissions, less change in deferred acquisition costs with respect to reinsurance	**176,137**	185,507	202,731
Total income from commissions	**226,418**	238,723	254,144

Note 33- Other Income

NIS in thousands	For the year ended December 31 2016	2015	2014
Capital gains from the sale of assets *)	**1,249**	1,966	25,481
Profit from disposal of investments in investee companies and other companies	**-**	-	3,995
Others	**170**	129	2,193
Total	**1,419**	2,095	31,669

*) Following the company’s transition to the Atidim Tower, the company sold the headquarters building in 2014.

Note 34 - Payments and Changes in Liabilities with Respect to Insurance Contracts and Investment Contracts on Retention

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Total payments and change in liabilities on retention with respect to insurance contracts and investment contracts in long term savings			
With respect to life insurance contracts			
Paid and outstanding claims			
Death, disability and other events	**750,843**	710,610	738,019
Less reinsurance	**(111,943)**	(104,785)	(109,447)
	638,900	605,825	628,572
Redeemed policies	**1,854,805**	1,753,580	1,650,287
Expired policies	**306,698**	194,030	141,513
Retirement	**268,396**	221,826	175,069
Claim settlement costs	**22,089**	22,275	21,088
Total claims	**3,090,888**	2,797,536	2,616,529
Increase (decrease) in liabilities with respect to life insurance contracts (excluding changes in contingencies) on retention	**3,496,443**	3,739,234*)	4,929,027*)
Increase in liabilities with respect to life insurance investment contracts due to the yield component	**30,217**	21,635*)	78,542*)
Increase in liabilities with respect to a contract for the management of a guaranteed return provident fund	**118,063**	104,878*)	121,890*)
Total payments and change in liabilities on retention with respect to insurance contracts and investment contracts in long term savings	**6,735,611**	6,663,283	7,745,988
Total payments and change in liabilities with respect to non-life insurance contracts			
Gross	**1,611,703**	1,578,083	1,519,326
Reinsurance	**(357,905)**	(435,722)	(245,713)
On retention	**1,253,798**	1,142,361	1,273,613
Total payments and change in liabilities with respect to health insurance contracts			
Gross	**1,227,856**	1,153,321	1,283,975
Reinsurance	**(189,484)**	(159,246)	(169,176)
On retention	**1,038,372**	994,075	1,114,799
Total payments and change in liabilities with respect to insurance contracts and investment contracts on retention	**9,027,781**	8,799,719	10,134,400

*) Re-classified, see Note 2(f).

Note 35 - Commissions, Marketing Expenses and Other Acquisition Costs

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Acquisition costs:			
Acquisition commissions	**640,734**	681,759	718,575
Other acquisition costs	**459,663**	443,396	432,067
Change in deferred acquisition costs	**(73,146)**	(91,841)	(79,527)
Total acquisition costs	**1,027,251**	1,033,314	1,071,115
Other current fees	**607,696**	610,077	593,745
Other marketing expenses	**179,252**	186,839	208,763
Total fees, marketing expenses and other acquisition costs	**1,814,199**	1,830,230	1,873,623

Note 36- General and Administrative Expenses

A. Details of expenses by main operation types

	For the year ended December 31		
NIS in thousands	**2016**	2015	2014
Insurance agencies and HaClal HaRishon	**155,711**	154,874	165,098
Managing companies of provident and pension funds	**111,280**	113,043	117,898
Insurance companies and others	**869,500**	891,548	892,826
Clal Finance	**-**	-	2,362
Total excluding automation expenses	**1,136,491**	1,159,465	1,178,184
Automation expenses	**404,031**	353,773	263,683
Total general and administrative expenses	**1,540,522**	1,513,238	1,441,867

B. Details of expenses

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Payroll and associated expenses [1)]	**960,334**	984,650	953,815
Depreciation and amortization [2)]	**236,730**	219,789	187,115
Office maintenance and telecommunication	**135,946**	126,518	142,682
Marketing and advertising	**15,896**	20,847	18,495
Legal and professional consulting	**31,794**	28,239	33,766
Operating expenses of provident funds in banks[3)]	**14,070**	18,833	22,473
Others [4)]	**145,752**	114,362	83,521
Total	**1,540,522**	1,513,238	1,441,867
Less:			
Amounts classified under the item for liabilities and payments with respect to insurance contracts	**128,255**	129,877	119,568
Amounts classified under the item for commissions, marketing expenses and other acquisition costs	**638,915**	630,235	640,830
General and administrative expenses	**773,352**	753,126	681,469

1. For additional details regarding payroll expenses and associated expenses, including share-based payments, see Note 42. For additional details regarding provisions with respect to employee benefits, including bonuses with respect to the fulfillment of targets and the implications of a collective agreement, see Note 24(d).
2. In 2015, depreciation expenses included depreciation with respect to the Nissan system, which went live in January 2015. For additional details, see Note 44(c). The expenditure in 2014 includes a total of approximately NIS 13 million with respect to the acceleration of depreciation of furniture and office equipment and leasehold improvements, over their remaining useful lifetime until the date of the transition to the Atidim Tower, as described in Note 44(b).
3. For details regarding the replacement of an operator during the reporting period, see Note 44(a).
4. The amount was primarily due to automation expenses which are not depreciation and amortization.

Note 37- Other Expenses

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Amortization of intangible assets (Note 6)	**7,828**	9,351	15,852
Loss from disposal of property, plant and equipment	**65**	85	675
Onerous contract *)	**(507)**	10,061	13,882
Others **)	**7,376**	13,280	10,529
Total other expenses	**14,762**	32,777	40,938

*) As a result of the group's transition to the Atidim Building in 2014, the group's member companies vacated most of the areas which are rented in the Central region. Some of the areas were subleased, or the leasing rights with respect to them were assigned to an alternative lessee. As a result of the foregoing, the group's member companies will continue paying rent with respect to the difference, insofar as any will be created, between the rent which they are required to pay according to the rental agreements, and the rent which will be paid by the alternative lessees.

**) Primarily due to the provision for claims and financial sanctions.

Note 38- Financing Expenses

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Interest expenses and linkage differentials with respect to			
Deferred liability notes [1]	**148,722**	127,536	128,135
Liabilities to banks [2]	**1,994**	5,457	23,455
Interest expenses to reinsurers	**10,693**	8,794	14,303
Exchange differences, net, with respect to liabilities [3] [4]	**(2,063)**	(2,805)	23,692
Interest with respect to bonds [5]	**-**	-	24,388
Commissions and other financing costs	**349**	206	3,886
Total financing expenses	**159,695**	139,188	217,859

1) The balance during the reporting year includes the cost of early repayments in the amount of approximately NIS 24 million, as compared with a total of approximately NIS 10 million last year.
For additional details, see Note 25(a)(6)(g) and (4)(c).
2) In 2014 and 2015, the balance includes interest differentials which were paid by the company and the group's member companies with respect to early redemptions of loans which were performed.
3) Primarily due to foreign currency differences to reinsurers.
4) For details regarding foreign currency differences with respect to financial investments, see Note 30.
5) Including with respect to loss from early redemption of bonds. See Note 27.

Note 39 - Earnings Per Share

A. Earnings attributable to holders of ordinary shares of the company (basic and diluted)

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Earnings (loss) attributed to holders of ordinary shares	**96,401**	477,285	221,642

B. Weighted average of the number of ordinary shares (basic)

	For the year ended December 31		
	2016	**2015**	**2014**
	Shares of NIS 1 par value		
Balance as of January 1	**55,412,244**	55,360,370	55,354,646
Impact of warrants exercised into shares	**-**	29,876	952
Weighted average of the number of ordinary shares used to calculate basic earnings (loss) per share	**55,412,244**	55,390,246	55,355,598

C. Weighted average of the number of ordinary shares (diluted) [1)]

	For the year ended December 31		
	2016	**2015**	**2014**
	Shares of NIS 1 par value		
Weighted average of the number of ordinary shares used to calculate basic earnings per share	**55,412,244**	55,390,246	55,355,598
Impact of warrants for shares	**-**	94,077	93,357
Weighted average of the number of ordinary shares used to calculate diluted earnings (loss) per share	**55,412,244**	55,484,323	55,448,955

1) The average market value of the company’s stock, for the purpose of calculating the dilution effect of warrants based on quoted market prices for the period when the warrants were outstanding.

Note 40- Risk Management

A. General

The group's activities expose it to the following primary risks: market risks, liquidity risks, insurance risks, credit risks and operational risks.

This note provides information with regard to the group's exposure to these risks, and regarding the group's goals, policies and procedures with regard to the measurement and management of each risk. An additional quantitative disclosure was included throughout the entire financial statements.

A1. Description of procedures and methods for the management, measurement and control of risks

The main risks to which the company is exposed include risks which are associated with insurance operations (see section A2 below). The main principles of the financial risk management policy are determined by the appropriate organs of each of the group's member companies, which convene from time to time. The board of directors receives ongoing reports and updates, and periodically holds discussions with respect to these exposures.

According to the policy of the board of directors, the company invests its liquid balances in short term, low risk NIS investments.

For subsidiaries that invest in financial assets, a specific investment policy is determined that is relevant to the nature and activities of each subsidiary. This policy was determined and is supervised by the subsidiary's board of directors.

The risk management unit in the group is responsible for risk management in the institutional entities in the group, and periodically concentrates the group's financial exposures.

The group periodically convenes professional forums led by the CEO, which include discussions, inter alia, regarding risk aspects in the group's operating segments.

The company is subject to a minimum capital requirement by virtue of the permit for control of Clal Insurance, which was issued to it by the Commissioner (for details, see Note 16(e)(3)). For details regarding the changes in the control of the company, and their implications on the control permit, see Note 1 above. The board of directors evaluates, from time to time, the capital cushion which is required beyond the above minimum capital requirements, with respect to unexpected developments which may occur in capital and in the capital requirements, as a result of changes in the central risk factors to which the group is exposed.

A2. Description of management processes and methods, and measurement of risks in the consolidated insurance companies

The risk management policy of the consolidated insurance companies in Israel, and of the investee companies held by them (hereinafter: "**Clal Insurance Group**"), which was approved by the boards of directors, is intended to ensure controlled exposure to the risks to which Clal Insurance Group is exposed, while meeting Clal Insurance Group's regulatory requirements, and maintaining its business goals and financial stability.

Risk management in the Clal Insurance Group is based on three "lines of defense":

- The business entities which are responsible for the identification, assessment, monitoring, mitigation and reporting of risks inherent in products, activities, processes and systems which are subject to their responsibility and control. This responsibility includes, inter alia the definition of processes, internal policies and decision making. The business entities enlist the assistance of supportive departments, including the actuarial, comptrollership, regulatory and legal consulting, reinsurance and information system departments.

Note 40 - Risk Management (Cont.)

A. General (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

- The risk management, control and enforcement unit supplements the risk management activities of the business entities, and is responsible for formulating the framework for risk management in the group, for developing tools and methods of risk assessment, and for assessing the total risk to which it is exposed. The risk management unit is independently engaged in the formulation of recommendations to management and board of directors regarding the overall risk level and capital adequacy, for the analysis and reporting of the risk exposure level, for the approval of significant products and business engagements in terms of risk, and for the implementation of the Commissioner's directives regarding risk management. As an important part of its function, the risk management unit challenges the identification and assessment of risks associated with the business entities, and the actions taken by them to address the risk, and helps to reinforce the ability of business entities to identify, assess, manage and control risks. The risk management unit works in cooperation with the actuarial division, the comptrollership division, the SOX division and the regulatory and legal consulting division, which also constitute a part of the second line of defense.

The internal audit unit, which independently audits and challenges the internal processes, controls and systems which are used, inter alia, for risk management, and follows up on the correction of deficiencies which it identified.

Clal Insurance Group endeavors to implement a framework for enterprise risk management, with the aim of creating risk awareness in all of its activities, creating the ability to asses various risks, implementing risk measurement in business processes, and adjusting the total exposure to the group's ability to bear risks. This includes taking actions towards building an automational and procedural infrastructure, in order to address the risks to which Clal Insurance Group is exposed, as well as the identification, mapping, assessment and quantification of material financial and insurance risks to the rights of members and policyholders and to the stability of the institutional entities in the group, and evaluating the controls which are in place for these risks, across the entire scope of activities performed by Clal Insurance Group, and while continuously improving the tools available to quantify the various risks.

As part of the preparation towards the implementation of a Solvency II-based economic solvency regime, in accordance with the Commissioner's directives on this matter (see Note 16(e)(2(c)), Clal Insurance Group estimates the economic equity which is required for its operations, in accordance with these provisions. As part of risk management, the company is working to control and assess significant business operations also in terms of capital aspects and the integration of economic equity considerations into decision making processes.

Clal Insurance is evaluating its capital adequacy in relation to overall risk, including with respect to the impact of changes in risk factors on its capital adequacy from an accounting perspective, which is determined in accordance with the Capital Regulations. This evaluation is performed based on risk factor scenarios, and on assessments made regarding the correlations existing between them, and provides Clal Insurance with an indication regarding capital adequacy relative to risks. The board of directors of Clal Insurance determined the capital target of Clal Insurance based on these analyses (for additional details, see Note 16(d)).

The boards of directors in the Clal Insurance Group established policies with regard to risk exposure, measurement methods used in this regard, restrictions for various risks, and control and reporting methods used for these risks, while monitoring the fulfillment of the established restrictions by means of the reports submitted to them. The board of directors of Clal Insurance appointed a risk management and information technology committee in order to deepen the control over these areas. The routine monitoring and control of investment management is performed by separate investment committees for the nostro funds, monies managed in pension funds and provident funds, and investment-linked policies.

Note 40 - Risk Management (Cont.)

A. General (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

Processes and methods for the management and measurement of various risks:

1. Market and liquidity risks

The market risks in the managed portfolios of the Clal Insurance Group are managed by Canaf, the investment company of the Clal Insurance Group, under the supervision of separate investment committees for the various portfolios.

The Clal Insurance Group operates with respect to its investments in accordance with legal provisions and the investment policies, credit policies and risk policies set forth by the boards of directors, including in accordance with the restrictions set forth by them.

The financial risks are mitigated by maintaining distribution between investment channels, branches, issuers, and between assets in Israel and assets abroad, evaluating and analyzing the stability of the entities to which Clal Insurance Group is exposed, and their solvency prior to performance of the investment and during the investment's lifetime, evaluating the profile of the assets relative to the profile of the liabilities against which they are held, including in terms of liquidity and compliance with the exposure restrictions regarding credit risks and market risks, as determined by the boards of directors and the investment committees, from time to time.

The investment committees and boards of directors monitor the exposure to the various investment channels, as well as the results of scenarios, sensitivity tests and other risk indicators, in order to ensure that the exposure to market risks corresponds to the risk appetite of Clal Insurance Group. The calculation and analysis of risk indices is performed by the risk management unit using a designated system. Information regarding the risk indicators and exposures, relative to the established restrictions, is presented to the investment committees and boards of directors on an ongoing basis, and supports the decision making and investment management processes.

These periodic analyses constitute a major control tool with regard to the market risks of Clal Insurance Group's asset portfolios. In parallel, routine monitoring is conducted by the investment control unit of Canaf, which manages the investments in terms of the fulfillment of the investment regulations and investment and credit policies in place for the various investment portfolios.

For details regarding the exposure to market risks, see section C below. For details regarding the exposure to liquidity risks, see section D below.

2. Insurance risks

The insurance risks are managed subject to the risk policy approved by the board of directors, by the business managers of the various insurance areas, inter alia, by determining guidelines for underwriting, receipt of business and hierarchies, as well as by transferring risks to reinsurers within the framework of contracts, or through facultative insurance, according to the retention policy approved by the board of directors.

The insurance risks are mitigated by distributing the insurance contracts, and are also reduced by selecting and implementing underwriting strategies and creating distribution by branches, geographical areas, risk types, coverage limits, etc.

The process of launching new products and engaging in material transactions includes the comprehensive identification and evaluation of the risks associated with the product or the transaction, and determining the methods used to manage and monitor them. In the event that a concern has arisen regarding a deterioration in the underwriting results which is not due to random fluctuations, in-depth tests are conducted, inter alia, to assess the embodied risk, and if necessary, the assessment of insurance liabilities is updated accordingly, and the underwriting policy is evaluated.

Note 40 - Risk Management (Cont.)

A. General (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

Processes and methods for the management and measurement of various risks: (Cont.)

2. Insurance risks (Cont.)

Additionally, in order to reduce the exposure to risks, Clal Insurance implements a stringent evaluation policy for claims, including ongoing evaluation of claims handling processes, and conducts investigations in order to identify cases of fraud. Clal Insurance also employs an active management policy for ongoing claims, in order to reduce the exposure to unexpected developments which may adversely affect it.

Clal Insurance Group employs a policy of limiting the exposure to catastrophic risks by stipulating maximum coverage amounts in certain contracts, and also by acquiring appropriate reinsurance coverage. One of the purposes of the underwriting policy and reinsurance policy is to restrict the exposure to catastrophes to a predetermined maximum loss amount, with reference to a given probability, based on models and/or studies, and in accordance with the risk appetite of the Clal Insurance Group, as determined by the board of directors.

The quantitative evaluation of insurance risks in the businesses of Clal Insurance Group is performed using an evaluation of scenarios for the main risk factors to which Clal Insurance is exposed, for the determined level of certainty. The actuarial department conduct studies, exposure analyses, and periodic evaluations of risk factors, including profitability tests for the operation branches, for specific products and for collective businesses, mortality and morbidity studies, deficiency reserves and exposure to earthquakes. These analyses serve both as the basis for risk assessment, while using statistical indicators and sensitivity tests, in collaboration with the risk management unit, and as part of the system used to control insurance activities.

The Clal Insurance Group uses an automated system to calculate EV (Embedded Value) in its analysis of the profitability of life insurance, health insurance and pension, and in its performance of sensitivity tests for the primary risk factors in these areas. Within this framework, the profitability of new business sold throughout the year is also evaluated.

The estimated exposure of Clal Insurance Group to earthquake risk in Israel, which is the primary catastrophic event to which it is exposed, is performed using international models, and Clal Insurance acquires protection against this risk based on this estimate. The assessment of the exposure to other catastrophic risks is primarily performed by means of internal studies.

The overall quantitative estimate of the exposure to insurance risks is performed based on the Commissioner’s directives regarding the implementation of a Solvency II-based economic solvency regime, which includes an evaluation of extreme scenarios for various risk categories, and an evaluation of overall risk, in consideration of the factors between them. The group works to perform internal estimates based on the same methodology, and using various parameters, as needed.

The risk estimates are brought for review on a periodic basis to the managements and boards of directors of the insurers in the group.

For additional details regarding insurance risks, see section E below.

Note 40 - Risk Management (Cont.)

A. General (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

Processes and methods for the management and measurement of various risks: (Cont.)

3. Credit risks

With regard to credit risks in the investment assets, Clal Insurance Group operates in the various credit areas by means of specialized units. The boards of directors and investment committees of the group's institutional entities have established a detailed credit policy which provide guidelines and restrictions regarding the credit types, credit ratings, exposure to market branches, geographical exposure, exposure to groups of borrowers and individual borrowers, to the various portfolios managed according to their characteristics, and according to the regulations which are applicable to them. This operation is supported by a procedural, organizational and automational infrastructure which is used to estimate the credit risks and to monitor and handle activities for early identification of problematic debts. A credit approval hierarchy was established in the institutional entities, in addition to ongoing reports which are submitted to senior management, to the investment committees, to credit committees and to the boards of directors, regarding credit exposures in the portfolios.

The work procedures include, inter alia, tests and analyses which are performed upon provision of credit, and routine monitoring of the composition and quality of the credit exposures, including by means of automated systems which track the exposures by various cross-sections, and against the restrictions which have been established, on the level of the individual portfolio, of the group's various member companies, and of the Clal Insurance Group.

For the assessment of credit risks in certain transactions, the Clal Insurance Group also used an internal rating model which was developed by it and approved by the Commissioner.

Credit transactions in a scope exceeding the determined limit are presented for discussion and advance approval in the relevant credit committee and/or investment committee, as applicable, in accordance with the hierarchy of authorities which was determined for the approval of credit transactions.

Clal Insurance Group implements a routine process for the identification of sensitive and troubled debts, which is also evaluated by the risk management unit. The group has a troubled debts center, which includes a team of relevant senior position holders, which is responsible for ongoing evaluation of the debt position of institutional entities in the group.

The investment control department in Canaf monitors the credit exposures with respect to investments performed by Canaf in the various portfolios, as well as their fulfillment of the credit policies determined for these portfolios. This monitoring is based on the individual exposure data for each borrower, including data pertaining to the group of borrowers, rating and branch classification. The control unit in Canaf applies operational controls to the credit activities as part of the activity of the organizational control unit.

In addition to the restrictions which were determined with respect to credit risk in investing activities, the board of directors of Clal Insurance determined restrictions with respect to the total exposure to counterparties in all of the group's operations. The risk management unit evaluates the aggregation of the various credit exposures which are due to all of the group's activities, with the assistance of automated systems which allow monitoring of the credit exposures on the level of the single portfolio, on the level of the various companies in the group, and on the level of the Clal Insurance Group, by various types of segmentation, and evaluates the fulfillment of the determined restrictions. Based on this information, the risk management unit evaluates and analyzes the credit risk, with reference to the quantitative data regarding credit exposures, such as: portfolio distribution by branches and ratings, and concentration indicators which monitor changes in the portfolio's risk level.

For details regarding the exposure to credit risks, including the policy regarding exposure to reinsurers, see section F below.

Note 40 - Risk Management (Cont.)

A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

Processes and methods for the management and measurement of various risks: (Cont.)

4. <u>Operational risks</u>

The management and control of operational risks is implemented as part of the organizational work routine, under the responsibility of the business managers, and with the professional support of the risk management unit. The organizational system for the management and control of operational risks includes the following entities:

- The operational risks and control managers in the business units and their subordinate employees (hereinafter: “Controllers”).
- The manager of the operational risks and control unit in the risk management unit, and his employees.
- The “regulatory bodies”, which include designated bodies specializing in specific categories of operational risks, including the supervisor of enforcement, the SOX division, the entities responsible for information system, information security and cybersecurity risks, the ombudsman and the business continuity manager.
- The internal audit unit, which performs audits in various operating segments, which also include identification of operational risks and estimation of exposure and the effectiveness of controls.

The managers responsible for operational risks and control are subordinate to the managers of the business units. Their responsibilities include identifying operational exposures in their units, and working to reduce them, while handling the adequacy of processes, with reference to a variety of aspects, including preventing embezzlement and fraud, compliance with regulations and policies, compliance with procedure, and the adequacy of financial reporting. The managers responsible for operational risks and control in the units are subject to professional guidance, by means of a matrix, issued by the manager of the operational risks and control unit in the risk management unit, who, as part of his position, is responsible for issuing professional instructions to the controllers, coordinating between the regulatory bodies and the controllers, monitoring the findings, concentrating the overall picture, and reporting on it.

The quantitative estimate of the exposure to operational risks is also performed based on the calculation of economic equity, as part of the directives regarding the implementation of a Solvency II-based economic solvency regime.

The risk management policy which determined by the boards of directors in the Clal Insurance Group also addresses the management of operational risks. Additionally, a specific policy was determined for various categories of operational risks, including prevention of embezzlement and fraud, information security and cybersecurity, business continuity, outsourcing and compliance, including with respect to the regulatory requirements on these subjects.

A3. Control of risks

Clal Insurance Group considers effective control an important component of its risk management system.

As described extensively above, the group operates an organizational monitoring unit. This unit is responsible for implementing control over the entire array of aspects involving the operations of the Clal Insurance Group, including control of risks of various types.

Additionally, the independent activity of the risk management unit, actuarial unit, comptrollership unit and SOX unit provides an additional layer of control over risks.

In particular, the risk management unit controls the overall exposure to risks in the activities of Clal Insurance Group, and implements controls of market and credit risks, including control of its fulfillment of the restrictions regarding market risks in the nostro activities of Clal Insurance Group, and restrictions on exposures to reinsurers, as well as restrictions on the credit risks which were stipulated in the risk policy. The risk management unit is also responsible for performance of credit control with respect to credit quality and the appropriateness of rating.

The company’s internal auditor also conducts periodic reviews which are based, inter alia, on risk surveys.

Note 40 - Risk Management (Cont.)

B. Legal requirements for institutional entities

Institutional entities are legally obliged to appoint a chief risk officer, whose principal responsibilities are as follows:

- Ensuring the existence of high-quality processes to identify material insurance and financial risks inherent in assets which are held against savings of members and policyholders and in other assets of the insurance company, and inherent in the liabilities of the insurance company or pension fund, as applicable, which may materially affect the rights of members and policyholders, and the financial stability of the institutional entity.
- Quantification of exposure and estimation of the potential impact of the significant risks which were identified, in accordance with tools and criteria which will be defined by the insurer, and assessment of the methods used to manage the identified risks.
- Periodic reporting to the CEO, the board of directors, the investment committees and the credit committees regarding the risks.
- Addressing the risks which are inherent in new products, regulatory changes, entry into new investment segments and entry into transactions which, as determined by the board of directors, have the potential to significantly affect the business results of the institutional entity or the funds of its customers.

The group appointed a risk manager who acts, inter alia, to implement the regulatory requirements in this area.

Various regulatory requirements regarding risk management apply to the institutional entities in the group, of which the primary requirements include the following:

- The provisions of the consolidated circular regarding the appointment of a risk manager, as well as his authorities, functions and methods of activity.
- A requirement to establish of a risk exposure policy, exposure limits and procedures and tools for the measurement and control of risks.
- Provisions regarding the management, assessment and control of credit risks.
- Provisions regarding the management of exposure to reinsurers.
- Provisions regarding the handling of specific categories of operational risks: embezzlement and fraud, information security and cybersecurity, outsourcing, compliance and monitoring of financial reporting (SOX).

Additionally, on June 30, 2017, a risk-based economic solvency regime is expected to enter into effect (for additional details, see Note 16(e)(3)(c)).

For details regarding legal requirements and capital management policies, see Notes 16(d)-(f).

C. Market Risks

Market risk is the risk that the reported value, fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, inter alia, risks arising from changes in interest rates, stock prices, the CPI and foreign currency.

1. Investment-linked contracts

   Investment-linked liabilities are liabilities with respect to contracts where the insurance benefits which the beneficiary is entitled to receive are contingent upon returns produced by certain investments of Clal Insurance, less management fees, as described below:

   A. Regarding policies which were issued until 2004 - fixed management fees and variable management fees at a rate of 15% of real returns, after deducting fixed management fees.

   B. Regarding policies which were issued in 2004 and thereafter - fixed management fees.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

1. Investment-linked contracts (Cont.)

As regards assets and liabilities with respect to these products, the insurance companies do not have direct exposure with respect to changes in interest, in the fair value of the investments or in the CPI. The impact of the financial results on the insurance company's profits is reduced to an exposure which is derived from the variable management fees, in accordance with the volatility in returns charged to policyholders, only with regard to investment-linked policies issued until 2004, and out of the total amount of the liability from which the insurer's fixed management fees are derived, as regards all investment-linked products.

In light of the above, the sensitivity tests and maturity dates of the liabilities specified in the following sections do not include investment-linked contracts.

The scope of liabilities in investment-linked contracts with respect to policies which were issued until 2004, as of December 31, 2016, amounts to approximately NIS 36 billion (last year - approximately NIS 35 billion). Any change of 1% in the scope of accrual affects fixed management fees in the amount of approximately NIS 2 million. Any change of 1% in the real returns in this portfolio affects the variable management fees by approximately NIS 48 million.

For details regarding the management fees which were collected during the reporting period, see Notes 20 and 31.

2. Sensitivity tests to market risks

The following is a sensitivity analysis performed with regard to the impact on the change in variables on income for the period and on comprehensive income.

The sensitivity analysis was prepared in reference to the financial assets, financial liabilities and liabilities with respect to insurance contracts and investment contracts, with reference to the relevant risk variable as of each reporting date, and assuming that all other variables remain constant. Thus, for instance, the change in interest rate includes the assumption that all other parameters remain unchanged. The above sensitivity analysis does not include the impact of performance-based contracts, as specified above. It was also assumed that the above changes do not reflect impairment of assets presented at amortized cost, or of available for sale financial assets, and therefore, the above sensitivity analysis did not take into account impairment losses with respect to these assets. The sensitivity analysis only reflects direct impacts, without secondary impacts.

It should also be noted that the sensitivities are not linear, such that very large or small changes with regard to the changes described below are not necessarily a simple extrapolation of the impact of those changes.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

2. Sensitivity tests to market risks (Cont.)

As of December 31, 2016:	Interest rates [1]		Investments in capital instruments [2]		Rate of change in the Consumer Price Index		Rate of change in foreign currency exchange rate [3) 6)]	
NIS in thousands	**+1%**	**-1%**	**+10%**	**-10%**	**+1%**	**-1%**	**+10%**	**-10%**
Income (loss) [5]	**245,755**	**(1,188,729)**	**12,672**	**(6,488)**	**(19,046)**	**19,046**	**(113,626)**	**113,626**
Comprehensive income (equity) [4) 5)]	**40,911**	**(956,913)**	**221,397**	**(215,213)**	**(19,046)**	**19,046**	**16,047**	**(16,047)**

As of December 31, 2015:	Interest rates [1]		Investments in capital instruments [2]		Rate of change in the Consumer Price Index		Change in foreign currency exchange rate [3) 6)]	
NIS in thousands	**+1%**	**-1%**	**+10%**	**-10%**	**+1%**	**-1%**	**+10%**	**-10%**
Income (loss) [5]	141,225	(1,006,823)	16,355	(16,253)	(26,008)	26,008	(112,127)	112,127
Comprehensive income (equity) [4) 5)]	(84,343)	(755,496)	190,400	(190,298)	(26,008)	26,008	15,678	(15,678)

1) The sensitivity analysis with regard to interest changes also pertains to fixed interest instruments, and to variable interest instruments. Relative to fixed interest instruments, the exposure is proportional to the instrument's book value. The exposure with regard to variable interest instruments is calculated in relation to the cash flow derived from the financial instrument.
The sensitivity analyses are based on book values, rather than on economic value. Therefore, the sensitivity tests did not include taking into account, out of the assets and liabilities with direct interest rate risk, the non-marketable debt assets, which are classified as loans and receivables (in the amount of approximately NIS 21 billion), cash and cash equivalents, reinsurance assets, liabilities with respect to insurance contracts and investment contracts, financial liabilities and reinsurance deposits and balances. Additionally, the rate of assets to which the interest sensitivity analysis was applied amounted to approximately 18% of total assets for non-investment-linked contracts. The rate of liabilities to which the sensitivity analysis was applied, out of the total liabilities with respect to non-investment-linked insurance contracts, amounted to approximately 0.5%.
The sensitivity analysis includes the impact on the insurance liabilities, due to the low interest rate environment in which the company has operated in recent years, which affects the amount of insurance liabilities.
For additional details regarding the strengthening of insurance reserves, in light of the low interest rate environment and its impact on the life insurances in life insurance during the reporting year, see section e(e1)(d) below.
2) Investments in instruments with no fixed flows, or alternatively, regarding which the company does not have information regarding such flows (in accordance with the definition in IFRS 7), do not include investments in investee companies accounted by the equity method.
3) One primary foreign currency is the US Dollar, as specified in the details regarding assets and liabilities, segmented by linkage bases, in section 4 below.
4) The sensitivity analyses performed with regard to comprehensive income also reflect the impact on income for the period.
5) The sensitivity analyses were performed with regard to income for the period after tax, and with regard to comprehensive income after tax.
6) The sensitivity tests to foreign currency, as presented above, include sensitivity with respect to non-monetary financial instruments denominated in foreign currency, in the amount of approximately NIS 1,626 million, with respect to an increase of 10% in foreign currency exchange rates, including income in the amount of 1 5 million and comprehensive income in the amount of approximately NIS 102 million (2015: approximately NIS 5 million and approximately NIS 109 million, respectively). The primary currency in these instruments is the US Dollar.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

3. Direct interest rate risk

Direct interest rate risk is the risk that a change in market interest will cause a change in the fair value or in the cash flow arising from an asset or liability. This risk relates to assets settled in cash. The addition of the word "direct" emphasizes the fact that the change in interest rate may also affect other asset types, though not directly, such as the impact of the change in interest rate on stock prices. It is emphasized that changes in fair value are not necessarily reflected in the book value of the financial instruments (see Note 3(f)).

The following are details regarding assets and liabilities by exposure to interest rate risk:

	As of December 31, 2016		
NIS in thousands	Non-investment-linked	Investment-linked	Total
Assets with direct interest rate risk			
Marketable debt assets	**5,575,059**	**21,106,921**	**26,681,980**
Non-marketable debt assets:			
HETZ bonds and deposits in treasury	**15,329,115**	**-**	**15,329,115**
Other	**5,952,598**	**6,243,667**	**12,196,265**
Other financial investments	**366,947**	**4,130,784**	**4,497,731**
Cash and cash equivalents	**1,390,775**	**2,953,235**	**4,344,010**
Reinsurance assets	**2,040,880**	**187,159**	**2,228,039**
Total assets with direct interest rate risk	**30,655,374**	**34,621,766**	**65,277,140**
Assets without direct interest rate risk *)	**9,239,862**	**23,773,854**	**33,013,716**
Total assets	**39,895,236**	**58,395,620**	**98,290,856**
Liabilities with direct interest rate risk			
Financial liabilities	**3,376,371**	**-**	**3,376,371**
Liabilities with respect to insurance contracts and investment contracts	**29,768,979**	**57,275,793**	**87,044,772**
Other	**731,504**	**214,853**	**946,357**
Total liabilities with direct interest rate risk	**33,876,854**	**57,490,646**	**91,367,500**
Liabilities without direct interest rate risk *)	**1,961,624**	**248,527**	**2,210,151**
Capital	**4,713,205**	**-**	**4,713,205**
Total capital and liabilities	**40,551,683**	**57,739,173**	**98,290,856**
Total assets, less liabilities	**4,056,758**	**656,447**	**4,713,205**
Off-balance sheet risk	**623,037**	**936,992**	**1,560,029**

*) Assets and liabilities without direct interest rate risk - Include stocks, property, plant and equipment and investment property, deferred acquisition costs and intangible assets, as well as balance-sheet groups of property, plant and equipment (other accounts receivable, outstanding premiums, and current balances of insurance companies) whose average lifetime is up to one year, and therefore the interest rate risk with respect to which is relatively low.

Notes:

1) Regarding non-investment-linked life insurance - the life insurance portfolio is primarily comprised of investment-linked policies, which are primarily backed by designated (HETZ) bonds issued by the Bank of Israel throughout the entire lifetime of the policy. The company therefore has financial coverage which overlaps with the main financial liabilities, in terms of interest and linkage over the lifetime of the policies. As of December 31, 2016 and 2015, the designated bonds covered approximately 75% and 76%, respectively, of all insurance liabilities in life insurance in these plans.
2) With respect to the remaining investments of Clal Insurance, as part of its life and health insurance activities, exposure exists to the interest rates which will be in force upon the refinancing of investments the lifetime of which may be shorter than the average lifetime of the insurance liabilities. With respect to these products, including with respect to ongoing payment claims in long term care insurance and loss of working capacity insurance, the calculation of the insurance liabilities is based on the nominal interest rate in the policy, subject to an evaluation of the discount rate in some of the pension reserves and to a liability adequacy test (LAT) which is calculated based on the risk-free interest rate curve. For additional details regarding the discount rates of insurance liabilities, see section e(e1)(d) and e(e4)(2)(a) below.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

3. Direct interest rate risk (Cont.)

NIS in thousands	As of December 31, 2015 Non-investment-linked	Investment-linked	Total
Assets with direct interest rate risk			
Marketable debt assets	6,488,224	19,942,157	26,430,381
Non-marketable debt assets:			
HETZ bonds and deposits in treasury	15,044,358	-	15,044,358
Other	5,936,220	6,617,456	12,553,676
Other financial investments	309,139	1,866,542	2,175,681
Cash and cash equivalents	1,439,358	3,767,810	5,207,168
Reinsurance assets	2,131,512	186,963	2,318,475
Total assets with direct interest rate risk	31,348,811	32,380,928	63,729,739
Assets without direct interest rate risk *)	8,843,011	22,549,211	31,392,222
Total assets	40,191,822	54,930,139	95,121,961
Liabilities with direct interest rate risk			
Financial liabilities	3,307,229	-	3,307,229
Liabilities with respect to insurance contracts and investment contracts	29,794,233	54,346,549	84,140,782
Other	574,754	367,241	941,995
Total liabilities with direct interest rate risk	33,676,216	54,713,790	88,390,006
Liabilities without direct interest rate risk *)	2,046,361	101,689	2,148,050
Capital	4,583,905	-	4,583,905
Total capital and liabilities	40,306,482	54,815,479	95,121,961
Total assets, less liabilities	4,469,245	114,660	4,583,905
Off-balance sheet risk	315,808	405,099	720,907

*) Assets and liabilities without direct interest rate risk - Including stocks, property, plant and equipment and investment property, deferred acquisition costs and intangible assets, as well as balance-sheet groups of financial assets (other accounts receivable, outstanding premiums, and current balances of insurance companies) whose average lifetime is up to one year, and therefore the interest rate risk with respect to which is relatively low.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

4. Details regarding assets and liabilities, distributed by linkage bases

As of December 31, 2016:

NIS in thousands	NIS		Foreign currency				Non-monetary items	Liabilities with respect to investment-linked contracts [1]	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other			
Intangible assets	-	-	-	-	-	-	1,505,403	-	1,505,403
Deferred tax assets	-	-	-	-	-	-	10,344	-	10,344
Deferred acquisition costs	-	-	-	-	-	-	1,917,680	5,684	1,923,364
Property, plant and equipment	-	-	-	-	-	-	252,567	-	252,567
Investments in investee companies accounted by the equity method	-	-	-	-	-	-	270,044	-	270,044
Investment property for investment-linked contracts	-	-	-	-	-	-	-	2,742,180	2,742,180
Other investment property	-	-	-	-	-	-	1,185,907	-	1,185,907
Reinsurance assets	3,884	2,031,427	3,898	1,671	-	-	-	187,159	2,228,039
Current tax assets	-	135,969	-	-	-	-	-	-	135,969
Other accounts receivable	133,281	17,163	17,306	859	-	-	20,323	103,272	292,204
Outstanding premiums	63,485	471,537	121,623	277	-	-	-	209,596	866,518
Financial investments for investment-linked contracts	-	-	-	-	-	-	-	52,194,494	52,194,494
Other financial investments:									
Marketable debt assets	648,265	4,578,540	339,715	-	8,539	-	-	-	5,575,059
Non-marketable debt assets	854,007	20,008,240	208,722	36,687	174,057	-	-	-	21,281,713
Stocks	-	-	-	-	-	-	1,139,560	-	1,139,560
Other	5,187	14,463	207,447	115,269	24,558	-	1,976,557	-	2,343,481
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	2,953,235	2,953,235
Other cash and cash equivalents	1,173,502	-	123,424	73,270	19,963	616	-	-	1,390,775
Total assets	2,881,611	27,257,339	1,022,135	228,033	227,117	616	8,278,385	58,395,620	98,290,856

1) See Note 40(g) below.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2016 (Cont.):

	NIS		Foreign currency						
NIS in thousands	**Unlinked**	**CPI-linked**	**USD**	**EUR**	**GBP**	**Other**	**Non-monetary items**	**Liabilities with respect to investment-linked contracts [1)]**	**Total**
Total capital	-	-	-	-	-	-	4,713,205	-	4,713,205
Liabilities									
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	24,399	29,699,295	42,782	2,503	-	-	-	-	29,768,979
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	57,275,793	57,275,793
Deferred tax liabilities	-	-	-	-	-	-	423,293	-	423,293
Liabilities with respect to employee benefits, net	74,577	-	-	-	-	-	-	-	74,577
Deferred liability notes	1,559,890	1,755,443	-	-	-	-	-	-	3,315,333
Other accounts payable	1,040,571	895,923	136,030	9,143	-	-	68,466	248,527	2,398,660
Current tax liabilities	-	1,354	-	-	-	-	-	-	1,354
Liabilities to banking corporations and others	97,531	3,089	3,777	412	-	-	-	214,853	319,662
Total liabilities	2,796,968	32,355,104	182,589	12,058	-	-	491,759	57,739,173	93,577,651
Total capital and liabilities	2,796,968	32,355,104	182,589	12,058	-	-	5,204,964	57,739,173	98,290,856
Total balance sheet exposure	84,643	(5,097,765)	839,546	215,975	227,117	616	3,073,421	656,447	-
Exposure to underlying assets via derivatives, in delta terms	1,291,884	1,302,712	(1,952,871)	(291,141)	(333,110)	(36,584)	19,110	-	-
Total exposure	1,376,527	(3,795,053)	(1,113,325)	(75,166)	(105,993)	(35,968)	3,092,531	656,447	-

1) See Note 40(g) below.

The majority of insurance contracts issued by the consolidated insurance companies in Israel are denominated in NIS, and their exposure to changes in exchange rates is immaterial. In cases where exposure to exchange rates exists, it primarily results from exposure to the USD and to the EUR.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2015

	NIS		Foreign currency						
NIS in thousands	**Unlinked**	**CPI-linked**	**USD**	**EUR**	**GBP**	**Other**	**Non-monetary items**	**Liabilities with respect to investment-linked contracts [1)]**	**Total**
Intangible assets	-	-	-	-	-	-	1,503,630	-	1,503,630
Deferred tax assets	-	-	-	-	-	-	25,460	-	25,460
Deferred acquisition costs	-	-	-	-	-	-	1,844,789	5,429	1,850,218
Property, plant and equipment	-	-	-	-	-	-	270,287	-	270,287
Investments in investee companies accounted by the equity method	-	-	-	-	-	-	213,668	-	213,668
Investment property for investment-linked contracts	-	-	-	-	-	-	-	2,750,076	2,750,076
Other investment property	-	-	-	-	-	-	1,205,819	-	1,205,819
Reinsurance assets	6,676	2,119,897	3,951	988	-	-	-	186,963	2,318,475
Current tax assets	-	156,273	-	-	-	-	-	-	156,273
Other accounts receivable	189,177	3,779	14,122	-	-	-	25,221	116,815	349,114
Outstanding premiums	70,750	466,092	101,204	1,859	-	-	-	258,326	898,231
Financial investments for investment-linked contracts	-	-	-	-	-	-	-	47,844,720	47,844,720
Other financial investments:									
Marketable debt assets	1,099,287	5,030,157	317,545	17,727	23,508	-	-	-	6,488,224
Non-marketable debt assets	749,060	19,853,126	206,248	27,318	144,826	-	-	-	20,980,578
Stocks	-	-	-	-	-	-	974,810	-	974,810
Other	44,746	35,239	153,607	24,908	36,221	-	1,790,489	-	2,085,210
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	3,767,810	3,767,810
Other cash and cash equivalents	1,253,770	-	129,425	17,833	32,570	5,760	-	-	1,439,358
Total assets	3,413,466	27,664,563	926,102	90,633	237,125	5,760	7,854,173	54,930,139	95,121,961

1)See Note 40(g) below.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2015 (Cont.)

	NIS		Foreign currency						
NIS in thousands	**Unlinked**	**CPI-linked**	**USD**	**EUR**	**GBP**	**Other**	**Non-monetary items**	**Liabilities with respect to investment-linked contracts [1)]**	**Total**
Total capital	-	-	-	-	-	-	4,583,905	-	4,583,905
Liabilities									
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	28,851	29,716,365	47,530	1,487	-	-	-	-	29,794,233
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	54,346,549	54,346,549
Deferred tax liabilities	-	-	-	-	-	-	439,348	-	439,348
Liabilities with respect to employee benefits, net	81,030	-	-	-	-	-	-	-	81,030
Deferred liability notes	1,533,611	1,686,045	-	-	-	-	-	-	3,219,656
Other accounts payable	1,045,783	702,655	208,205	14,270	-	-	69,641	271,947	2,312,501
Current tax liabilities	-	1,530	-	-	-	-	-	-	1,530
Liabilities to banking corporations and others	86,040	25,853	31,639	1,664	-	1,030	-	196,983	343,209
Total liabilities	2,775,315	32,132,448	287,374	17,421	-	1,030	508,989	54,815,479	90,538,056
Total capital and liabilities	2,775,315	32,132,448	287,374	17,421	-	1,030	5,092,894	54,815,479	95,121,961
Total balance sheet exposure	638,151	(4,467,885)	638,728	73,212	237,125	4,730	2,761,279	114,660	-
Exposure to underlying assets via derivatives, in delta terms	2,034,621	301,242	(1,564,428)	(312,929)	(524,497)	(51,719)	117,710	-	-
Total exposure	2,672,772	(4,166,643)	(925,700)	(239,717)	(287,372)	(46,989)	2,878,989	114,660	-

1) See Note 40(g) below.

The majority of insurance contracts issued by the consolidated insurance companies in Israel are denominated in NIS, and their exposure to changes in exchange rates is immaterial. In cases where exposure to exchange rates exists, this is primarily due to exposure to the USD and to the EUR.

Note 40 - Risk Management (Cont.)

C. Market risks (Cont.)

5. Details regarding exposure to market branches with respect to capital instruments

	As of December 31, 2016					
NIS in thousands	**Traded on the Tel Aviv 100 Index**	**Traded on the Yeter stock index**	**Non-marketable**	**Abroad**	**Total**	**% of total**
Industry	**50,919**	**31,552**	**-**	**11,477**	**93,948**	**8%**
Construction, real estate and infrastructure	**133,491**	**13,110**	**-**	**12,069**	**158,670**	**14%**
Electricity and water	**155,962**	**-**	**-**	**7,131**	**163,093**	**15%**
Trading	**38,804**	**26,714**	**-**	**6,068**	**71,586**	**6%**
Tourism and hotels	**-**	**-**	**-**	**1,921**	**1,921**	**-**
Telecommunications and computer services	**88,954**	**16,673**	**-**	**25,284**	**130,911**	**12%**
Banks	**169,972**	**-**	**-**	**93**	**170,065**	**15%**
Financial services	**81,928**	**181**	**-**	**-**	**82,109**	**7%**
Other business services	**-**	**6,655**	**76,995**	**10,831**	**94,481**	**8%**
Food	**23,225**	**9,501**	**-**	**3,946**	**36,672**	**3%**
Drugs and medical services	**98,899**	**1,092**	**-**	**35,582**	**135,573**	**12%**
Total	**842,154**	**105,478**	**76,995**	**114,402**	**1,139,029**	**100%**

	As of December 31, 2015					
NIS in thousands	**Traded on the Tel Aviv 100 Index**	**Traded on the Yeter stock index**	**Non-marketable**	**Abroad**	**Total**	**% of total**
Industry	19,687	22,004	-	19,909	61,600	7%
Construction and real estate	98,133	14,646	-	15,234	128,013	13%
Electricity and water	109,771	9,377	-	10,250	129,398	13%
Trading	23,788	9,325	-	4,951	38,064	4%
Telecommunications and computer services	57,373	1,693	-	29,106	88,172	9%
Banks	114,842	-	-	23,704	138,546	14%
Financial services	57,816	268	-	32,072	90,156	9%
Other business services	-	6,173	5,014	-	11,187	1%
Food	2,522	14,422	-	-	16,944	2%
Drugs and medical services	125,106	1,472	75,862	69,472	271,912	28%
Total	609,038	79,380	80,876	204,698	973,992	100%

Note 40 - Risk Management (Cont.)

D. Liquidity risks

1. General

The company's policy is to verify the existence of the cash balances which it requires in order to service its financial liabilities, inter alia, through unused credit facilities in banks (see Note 27(e)) and dividend distributions from investee companies (see Note 16(e)(3)(c)).

Clal Insurance Group is exposed to risks arising from uncertainty associated with the date when it will be required to pay claims and other benefits to policyholders, relative to the total amount of funds available for this purpose at that time. It is noted that the possible need to raise sources in an unexpected manner, and within a short time, may require significant and rapid disposal of assets, and the sale of such assets at prices that may not necessarily reflect their market value.

A significant part of the insurance liabilities of Clal Insurance in the long term savings segment and the health segment is not exposed to liquidity risk, due to the characteristics of the various insurance contracts, as described below:

A. Investment-linked contracts - Under the contractual terms, the owners are entitled to receive only the value of the aforementioned investments. Therefore, if the value of the investments declines for any reason, a corresponding decline will take place in Clal Insurance's amount of liabilities. The total liabilities in these contracts as of December 31, 2016 and 2015 amounted to approximately NIS 57.3 billion and approximately NIS 54.3 billion, respectively.

B. Approximately 75% of the liabilities with respect to non-investment-linked insurance contracts and investment contracts in the life insurance branch which were issued until 1990 are backed by designated (HETZ) bonds, which are issued by the Bank of Israel. Clal Insurance is entitled to realize these bonds when the redemption of the aforementioned policies is required. The scope of HETZ bonds as of December 31, 2016 and 2015 amounted to a total of approximately NIS 13.2 billion and approximately NIS 13.0 billion, respectively.

C. Deposits with the Accountant General are held with respect to approximately 91% of the liabilities to members of the guaranteed-return provident fund "Bar A Keren Gemulim Ltd." (hereinafter: "**Bar A**"), which Bar A is entitled to withdraw upon demand for redemption of member funds. The scope of these deposits as of December 31, 2016 and 2015 amounted to a total of approximately NIS 2.1 billion.

The group's potential liquidity risk therefore primarily arises from the group's balance of assets held against liabilities which are non-investment-linked and which are also not designated (HETZ) bonds or deposits with the Accountant General. The sum of these assets amounted to a total of approximately NIS 19.9 billion (last year - approximately NIS 20.6 billion), and constitutes approximately 20% (last year - approximately 22%) of the total assets in the statement of financial position.

Out of assets which are not held against investment-linked liabilities, a total of approximately NIS 9.1 billion (last year - approximately NIS 9.9 billion) constitutes marketable assets and balances of cash and cash equivalents.

It is noted that in accordance with the Investment Rules Regulations, the consolidated insurance companies are required to hold liquid assets against non-insurance liabilities in an amount which will not fall below 30% of part of the minimum equity required of them. In this regard, liquid assets, as defined in the Ways of Investment Regulations include, inter alia, government bonds, cash and cash equivalents, corporate bonds and short term deposits with high ratings, stocks which are included in major indices, ETF's and mutual funds.

The institutional entities in Israel manage their assets and liabilities in accordance with the relevant requirements set forth in the Control Regulations, including the amendments enacted pursuant thereto.

2. Estimated maturity dates of liability amounts

The following tables present the estimated maturity dates of the company's non-discounted insurance and financial liability amounts. Due to the fact that the amounts in question are not discounted, they do not correspond to the balances of financial and insurance liabilities in the statement of financial position.

Note 40 - Risk Management (Cont.)

D. Liquidity risks (Cont.)

2. Estimated maturity dates of liability amounts (Cont.)

A. The estimated repayment dates of the liabilities in the long term savings segment and in the health segment were included in the tables as follows:

Savings funds - On the basis of contractual repayment dates, i.e., retirement age, without cancellation discounts, and assuming that the entire savings will continue in the capital track, and not the annuity track.

Paid retirement, paid loss of working capacity, and paid long term care - Based on an actuarial estimate.

Outstanding claims and risk reserves - Reported under the item for “Without defined maturity date”.

B. The liabilities in non-life insurance, for the purpose of this note, also include net surplus revenues - see Note 3(d)(2)(b)(4)(4.3), the unexpected deviations reserve, and the reserve for unearned premiums, and are net of deferred acquisition costs.

The estimated maturity dates of the aforementioned undertakings were included in the tables as follows:

Liabilities in statistical branches which are estimated by an actuary - are reported in the columns on the basis of an actuarial estimate which assigns an estimated date to the amount of non-discounted liabilities, based on past claims payment experience.

Insurance liabilities in non-statistical debt branches and net surplus revenues - are reported in a column without a defined repayment date.

Insurance liabilities in property and others branches, which are not statistical or on whose estimates the actuaries do not sign - are reported in the column representing a repayment period of up to 3 years.

The liabilities are exposed to reserve risks, as described in Section E below. The actuarial models are based on the assumption that the pattern of past behavior and claims will also continue in the future. The estimated flow is exposed to model risk and to parameter risk, which includes the risk that the amount that paid to settle the insurance liabilities will be different than expected.

C. The maturity dates of the financial liabilities and liabilities with respect to investment contracts were included on the basis of the contractual maturity dates. In contracts where the counterparty is entitled to choose the timing of the payment, the liability is included on the basis of the earliest date when the company may potentially be required to pay the liability.

The repayment dates of liabilities with respect to investment contracts in Bar A were calculated based on the average abandonment rate and redemption rate.

Liabilities in the long term savings segment and health segment *)

NIS in thousands	Up to one year **)	1 to 5 years	5 years to 10 years	10 years to 15 years	Over 15 years	No defined repayment date	Total
As of December 31, 2016	**3,166,879**	**5,775,173**	**4,147,938**	**2,395,204**	**2,875,471**	**1,865,000**	**20,225,665**
As of December 31, 2015	2,434,705	5,930,139	4,211,796	2,607,030	3,079,531	1,778,916	20,042,117

*) Excluding liabilities with respect to investment-linked contracts.

**) The liabilities up to one year include a total of NIS 468,481 thousand (as of December 31, 2015 - NIS 346,765 thousand), repayable on demand. These liabilities were classified as required for repayment in up to one year, despite the fact that the actual repayment dates may be in later years.

Note 40 - Risk Management (Cont.)

D. Liquidity risks (Cont.)

(2) Estimated maturity dates of liability amounts (Cont.)

Liabilities with respect to insurance contracts

NIS in thousands	Up to 3 years	3 years to 5 years	5 years	No defined repayment date	Total
As of December 31, 2016	**3,356,813**	**921,277**	**1,029,721**	**1,108,772**	**6,416,583**
As of December 31, 2015	3,696,746	942,811	1,085,402	1,077,482	6,802,440

Financial liabilities and liabilities with respect to investment contracts

NIS in thousands	Book value	Up to one year	1 to 5 years	5 years to 10 years	10 years to 15 years	Over 15 years	No defined repayment date	Total
As of December 31, 2016								
Liabilities with respect to investment contracts	**2,328,380**	**153,065**	**516,212**	**476,345**	**339,335**	**840,435**	**2,988**	**2,328,380**
Liabilities with respect to investment-linked investment contracts	**2,027,483**	-	-	-	-	-	**2,027,483**	**2,027,483**
Deferred liability notes	**3,315,333**	**226,980**	**661,516**	**2,144,422**	**1,441,971**	-	-	**4,474,889**
Other accounts payable	**2,330,194**	**2,330,194**	-	-	-	-	-	**2,330,194**
Liabilities to banking corporations and others	**73,089**	**3,089**	**70,000**	-	-	-	-	**73,089**
Total	**10,074,479**	**2,713,328**	**1,247,728**	**2,620,767**	**1,781,306**	**840,435**	**2,030,471**	**11,234,035**
As of December 31, 2015								
Liabilities with respect to investment contracts	2,354,722	99,590	353,195	363,050	293,635	1,242,124	3,128	2,354,722
Liabilities with respect to investment-linked investment contracts	2,150,374	-	-	-	-	-	2,150,374	2,150,374
Deferred liability notes	3,219,656	337,289	1,565,076	1,582,417	801,628	-	-	4,286,410
Other accounts payable	2,242,860	2,242,860	-	-	-	-	-	2,242,860
Liabilities to banking corporations and others	95,853	22,752	73,101	-	-	-	-	95,853
Total	10,063,465	2,702,491	1,991,372	1,945,467	1,095,263	1,242,124	2,153,502	11,130,219

*) The liabilities to banking corporations were included based on the contractual repayment dates, without reflecting the plans for the performance of early repayments, if any.

Note 40 - Risk Management (Cont.)

D. Liquidity risks (Cont.)

Analysis of expected disposal dates of financial assets

As of December 31, 2016

NIS in thousands	2017	2018	2019	2020	5 years	Not yet determined	With respect to consolidated insurance companies registered in Israel [1])	Total
Fair value through profit and loss								
Marketable debt assets	**19,583**	**26,441**	-	-	-	-	**49,640**	**95,664**
Non-marketable debt assets	-	-	-	-	-	-	**8,290**	**8,290**
Stocks	-	-	-	-	-	-	-	-
Other financial investments	-	-	-	-	-	-	**204,423**	**204,423**
Available for sale								
Marketable debt assets	-	-	-	-	-	-	**5,479,395**	**5,479,395**
Non-marketable debt assets	-	-	-	-	-	-	-	-
Stocks	-	-	-	-	-	**531**	**1,139,029**	**1,139,560**
Other financial investments	-	-	-	-	-	-	**2,139,058**	**2,139,058**
Loans and receivables								
Non-marketable debt assets	**8,397**	**3,071**	**1,816**	**1,148**	**571**	-	**21,258,420**	**21,273,423**
Total other financial investments	**27,980**	**29,512**	**1,816**	**1,148**	**571**	**531**	**30,278,255**	**30,339,813**

As of December 31, 2015

NIS in thousands	2016	2017	2018	2019	5 years	Not yet determined	With respect to consolidated insurance companies registered in Israel [1])	Total
Fair value through profit and loss								
Marketable debt assets	57,262	-	-	-	-	-	275,187	332,449
Non-marketable debt assets	-	-	-	-	-	-	11,477	11,477
Stocks	-	-	-	-	-	-	-	-
Other financial investments	-	-	-	-	-	-	287,918	287,918
Available for sale								
Marketable debt assets	-	-	-	-	-	-	6,155,775	6,155,775
Non-marketable debt assets	-	-	-	-	-	-	-	-
Stocks	-	-	-	-	-	818	973,992	974,810
Other financial investments	-	-	-	-	-	-	1,797,292	1,797,292
Loans and receivables								
Non-marketable debt assets	20,790	11,730	3,409	1,960	1,864	-	20,929,348	20,969,101
Total other financial investments	78,052	11,730	3,409	1,960	1,864	818	30,430,989	30,528,822

1) For additional details regarding these financial investments, see also Note 14.

Note 40 - Risk Management (Cont.)

E. Insurance risks

Insurance risks include the following, inter alia:

Underwriting risks: The risk that erroneous costing will be used as a result of deficiencies in the underwriting process, and of the gap between the risk at the time of pricing and the determination of premium, and the actual occurrence, such that the collected premiums are not sufficient to cover future claims and expenses. The gaps may result from incidental changes in business results, and from changes in average claims costs and/or in the prevalence of claims as a result of various factors.

Reserve risks: The risk of an incorrect estimation of insurance liabilities, which may result in the actuarial reserves being insufficient to cover all of the liabilities and claims. The actuarial models which are used by Clal Insurance, inter alia, to estimate its insurance liabilities, are based on the assumption that the pattern of past behavior and claims will also continue in the future. Clal Insurance's exposure is comprised of the following risks:

Model risk - The risk that the wrong model will be chosen for pricing and/or for the evaluation of insurance liabilities;

Parameter risk - The risk that incorrect parameters will be used, which may result in a situation wherein, inter alia, the amount paid to settle the insurance liabilities of Clal Insurance, or the settlement date of the insurance liabilities, is different than expected.

Catastrophe risk - Exposure to the risk of a single event with great impact (catastrophe), such as an earthquake, natural disasters, war, terrorism attack or epidemic, will result in a significant accumulation of damages. The most significant catastrophic event to which the group is exposed in Israel is an earthquake.

The total expected loss in non-life insurance business operations in Israel, as a result the exposure to the accumulation of damages with respect to a particularly large event, with an MPL of approximately 1.5% in the apartment branches and approximately 2.5% in the other property branches, amounts to approximately NIS 8,645 million gross and approximately NIS 63 million on self-retention, as of December 31, 2016.

For details regarding the various insurance products with respect to which insurance risk is created for the insurer, see details regarding insurance liabilities by insurance risks in Notes 5, 19, 20(a) and 21.

E1. Insurance risk in life and health insurance contracts

Non-life

The following describes the various insurance products and the assumptions used to calculate the liabilities in respect thereto, by product type.

In general, according to instructions issued by the Commissioner, the insurance liabilities are calculated by an actuary, using generally accepted actuarial methods in Israel, and in a manner that is consistent with the previous year. The liabilities are calculated using the relevant coverage data, including the policyholder's age and gender, the insurance period, the insurance commencement date, insurance type, periodic premium and insurance amount.

A. Actuarial methods used to calculate insurance liabilities

1. Insurance plans of the "Preferred" and "Investment tracks" types

   Insurance plans of the "Preferred" type and "Investment Tracks" type include an identified savings component. The basic and main reserve is equal to the cumulative savings amount, with the addition of returns under the policy terms, as follows:

   - Fund linked to investment portfolio returns (investment-linked contracts).

   - CPI-linked fund with the addition of fixed interest is guaranteed or credited with guaranteed returns against adjusted assets (guaranteed-return contracts).

   A separate insurance liability is calculated with respect to the insurance components which are attached to these policies (loss of working capacity, death, long term care, etc.), as described below.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)

A. Actuarial methods used to calculate insurance liabilities (Cont.)

2. For policies of the "Investment Tracks" type, and for immediate annuity (third age) policies, in which the principal is CPI-linked with the addition of guaranteed fixed interest, Clal Insurance calculates an additional reserve with respect to a possible mismatch, if any, between the flow of liabilities and the flow of assets held against them. In this calculation, Clal Insurance performs a comparison between the discounted worth of the flow of liabilities and the discounted worth of the flow of assets, using different interest yield curve scenarios for discounting which are based on the risk-free interest rate curve. The held reserve is the maximum amount of results of various scenarios, insofar as the value of the liabilities is higher than the value of the assets.

3. Insurance plan of the "Traditional" type, with fixed premiums

   There are insurance plans of the "Traditional" type with fixed premiums, such as the "Combined" insurance plan, etc., which combine a savings amount component, in case the policyholder remains alive at the end of the plan period, with an insurance component involving risk of death during the plan period, as well as pure savings plans (primarily loss of working capacity and long term care) with fixed premiums.

   The insurance liability with respect to these products is calculated for each coverage as a discount of cash flows with respect to expected claims, including payment upon conclusion of the period, less projected future claims. This calculation is based on the assumptions used to price the products and/or on discounts derived from claims experience, including the interest rates (hereinafter: the "**Nominal Interest**"), mortality table or morbidity table. The calculation is performed using a method known as "Net Premium Reserve", which does not include, in the projected flow of receipts, the component loaded on the premium rate to cover fees and expenses, while also not deducting the expected expenses and fees.

   With respect to investment-linked insurance plans of the "Traditional" type, the reserve also includes a provision in the amount of the balance of the actual accumulated bonus. The bonus reflects the difference between the actual return less management fees, and the nominal interest rate.

4. Paid pension liabilities and liabilities to supplement annuity reserves:
   Paid pension liabilities are calculated in accordance with life expectancy, based on mortality tables which were created based on the tables which were published in March 2013, in the Commissioner's circular, on the subject of the calculation of annuity payment reserves in life insurance policies (hereinafter: the "**Annuity Reserves Circular**").

   Liabilities to supplement annuity reserves are calculated for policies which are in effect (paid and settled), which allow lifetime annuity payouts, and which have not yet reached the annuity realization stage, or whose policyholders who reached retirement age but have not yet begun actually receiving an annuity (the "**Policies**"). Liabilities to supplement annuity reserves are calculated in accordance with the probability of annuity withdrawal (realization of eligibility for annuity), in accordance with the annuity tracks which policyholders are expected to choose, and based on life expectancy in accordance with mortality tables, which were published in the annuity reserves circular.

   Insofar as the probability of annuity withdrawal is higher, the liabilities required to supplement the annuity reserve are also higher. Changes in the amount of liabilities may also be due to changes in the mix of annuity track selections. Additionally, insofar as the difference between the updated mortality tables in the annuity reserves circular (which indicate increased life expectancy) and the mortality tables which were used to price the guaranteed annuity factors in the policies is greater, the paid pension liability and the liability to supplement annuity reserves are also higher.

The provision for the supplementation of annuity reserves is performed in a gradual manner with respect to the funds that accumulated in the policies until the end of the reporting period, in consideration of the profit which is expected to arise from the policies until the policyholders reach retirement age. In other words, given sufficient future profitability in the policies, the provision for supplementation of annuity reserves is implemented over the years in parallel with the recognition of profit from management fees or the financial margin with respect to the policies. The gradual provision for premiums received in the future within the framework of the policies will be calculated in a similar manner, beginning on the date the premiums are received.

The gradual provision was implemented based on the K factor, which is derived from the rate of future income which is expected to be received from management fees or from the financial margin, due to investments which are held against the insurance reserve due to the policy or to the premium payments for the policy (hereinafter: the "**K Factor**"). The K factor is taken into account in the calculation of the accrual of the liability to supplement annuity reserves. The higher the K factor, the lower the liability to supplement the annuity reserve which will be recognized in the financial statements, and the higher the amount which will be deferred and recorded in the future.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)

A. Actuarial methods used to calculate insurance liabilities (Cont.)

4. Paid pension liabilities and liabilities to supplement annuity reserves: (Cont.)

   In the annuity reserves circular, the mortality tables were updated based on the updated estimates regarding life expectancy and the future improvements therein, and additionally, the requirement regarding the method used to determine the K factor was updated. According to this circular, the company is required to determine, in accordance with the professional judgment of the actuary, two K values: one, for the liabilities with respect to the investment-linked savings component, and the other for the liabilities with respect to the guaranteed-return savings component. In accordance with the circular, the determination of the K values will be done cautiously, based on an evaluation of the policies which were sold before June 1, 2001. The analysis will be performed based on conservative financial assumptions, in a manner which indicates that the management fees or the financial margin which are due to investments held against the annuity paying reserve, due to the policy and the premium payments for the policy, may generate future income which could suffice to cover all expenses associated with the policy until the expected retirement age, and to cover the expenses to supplement the accrual. The chosen K value will be the one which results in adequate distribution of the aforementioned annuity payment reserve.

   As of the reporting date, the company determined, with respect to guaranteed return policies, a K factor of 0% (in 2015: 0.0%, in 2014: 0.2%), while for investment-linked policies, the K factor was determined as 0.96% (in 2015 and 2014: 0.96%).

   From time to time, the company conducts studies in which it evaluates the rate of policyholders who are expected to realize their eligibility to receive annuities, the mix of annuity tracks chosen by retiring policyholders, which were used to determine the annuity payment period and other parameters which affect the amount of the annuity reserve payment liability. The realization rates and annuity tracks are adjusted to the various insurance plans and savings types.

   The total estimated cost of the increase in life expectancy may change due to several factors, including, inter alia, changes in life expectancy and in the rate of policyholders who exercise their eligibility to receive annuities, change in the reasons of policyholders for choosing the annuity tracks upon retirement, increase in the savings funds of policyholders, due to future premium payments and/or an increase in investment income, and due to changes in discount interest rate assumptions, and other assumptions.

   For additional details regarding the impact of the updates, see d(2) below.

   For additional details regarding the amount of the provision and the total cost, see Note 20A.

   For details regarding the discount interest rate for liabilities in the supplementation of annuity reserves, see b(1) below.

5. Other life insurance plans include a pure risk products with fixed premiums (loss of working capacity, death, long term care, etc.) which are sold as independent policies or are attached to policies with a basic plan of the “preferred”, “investment tracks” or “traditional” types. An actuarial liability is calculated with respect to these plans. The calculation was performed using the net premium reserve method. In the other plans, the reserve is calculated in accordance with the amount of IBNR claims.

6. Insurance plans for medical expenses, critical illness and personal accidents

   Medical expenses insurance plans primarily include coverages for surgery abroad, and for transplants and special treatments abroad, selection of a private surgeon in private hospitals, drugs which are not included in the basket, and additional ambulatory covers.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E.1. Insurance risk in life and health insurance (Cont.)

A. Actuarial methods used to calculate insurance liabilities (Cont.)

6. Insurance plans for medical expenses, critical illness and personal accidents (Cont.)

The illness and hospitalization branch includes the following basic insurance coverages:

- Insurance coverage that provides the policyholder the right to finance private medical services. Within this framework, the insurant is given the right to choose the date of receiving the medical service, the identity of the attending physician and the medical institution. The aforementioned insurance coverage provides a refund for medical expenses or compensation, inter alia, in connection with surgery, transplants and/or special treatment overseas etc.
- Insurance coverage in case of diagnosis of a critical illness, in which the policyholder is entitled to receive compensation in the amount which was determined upon joining the insurance.
- Insurance coverage for purchasing medication which is not included in the national health basket.
- Additionally, it is possible to acquire additional coverage, as a rider to the policy, or as a chapter in the basic policy, such as ambulatory services (medical services given not at the time of hospitalization, including consultation with specialized physicians, tests, and physiotherapy treatments).

The personal accidents branch is sold in the company as an independent policy or as a rider to health policies in the illness and hospitalization branch. The insurance coverages include:

- Accidental death
- Accidental disability and/or loss/reduction of working capacity
- Fractures due to accidents
- Burns due to accidents
- Daily compensation due to hospitalization as a result of an accident (up to 26 weeks)
- Compensation due to long term care situation as a result of an accident

With respect to these plans, which are sold as individual policies, the reserve is calculated using the gross premium reserve method, which includes the total expected flow of receipts, including all premium components, and deducts the cost of the liability, and the expected expenses and commissions, and the expected reinsurance payments (if a sub-arrangement for coverage exists). The calculation assumptions regarding parameters pertaining to morbidity assumptions, demographic assumptions and economic assumptions were made on a stringent basis as compared with the pricing basis, which is a commonly accepted practice for the pricing of reserves.

The international travel branch is comprised of a basket of insurance coverages which are intended for policyholders during their time spent abroad, which includes, inter alia, coverage with respect to illness, personal accidents, reduction of travel period, location, extraction and cargo. The insurance period in an international travel policy is specified in days, according to the period of the policyholder’s residence abroad, or for the duration of all travel days in a single calendar year.

In the international travel branch, outstanding claims are calculated based on reports submitted by the claims department of Clal Insurance, and on an actuarial valuation performed on the basis of accumulated experience in the portfolio.

Outstanding claims are calculated based on the report submitted by the claims department, and on a statistical model of claim payments based on past experience. The calculation is performed by based on the triangle methods (Bornhuetter-Ferguson, Chain Ladder) for paid claim amounts, for outstanding claims, and for claim amounts by damage months, including a discounting and confidence range for the personal accidents for students branch.

7. With respect to ongoing payment claims, in long term care insurance and in loss of working capacity insurance, an insurance liability is calculated according to the expected payment period, and is discounted according to the product’s nominal interest rate.

8. Insurance liabilities with respect to collective insurance are comprised of liabilities with respect to unearned premiums, ongoing claims reserve, outstanding claims, continuity reserve and the provision for future losses, as required. Additionally, the provision for participation in profits is presented under the item for payables, as relevant.

9. Liabilities with respect to outstanding claims in life insurance primarily include provisions for outstanding claims with respect to death and disability cases.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life and health insurance (Cont.)

B. Main assumptions used to calculate insurance liabilities

1. Discount rate

A. With respect to insurance plans and pure savings products with fixed premiums, the interest rate used for discounting is as follows:

In insurance plans of the “traditional” and “preferred” types, which are non-investment-linked, and which are primarily backed by designated bonds, an official real interest rate of 3.5% to 4.8% is used.

With respect to investment-linked products which were issued in 1991 or later, an official real interest rate of 2.5% is used. Under the policy terms, changes will be charged to policyholders.

With respect to long term, non-investment-linked individual long term care and health products, a real nominal interest rate of 2.5% is applied.

B. With respect to guaranteed-return insurance plans of the “investment tracks” type, in reserves without designated bonds (which were sold beginning in 2004), the discount rates are 2.7% to 3%.

C. With respect to paid pension liabilities and liabilities to supplement annuity reserves, the discount rate was calculated for each fund separately by weighing the estimated market returns on the mix of free assets (2.4%-3.28%; last year - 2.3%-3.4%), and the HETZ bond gross interest rate for the fund. The weighting process is implemented based on the weight of free assets and the weight of HETZ bonds in the fund backing up those reserves. The determination of the discount rate also includes reference to the risk-free interest rate for an average lifetime which is suitable for the liability.

The company may decide to implement a change to the discount rate as a result changes in the risk-free interest rate and/or in the estimated rate of return in the portfolio of assets held against insurance liabilities. For details regarding the impact of the update to the interest rates which are used to discount the liabilities to supplement annuity and paid pension reserves, see section d(1) below.

2. Mortality and morbidity rates

A. The mortality rates used to calculate insurance liabilities with respect to the mortality of policyholders before reaching retirement age (in other words, not including the mortality of policyholders receiving pension annuities, and those receiving monthly benefits with respect to loss of working capacity or long term care) are generally identical to the rates used to determine the rate which was approved by the Commissioner.

B. The liabilities for lifetime payout annuities are calculated in accordance with mortality tables which were published by the actuary of the Ministry of Finance in the Commissioner’s circular.

An increase in assumed mortality rates, due to an increase in the actual mortality rate above the current assumption level, will result in an increase in insurance liabilities with respect to policyholder mortality before retirement age, and in a reduction of liabilities for lifetime payout annuities.

It should be noted that in recent decades an opposite trend has occurred, which involved increased life expectancy and a decreased mortality rate. The mortality assumption which is used to calculate the liability annuity takes into account the assumption regarding the future increase in life expectancy.

C. The morbidity rates refer to the prevalence of claim events with respect to critical illness, loss of working capacity, long term care, surgeries and hospitalization, accidental disability, etc. These rates were determined based on the experience of Clal Insurance and/or studies of reinsurers. In the long term care and loss of working capacity branches, the annuity payment period used by the company to calculate the liabilities is determined according to the experience of Clal Insurance or studies of reinsurers. During the corresponding period last year, the company updated the estimated annuity payment period for loss of working capacity, based on the company’s research and studies performed by reinsurers, the last of which were received at the end of 2015. For additional details, see section e1(d)2 below.

The higher the increase in the assumption regarding the morbidity rate and/or annuity payment period, the higher the insurance liability with respect to morbidity from critical illness, loss of working capacity, long term care, surgeries and hospitalization, and accident disability.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)

B. Main assumptions used to calculate insurance liabilities (Cont.)

3. Annuity realization rates

Life insurance contracts which include a savings component were conducted, with respect to funds which were deposited until 2008, in two tracks: a capital track or an annuity-paying tracks with a guaranteed annuity factor, which can also be sold through different tracks (such as entire lifetime, couple, 10 year guarantee). In some of the contracts, the policyholder is entitled to choose the track upon retirement. In light of the fact that the amount of insurance liabilities is different in each of these two tracks, Clal Insurance is required to determine the rates of policies which policyholders will choose in the annuity track, including the annuity track which will be chosen. This rate was determined in accordance with guidelines issued by the Control of Insurance Office, and also includes an adjustment for the experience of Clal Insurance. Beginning in 2008, new deposits for all plans are for annuities.

For details regarding the impact of the change in the assumptions regarding annuity realization rates, see section 5 regarding the actuarial methods used to calculate the aforementioned insurance liabilities.

4. Cancellation rates

The cancellation rate affects insurance liabilities with respect to some types of health insurance, as well as lifetime payout annuities in the period prior to commencement of the payments. Insurance contract cancellations may arise due to policy cancellations initiated by Clal Insurance due to discontinuation of premium payments, or redemption of policies at the request of their owners. The assumptions regarding cancellation rates are based on the experience of Clal Insurance, and also on the product type, product lifetime and sale trends.

5. Continuity rates

Certain types of collective life insurance, health insurance and long term care insurance allow policyholders to remain insured under the same terms, even in the event that the collective contract is not resumed. The company has a liability with respect to this policyholder option, which is based on assumptions regarding the continuity rates of collective insurance types, and on the continuity rates of contracts with the policyholders after the termination of the collective contract. See section E1(A)8 for details regarding the actuarial methods used to calculate the aforementioned insurance liabilities.

The higher the probability that the collective contract will not be renewed (therefore meaning a higher continuity rate), the higher the insurance liability with respect to continued insurance under the previous conditions, without adjusting the underwriting to the change in the policyholder's health condition.

C. Sensitivity tests in life and health insurance

As of December 31, 2016

NIS in thousands	Cancellation rate (Redemptions, settlements (and reductions)		Morbidity rate		Mortality rate		Pension realization rate	
	10%+	10%-	10%+	10%-	10%+	10%-	5%+	5%-
Profit (loss)	**24,539**	**(36,239)**	**(184,075)**	**48,649**	**352,974**	**(448,885)**	**(66,522)**	**66,522**

As of December 31, 2015

NIS in thousands	Cancellation rate (Redemptions, settlements (and reductions)		Morbidity rate		Mortality rate		Pension realization rate	
	10%+	10%-	10%+	10%-	10%+	10%-	5%+	5%-
Profit (loss)	25,442	(38,498)	(149,721)	48,576	318,847	(370,381)	(59,207)	59,207

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)

D. Changes in main estimates and assumptions which were used to calculate insurance liabilities

1. Strengthening of insurance reserves in the low interest rate environment, and its effect on discount rates in life insurance and the Commissioner's directives with respect to the liability adequacy test (LAT)

A. The Commissioner's directives regarding the liability adequacy test (LAT)

In August 2015, an insurance circular was published on the subject of the method used to calculate the liability adequacy test (LAT) in life and health insurance (the "LAT Circular"). The circular addresses guidelines for the measurement and selection of certain assumptions.

The circular applies to financial statements as of June 30, 2015 and thereafter. As a result of the adoption of this circular, the LAT reserve in life insurance for the year ended December 31, 2015 was increased by approximately NIS 130 million.

For additional details, see Note 3(d)1(d) and 3(d)2(b)4.6 above.

B. Strengthening of insurance reserves in light of the low interest rate environment

Further to that stated in section B(1) above, the discount rates which are used to calculate the liabilities to supplement the annuity and paid pension reserves may change as a result of changes in the risk-free interest rate and/or the estimated rate of return in the portfolio of assets held against insurance liabilities.

The impact of the financial results on the update to these assumptions in the life insurance branch is specified below:

	For the year ended December 31		
NIS in millions	**2016**	**2015**	**2014**
		Audited	
Change in the discount interest rate used in the calculation of the liability to supplement the annuity and paid pension reserves	**32**	35	268
Change in pension reserves following the decreased forecast of future income (K factor)	**-**	86	-
Liability adequacy test (LAT) *)	**162**	144	-
Life insurance - total impact of the low interest rate environment before tax	**194**	265	268
Total comprehensive income (loss) after tax	**124**	166	167

*) The amount includes the immaterial effect due to the implementation of the distribution of general and administrative expenses, see Note 44(g).

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)

D. Changes in main estimates and assumptions which were used to calculate insurance liabilities

2. Change in estimates regarding insurance liabilities in life and health insurance

   A. Undertaking to supplement the annuity reserve: during the reporting period, changes occurred which resulted in an increase to the liabilities in the amount of approximately NIS 20 million, in light of the update to the calculation model with respect to annuity realization rates, as compared with a decrease of approximately NIS 49 million in the corresponding period last year.

   B. Liabilities with respect to health and life risk: during the reporting period, no material changes occurred relative to the corresponding period last year, in which the liabilities were updated as follows:

      1. In life insurance - an increase of approximately NIS 83 million on retention, primarily due to an update to the annuity payment period used by the company to calculate the liability (see section b(2) above), and the estimated development of claims, which resulted in an increase in the reserve for ongoing paid claims in loss of working capacity insurance, in the amount of approximately NIS 195 million, and to a decrease in outstanding claims for cases of death and disability, in the amount of approximately NIS 112 million.

      2. In health insurance - the insurance reserve decreased as a result of the update to estimates, primarily with respect to the change in the cancellation and morbidity rates, which decreased the provision with respect to the insurance risk, in the amount of approximately NIS 47 million.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts

(1) Summary description of the main insurance branches in which the group operates

The group issues non-life insurance contracts primarily in the compulsory motor, liabilities, motor property and property insurance branches.

Compulsory motor insurance policies cover the policyholder and the driver for all liabilities which they may incur under the Compensation for Victims of Road Accidents Law, 1975, due to physical injury caused as a result of the use of a motor vehicle, to the vehicle driver, to passengers in the vehicle, or to pedestrians injured by the vehicle. Claims in the compulsory motor branch are characterized as "long-tail" claims, meaning that a long period of time passes from the actual occurrence of the event until the final settlement of the claim.

Liability insurance is intended to cover the policyholder's liability for any damages which it may cause to third parties. The main types of insurance include: third party liability insurance, employers' liability insurance and other liability insurance such as professional liability, product liability and directors and officers liability insurance. The timing of the filing and settlement of claims is affected by a number of factors, including coverage type, policy terms and legal precedents. In general, claims in the liabilities branch are characterized as "long-tail" claims, meaning that a long period of time passes from the actual occurrence of the event until the final settlement of the claim.

Insurance policies covering motor property damage and third party motor property damage grant the policyholder coverage for property damages. The coverage is generally limited to the value of the damaged vehicle and/or to the third party liability limit in the policy. The Insurance Commissioner's approval is required for the motor property insurance rate, as well as for the entire policy. This rate is a statistical rate, and is in part also differential (not uniform to all policyholders, and adjusted for risk). The above rate is based on several parameters, including those related to the policyholder's vehicle (such as vehicle type, production year, etc.) and those related to the policyholder's characteristics (driver age, claims experience, etc.). The underwriting process is partly performed using the rate itself, and partly using a series of policies, which are intended to evaluate the policyholder's claims experience, including presentation of an approval regarding lack of claims from previous insurers during the preceding three years, presentation of an updated protection approval, etc., and are combined in an automated manner into the policy production process. In most cases, the motor property insurance policies are issued for a period of one year. Additionally, in most cases, claims with respect to these policies are settled near the date of the insurance event, and are characterized as "short tail" claims.

Property insurance types are intended to grant the policyholder coverage against physical damage to their property, and loss of income due to the damage to their property. The primary risks covered in property policies include risks of fire, explosion, break-in, earthquake and natural disasters. Property insurance branches sometimes include coverage for loss of income damages due to physical damage to property. Property insurance types constitute an important component of apartment insurance, business insurance, engineering insurance, cargo transportation (land, air, and sea) insurance, etc. In most cases, claims with respect to these policies are evaluated proximate to the date of the occurrence of the insurance event, and characterized as "short tail".

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(2) Principles used in the calculation of the actuarial estimate in non-life insurance

General

A. The liabilities with respect to non-life insurance contracts include the following main components: unearned premium reserve; premium deficiency; outstanding claims; and net surplus revenues, depending on the relevant branch. The provisions for unearned premiums and net surplus revenues are calculated using a method than is independent of any assumptions, and therefore they are not directly exposed to reserve risk. For details regarding the method used to calculate these provisions, see Note 3(d)(2).

B. In accordance with instructions issued by the Commissioner, outstanding claims are calculated by an actuary, using commonly accepted actuarial methods, and in a manner that is consistent with the previous year. The selection of the appropriate actuarial method for each insurance branch and for each event/underwriting year is determined based on judgment, according to the degree of correspondence between the method and the branch. At times, a combination of the various methods is employed. The estimates are primarily based on past experience of the development in claim payments and/or the development of payment amounts and individual estimates. The estimates include assumptions with regard to the average claim cost, claims handling costs and frequency of claims. Other assumptions may refer to changes in interest rates, in exchange rates and in the timing of payments. The claim payments include direct and indirect expenses for the settlement of claims, less claims of recourse and deductibles.

C. The use of actuarial methods which are based on the development of claims, is for the most part appropriate when stable and sufficient information exists regarding claim payments and/or individual estimates in order to estimate the total projected cost of claims. When the available information regarding actual claims experience is insufficient, the actuary will at times use a calculation that weighs a known approximation (in the company and/or in the branch), such as the loss ratio, against the actual development of claims. A greater weight is given to an estimate based on claims experience as time passes, and as additional information regarding the claims is accumulated.

D. Additionally, qualitative estimates and judgments are prepared with respect to the degree to which past trends will not continue in the future. For example: due to a one-time event, internal changes such as a change in the portfolio mix, in the underwriting policy, in the claims handling policies, and with respect to the impact of external factors, such as legal ruling, legislation, etc. When changes as above are not fully reflected in past experience, the actuary updates the models and/or performs specific provisions based on statistical and/or legal estimates, as relevant.

E. In a number of large claims with non-statistical characteristics, the reserve is determined (gross and retention) based on the opinion of experts in Clal Insurance, and in accordance with the recommendations of their legal counsel.

F. The share of reinsurers in outstanding claims is estimated in consideration of the agreement type (relative / non-relative), actual claims experience and premiums transferred to reinsurers.

G. The estimate of outstanding claims for Clal Insurance's share in the Pool, in incoming business and in joint insurances which are received from other insurance companies (leading insurers), was based on a calculation performed by the Pool or by the leading insurers, or on a separate calculation in the company.

(3) Details of actuarial methods in the main insurance branches in non-life insurance

For the purpose of evaluating outstanding claims, use was made of the following actuarial models, in combination with the various assumptions:

A. Chain ladder- This method is based on the historical development of claims (development of payments and/or development of the payment amounts and individual claim estimates, development of claim amounts, etc.) in order to estimate the projected development of current and future claims. The use of this method is primarily appropriate after passage of a sufficient period from the event or the policy underwriting, when sufficient information exists from past claims to estimate the amount of projected claims.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(3) Details of actuarial methods in the main insurance branches in non-life insurance (Cont.)

B. Bornhuetter-Ferguson- This method combines an a priori estimate which is known among the consolidated insurance companies or in the branch, and an additional estimate, which is based on the claims themselves. The preliminary estimate is used in premiums and damage rates to estimate the total amount of all claims. The second estimate uses actual claims experience, based on other methods (such as Chain Ladder). The integrated claims estimate weighs both estimated figures, with a greater weight given to the estimate that is based on past claims experience as time passes, and as additional information regarding the claims is accumulated. The used of this method is for the most part suitable in cases where insufficient claims information exists, or where the business in question is new, or does not have sufficient historical information.

C. Averages - At times, similarly to the Bornhuetter-Ferguson method, when the claims experience in past periods is insufficient, use is made of the historical average method. When using this method, the cost of claims is determined based on the claim cost per policy in earlier years, and on the amount of policies in the later years. Similarly, the cost of claims is calculated based on the forecasted amount of claims (the chain ladder method) and on the historical average of claims.

D. Other - For professional illness type claims in employers' liability insurance, which are claims based on continuing damages, a provision is calculated based on projected future cost. Such claims include no specific date in which the worker was injured, and the formation of the damage is as a result of prolonged exposure to risk factors. Claims of this kind are characterized by a very long period following the exposure to the risk factors (the insurer's exposure) until reporting of the claim (long-tail claims). This pattern of the rate of reporting and of the insurer's exposure to continuing damages requires a provision for each exposure year in employers' liability insurance, even if no claims were reported, or if the policy expired many years ago.

In the motor property, comprehensive apartment and personal accidents branches, a payment development model was used for payments and gross contingencies. For periods which have not yet reached maturity, the averages method and the Bornhuetter-Ferguson method were used. The model is calculated in terms of gross claims. The estimate of the share of reinsurers, insofar as it is relevant, is done in accordance with the estimate of specific claims plus IBNR, according to the gross IBNR rate which was determined in the actuarial model.

In the compulsory motor and liabilities branches, semi-annual models were used for the development of payments, and the development of payments and contingencies. For periods which have not reached maturity, the Bornhuetter-Ferguson and/or the Expected Loss Ratio methods are used. The claims development model in the liabilities branches is based on net claims from facultative reinsurance. The estimated share of reinsurers in the non-relative contract is obtained based on an estimation of individual outstanding claims for old years, and according to the loss ratio for recent years.

In the loss of property and engineering branches, an annual development model was prepared based on payments and contingencies.

In branches for which no actuarial valuation was performed, including the branches for cargo shipping insurance, marine insurance, aviation insurance, guarantees, credit risks and incoming business, outstanding claims were included according to expert estimates, as described in Note 3(d)(2)(d), in section 4.2.

In the investment insurance branch for apartment buyers, in accordance with the Reserve Calculation Regulations, and in accordance with an evaluation which was conducted by the company through an independent expert, beginning in 2014, the reserve for net surplus revenues is calculated cumulatively over 3 years (2013 - 5 years).

The impact of the change for the period ended December 31, 2014 amounted to a total of approximately NIS 26.5 million before tax and approximately NIS 16.5 million after tax, which was charged to the statement of income.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(4) Main assumptions used for the purpose of the actuarial estimate

A. The reserves for outstanding claims in the compulsory motor, liabilities and personal accidents branches are discounted according to the annual real interest rate determined by the chief actuary. As part of the process of preparing the financial statements, the actuary evaluates, on a quarterly basis, the discount rate for the indicators, including:

- Returns in the portfolio of assets held against insurance liabilities, following an amortization with respect to expected credit defaults;
- Market returns - as reflected in the “deposit yield curve”, in accordance with average lifetime and the investments’ rating in the portfolio.

These indicators are also evaluated in combination with the evaluation of macro-economic assessments with respect to long term developments in the interest rate environment, and with respect to the average lifetime of the relevant liabilities.

The company may decide to change the discount rate as part of the overall evaluation of the adequacy of the insurance liabilities, as a result of material and ongoing changes in the risk-free interest rate and/or in the rate of return of the portfolio of assets held against liabilities in non-life insurance and/or changes in market returns.

In 2016, no change was implemented to the discount rate. In 2015, the interest rate was updated from a real annual rate of 1.25%, to a real annual rate of 1.30%, with no significant impact. In 2014, the discount rate which is used in the calculation of insurance liabilities in the compulsory motor and liabilities branches was updated on March 31, 2014 from a real annual rate of 1.75% to a real annual rate of 1.25%.

As a result of the change in this estimate, insurance liabilities in the branches compulsory motor and liabilities on retention as of March 31, 2014 increased by approximately NIS 41 million (the increase in outstanding claims on retention of approximately NIS 52 million was offset by the decrease in accrual), and income before taxes on income decreased by the same amount, for the three month period ended March 31, 2014. Profit after tax for the period of three months ended March 31, 2014 declined by approximately NIS 26 million.

The amortization with respect to discounting on retention in Clal Insurance, as of the date of the update to the actuarial model (which is performed in June or December) amounted to approximately NIS 159 million during the reporting year (last year - approximately NIS 177 million).

B. In the compulsory motor, liabilities and student personal accidents branches, an addition was included with respect to the risk margin (standard deviation) which underlies the reserve.

The total addition on retention in Clal Insurance, as of the date of the update to the various actuarial models (which is performed in June, September or December) amounts to approximately NIS 246 million (last year - approximately NIS 272 million).

C. Out of the standard deviation amounts, less discounting, a total of approximately NIS 4 million is applied to accrual (last year, approximately NIS 6 million was amortized). For details regarding the cancellation of the accrual in certain branches, see Note 3(d)(2)(4)(b)4.6 above.

D. When necessary, Clal Insurance adds a claim tail to the analysis of payment developments. In the analysis of the development of payment amounts and outstanding individual claims, actuarial judgment for the most part does not allow negative IBNR on the level of each underwriting year.

E. See also Note 19(c).

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(4) Main assumptions used for the purpose of creating the actuarial valuation (Cont.)

F. Implementation of the Commissioner's position was implemented in connection with best practices in the calculation of insurance reserves in non-life insurance (hereinafter: the "Practice"), which serves as the basis for determining a minimum amount for the required reserves.

The policy includes, inter alia, the following determinations:

1. "Applying caution" means, with respect to a reserve which was calculated by an actuary, that an "adequate reserve to cover the insurer's liabilities" signifies that it is fairly likely that the determined insurance liability will suffice to cover the insurer's liabilities. Regarding outstanding claims in compulsory and liabilities branches, the evaluation of "fairly likely" will mean an estimated likelihood of at least 75%.
However, insofar as there are restrictions in the statistical analysis, the actuary will exercise judgment, and will take into account, for example, the following considerations:
A. Random risk (risk of random deviation from the results of the actuarial model)
B. Systemic risk (risks which are not included in the model, such as risk of use of an incorrect model or incorrect parameters, or external changes which are not reflected in the model).
The appropriate discount interest rate used to evaluate caution is in accordance with the risk free interest curve which is adjusted to the illiquid nature of the liabilities. This evaluation also requires taking into account the revaluation method used in the financial statements for assets held against liabilities.

2. Selection of a discount rate for the flow of liabilities.

3. Grouping - for the purpose of the principle of caution in non-grouped branches (as defined in the circular - statistical branches), it is necessary to address each branch separately, although it is possible to group together all of the underwriting (or damage) years in the branch. In grouped (non-statistical) branches, all of them can be addressed as a single unit. Additionally, it is possible to take into account the absence of a complete correspondence between the various branches for the purpose of reducing the total margin.

4. The determination of the amount of insurance liabilities with respect to policies which were sold in time frames proximate to the balance sheet date and the risks which have not yet passed.

It is noted that in accordance with the LAT circular, the implementation of the principle of caution, as stated above, constitutes sufficient calculation for the purpose of the liability adequacy test in non-life insurance.

G. National Insurance annuity discount rate

In June 2014, an inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd was appointed in order to evaluate of the correction of life expectancy tables and the interest rate which is used discount annuities in accordance with the National Insurance Regulations (Discounting), 1978 (hereinafter: the "**Discounting Regulations**" and the "**Committee**"). In June 2016, an amendment to the Regulations (hereinafter: the "**Amendment**") was published which includes, inter alia, updates to the mortality tables and the discount rates which are used to calculate the aforementioned annuities.

The Discounting Regulations formalize, inter alia, the discount rate which is used to calculate the subrogation claims which are submitted by National Insurance towards third parties, in accordance with the right which is conferred upon it by virtue of the National Insurance Law (Consolidated Version), 1995 (hereinafter: the "**Law**"), in cases where the event constitutes grounds to charge the third party in accordance with the Civil Wrongs Ordinance or the RAVC law.

In accordance with the amendment, the interest rate for the purpose of discounting the annuity will be 2% instead of 3%, as specified in the Discounting Regulations prior to the amendment.

The amendment also determines that the mortality tables and annuity discount rates will be updated again on January 1, 2020, and every four years thereafter.

Note 40 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E2. Insurance risk in non-life insurance contracts (Cont.)

(4) Main assumptions used for the purpose of creating the actuarial valuation (Cont.)

G. National Insurance annuity discount rate (Cont.)

In September 2016, an amendment was published to the aforementioned amendment, in which the application date of the amendment was deferred by one year.

The company estimated the total 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 for 2016, in the compulsory motor and liabilities branches by approximately NIS 141 million, on retention and before tax, and by a total of approximately NIS 90 million after tax. The estimated impact on insurance liabilities included taking into account the full impact of the recommendations of the Winograd committee on the discount rates which will be determined in court, and a scenario according to which the discount rates which will be determined in court will reflect the returns of relevant low-risk investment instruments, based on a legal opinion.

F. Credit risks

1. Distribution of debt assets by location

	As of December 31, 2016		
NIS in thousands	**Marketable *)**	**Non-marketable**	**Total**
In Israel	**5,263,908**	**21,035,605**	**26,299,513**
Abroad	**311,151**	**246,108**	**557,259**
Total debt assets	**5,575,059**	**21,281,713**	**26,856,772**

	As of December 31, 2015		
NIS in thousands	**Marketable *)**	**Non-marketable**	**Total**
In Israel	6,157,688	20,798,052	26,955,740
Abroad	330,536	182,526	513,062
Total debt assets	6,488,224	20,980,578	27,468,802

*) For additional details regarding marketable debt assets, see Note 14(a).

See also section 2 below for details regarding assets distributed by ratings, as presented below.

It is noted that the data presented above are not with respect to debt assets for investment-linked contracts. For details regarding financial investments for investment-linked contracts, see section G below.

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating

A.1. Debt assets

NIS in thousands	Local rating *) As of December 31, 2016				
	AA and higher	**A to BBB**	**Lower than BBB**	**Unrated**	**Total**
Debt assets in Israel					
Marketable debt assets					
Government bonds	**3,395,649**	-	-	-	**3,395,649**
Corporate bonds	**1,567,136**	**267,245**	**24,329**	**9,549**	**1,868,259**
Total marketable debt assets in Israel	**4,962,785**	**267,245**	**24,329**	**9,549**	**5,263,908**
Non-marketable debt assets					
Government bonds	**15,329,115**	-	-	-	**15,329,115**
Corporate bonds	**588,400**	**116,146**	**29,912**	**8,525**	**742,983**
Deposits in banks and financial institutions	**896,588**	**1,362**	-	-	**897,950**
Other debt assets by type of collateral:					
Mortgages	-	-	-	**2,371,211**	**2,371,211**
Loans on policies	-	-	-	**31,592**	**31,592**
Loans secured by real estate	-	**203,206**	-	**30,395**	**233,601**
Secured by bank guarantee	**126,437**	-	-	-	**126,437**
Secured by vehicle pledge	-	**4,597**	-	-	**4,597**
Loans secured by control shares	**27,466**	**32,696**	-	**57,560**	**117,722**
Other collateral	**454,886**	**630,890**	**2,162**	**50,877**	**1,138,815**
Non-guaranteed	**28,658**	**12,877**	-	**47**	**41,582**
Total non-marketable debt assets in Israel	**17,451,550**	**1,001,774**	**32,074**	**2,550,207**	**21,035,605**
Total debt assets in Israel	**22,414,335**	**1,269,019**	**56,403**	**2,559,756**	**26,299,513**
Of which - internally rated debt assets	-	**306,377**	-	-	**306,377**

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.1. Debt assets (Cont.)

	International rating *)				
	As of December 31, 2016				
NIS in thousands	**A and higher**	**BBB**	**Lower than BBB**	**Unrated**	**Total**
Foreign debt assets					
Marketable debt assets					
Government bonds	**24,974**	-	-	-	**24,974**
Corporate bonds	**2,971**	**237,510**	**45,696**	-	**286,177**
Total marketable debt assets abroad	**27,945**	**237,510**	**45,696**	-	**311,151**
Non-marketable debt assets					
Loans secured by real estate	**32,893**	-	**16,346**	**196,869**	**246,108**
Total non-marketable debt assets abroad	**32,893**	-	**16,346**	**196,869**	**246,108**
Total debt assets abroad	**60,838**	**237,510**	**62,042**	**196,869**	**557,259**

*) All debt assets rated abroad were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.1. Debt assets (Cont.)

NIS in thousands	Local rating [1)] As of December 31, 2015				
	AA and higher	**A to BBB**	**Lower than BBB**	**Unrated**	**Total**
Debt assets in Israel					
Marketable debt assets					
Government bonds	3,938,065	-	-	-	3,938,065
Corporate bonds	1,883,679	296,210	25,752	13,982	2,219,623
Total marketable debt assets in Israel	5,821,744	296,210	25,752	13,982	6,157,688
Non-marketable debt assets					
Government bonds	15,044,358	-	-	-	15,044,358
Corporate bonds	622,880	142,877	-	10,189	775,946
Deposits in banks and financial institutions	959,348	2,024	-	-	961,372
Other debt assets by type of collateral:					
Mortgages *)	-	-	-	2,212,746	2,212,746
Loans on policies	49,921	-	-	-	49,921
Loans secured by real estate	-	242,252	-	58,901	301,153
Secured by bank guarantee	123,279	-	-	-	123,279
Secured by vehicle pledge	-	2,396	-	-	2,396
Loans secured by control shares	31,022	67,905	-	71,672	170,599
Other collateral	460,136	540,990	-	73,565	1,074,691
Non-guaranteed	29,295	52,225	-	71	81,591
Total non-marketable debt assets in Israel	17,320,239	1,050,669	-	2,427,144	20,798,052
Total debt assets in Israel	23,141,983	1,346,879	25,752	2,441,126	26,955,740
Of which - internally rated debt assets	-	429,522	-	-	429,522

*) Re-classified, see Note 2(f).
1) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.1. Debt assets (Cont.)

	International rating [1]				
	As of December 31, 2015				
NIS in thousands	**A and higher**	**BBB**	**Lower than BBB**	**Unrated**	**Total**
Foreign debt assets					
Marketable debt assets					
Government bonds	176,587	-	-	-	176,587
Corporate bonds	13,102	106,252	34,595	-	153,949
Total marketable debt assets abroad	189,689	106,252	34,595	-	330,536
Non-marketable debt assets					
Loans secured by real estate *)	40,247	-	-	142,279	182,526
Total non-marketable debt assets abroad	40,247	-	-	142,279	182,526
Total debt assets abroad	229,936	106,252	34,595	142,279	513,062

*) Re-classified, see Note 2(f).

1) All debt assets which are rated abroad were rated by recognized international rating agencies. Each rating includes all ranges, for example: an A rating includes A- to A+.

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.2. Credit risks with respect to other assets (in Israel)

	Local rating *)			
	As of December 31, 2016			
NIS in thousands	AA and higher	A to BBB	Unrated	Total
Other accounts receivable, excluding reinsurer balances	**9,112**	**-**	**159,249**	**168,361**
Deferred tax assets	**-**	**-**	**10,344**	**10,344**
Other financial investments	**17,215**	**-**	**14,689**	**31,904**
Cash and cash equivalents	**1,343,652**	**45,657**	**-**	**1,389,309**
Total	**1,369,979**	**45,657**	**184,282**	**1,599,918**

	Local rating *)			
	As of December 31, 2015			
NIS in thousands	AA and higher	A to BBB	Unrated	Total
Other accounts receivable, excluding reinsurer balances	-	-	211,587	211,587
Deferred tax assets	-	-	25,460	25,460
Other financial investments	50,269	28,114	13,328	91,711
Cash and cash equivalents	1,370,812	44,383	-	1,415,195
Total	1,421,081	72,497	250,375	1,743,953

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

A.3. Credit risks with respect to off-balance sheet instruments (in Israel))**

	Local rating *)			
	As of December 31, 2016			
NIS in thousands	AA and higher	A to BBB	Unrated	Total
Unused credit lines	**74,962**	**32,736**	**480,690**	**588,388**

	Local rating *)			
	As of December 31, 2015			
NIS in thousands	AA and higher	A to BBB	Unrated	Total
Unused credit lines	68,419	30,742	196,678	295,839

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) The group has no financial guarantees which were given in Israel and which are not treated as insurance contracts.

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.4. Credit risks with respect to other assets (abroad)

NIS in thousands	International rating *) As of December 31, 2016				
	A and higher	BBB	Lower than BBB	Unrated	Total
Other accounts receivable, excluding reinsurer balances	19,913	379	-	279	20,571
Other financial investments	169,679	2,030	67,169	96,165	335,043
Cash	524	-	-	942	1,466
Total	190,116	2,409	67,169	97,386	357,080

NIS in thousands	International rating *) As of December 31, 2015				
	A and higher	BBB	Lower than BBB	Unrated	Total
Other accounts receivable, excluding reinsurer balances	18,257	1,512	-	943	20,712
Other financial investments	97,603	4,064	32,467	83,294	217,428
Cash	24,163	-	-	-	24,163
Total	140,023	5,576	32,467	84,237	262,303

*) All debt assets rated abroad were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

A.5. Credit risks with respect to off-balance sheet instruments (abroad) **)

NIS in thousands	International rating *) As of December 31, 2016				
	AA and higher	A to BBB	Lower than BBB	Unrated	Total
Unused credit lines	-	-	-	34,649	34,649

NIS in thousands	International rating *) As of December 31, 2015				
	AA and higher	A to BBB	Lower than BBB	Unrated	Total
Unused credit lines	-	-	-	19,969	19,969

*) All debt assets rated abroad were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) The group has no financial guarantees which were given abroad and which are not treated as insurance contracts.

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

3. Additional information regarding the rating of debt assets

A. Internal rating is based on a model formulated by Clal Insurance. Clal Insurance periodically conducts validation of the internal model against the ratings of external rating agencies, and other credit rating models. These tests showed a good correlation between the internal rating and the external criteria. Additionally, the model was monitored by external entities which approved the ability to rely on the internal rating model.

B. There are differences between the rating scales for debt assets in Israel and foreign debt assets. It is noted that, in accordance with capital market circular 2008-6-1, the rating companies which received approval from the Commissioner to operate as rating companies in accordance with capital market circular 2004/1, published a conversion index between the local rating scale and the international rating scales.

4. The information presented in this note regarding credit risks does not include assets for investment-linked contracts, which are presented in section G below.

5. For details regarding balances of outstanding premiums, see Note 12.

6. For details regarding the aging of investments in non-marketable financial debt assets, see Note 14(b)(2).

7. Details regarding the exposure to industry branches with respect to investments in marketable and non-marketable financial debt assets

	As of December 31, 2016		
NIS in thousands	**Amount**	**% of total**	**Off-balance sheet risk**
Market branch			
Industry	**86,025**	**0%**	**-**
Construction and real estate	**1,776,904**	**7%**	**94,155**
Electricity and water	**1,020,051**	**4%**	**109,607**
Trading	**24,917**	**0%**	**-**
Telecommunications and computer services	**36,141**	**0%**	**-**
Banks	**2,109,001**	**8%**	**-**
Financial services	**210,464**	**1%**	**-**
Other business services	**95,879**	**0%**	**-**
Public services	**194,259**	**1%**	**-**
Private individuals	**2,553,393**	**9%**	**419,275**
Government bonds	**18,749,738**	**70%**	**-**
Total	**26,856,772**	**100%**	**623,037**

	As of December 31, 2015		
NIS in thousands	**Amount**	**% of total**	**Off-balance sheet risk**
Market branch			
Industry	41,652	0%	-
Construction and real estate	1,744,745	7%	48,270
Electricity and water	857,537	3%	63,082
Trading	2,447	0%	-
Transport and storage	4,490	0%	-
Telecommunications and computer services	42,159	0%	-
Banks	2,606,253	9%	-
Financial services	418,511	2%	-
Other business services	119,659	0%	-
Public services	164,280	1%	-
Private individuals	2,308,059	8%	204,456
Government bonds	19,159,010	70%	-
Total	27,468,802	100%	315,808

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance

A. Policy of Clal Insurance regarding the management of credit risks in connection with reinsurers

Clal Insurance Group insures some of its business operations in reinsurance, mostly through foreign reinsurers. However, the reinsurance does not release the consolidated insurance companies from their obligation towards their policyholders according to the insurance policies.

The group is exposed to risks arising from uncertainty regarding the ability of reinsurers to pay their share in liabilities with respect to insurance contracts (reinsurance assets), and their debts with respect to claims paid. This current exposure is managed via ongoing monitoring of the reinsurer’s position in the global market, and of its fulfillment of its financial liabilities.

In accordance with the instructions issued by the Commissioner, the boards of directors of the consolidated insurance companies determine, once per year, maximum exposure frameworks to specific reinsurers and to groups of reinsurers, with which Clal Insurance Group has entered / will enter into contractual agreements, based on their international ratings. These exposures are managed by means of case-by-case evaluations of the reinsurers to which exposure is material, and by monitoring indicators of the risk level relative to all reinsurers with which Clal Insurance is engaged. The risk management unit conducts quarterly monitoring of the exposures to reinsurers which are reported to it, monitors the financial position of the large reinsurers based on various data, including from international capital markets, and conducts credit monitoring of analyses which were performed with respect to specific reinsurers. The risk management unit reports to the boards of directors on a quarterly basis regarding the exposure relative to the defined limits.

The exposures of these companies are also distributed between different reinsurers, with the primary ones being to reinsurers with high international ratings.

As a result of the implementation of the policy described above, the concentration of exposure to any single reinsurer is not high, however, the company may be exposed to concentrated credit risk with respect to a single reinsurer in case of a catastrophic event.

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance (Cont.)

B. Information regarding exposure to credit risks of reinsurers

NIS in thousands	Total premiums for reinsurers in 2016	Debit (credit) balances Net 2)	Reinsurance assets less reinsurers' share of deferred acquisition costs: In life insurance	In health insurance	In property insurance	In liabilities insurance	Total reinsurance assets	Deposits of reinsurers	Total letters of credit received from reinsurers	Total exposure 1)	Debts in arrears: Six months to one year	1 year
Rating group												
AA												
Swiss Re	193,087	(20,405)	108,508	17,415	75,460	112,996	314,379	101,917	58,947	133,110	-	-
Munich Re	134,821	(33,320)	85,916	16,663	52,794	54,392	209,765	104,422	-	72,023	-	-
SCOR	128,101	(1,976)	-	152,072	24,033	2,508	178,613	163,155	-	13,482	-	-
Other	105,226	(17,537)	26,453	8,251	72,644	250,598	357,946	41,249	6,418	292,742	14	28
Total	561,235	(73,238)	220,877	194,401	224,931	420,494	1,060,703	410,743	65,365	511,357	14	28
A												
Lloyd's	63,866	(15,942)	-	284	28,858	117,902	147,044	153	-	130,949	-	-
AIG	14,189	(3,101)	-	-	6,651	135,972	142,623	-	-	139,522	-	-
Other	383,142	(425)	1,848	172,189	228,921	382,396	785,354	259,510	25,599	499,820	2,754	611
Total	461,197	(19,468)	1,848	172,473	264,430	636,270	1,075,021	259,663	25,599	770,291	2,754	611
BBB	1,936	22	-	-	905	415	1,320	733	-	609	-	39
Lower than BBB- or unrated	2,071	(1,412)	384	-	410	28,657	29,451	-	-	28,039	44	122
Total	1,026,439	(94,096)	223,109	366,874	490,676	1,085,836	2,166,495	671,139	90,964	1,310,296	2,812	800

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance (Cont.)

B. Information regarding exposure to credit risks of reinsurers (Cont.)

NIS in thousands	Total premiums for reinsurers in 2015	Debit (credit) balances, net [2]	Reinsurance assets less reinsurers' share of deferred acquisition costs					Deposits of reinsurers	Total letters of credit received from reinsurers	Total exposure [1]	Debts in arrears	
			In life insurance	In health insurance	In property insurance	In liabilities insurance	Total reinsurance assets				Six months to one year	1 year
Rating group												
AA												
Swiss Re	182,411	(2,156)	104,611	15,464	107,185	91,906	319,166	101,405	59,821	155,784	-	-
Munich Re	135,757	(20,708)	87,409	15,216	99,546	46,946	249,117	108,666	-	119,743	-	-
SCOR	119,309	(12,783)	-	140,806	40,686	2,679	184,171	153,760	-	17,628	-	-
Other	117,051	(21,351)	28,296	10,153	101,447	232,538	372,434	45,325	8,143	297,615	286	9
Total	554,528	(56,998)	220,316	181,639	348,864	374,069	1,124,888	409,156	67,964	590,770	286	9
A												
Lloyd's	64,411	(14,860)	-	2,407	52,875	114,767	170,049	879	-	154,310	-	-
Other	396,143	(60,397)	1,834	161,223	320,320	456,730	940,107	249,383	25,979	604,348	2,057	178
Total	460,554	(75,257)	1,834	163,630	373,195	571,497	1,110,156	250,262	25,979	758,658	2,057	178
BBB	(793)	358	-	-	736	418	1,154	398	-	1,114	478	-
Lower than BBB- or unrated	1,373	(2,227)	299	-	634	20,879	21,812	-	-	19,585	38	358
Total	1,015,662	(134,124)	222,449	345,269	723,429	966,863	2,258,010	659,816	93,943	1,370,127	2,859	545

Note 40 - Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance (Cont.)

B. Information regarding exposure to credit risks of reinsurers (Cont.)

1) The total exposure to reinsurers equals total reinsurance assets (share of reinsurers in liabilities with respect to insurance contracts, less deferred acquisition costs for reinsurance), less deposits and less the sum of letters of credit received from reinsurers as collateral to secure their liabilities, plus (less) current net debit (credit) balances.

2) Following an amortization of the provision for doubtful debts in the amount of approximately NIS 14,758 thousand (last year: NIS 16,322 thousand). The balances do not include balances of insurance companies with respect to co-insurance.

3) Total provisions for doubtful debts, plus (minus) the share of reinsurers in liabilities with respect to insurance contracts, amounted to a total of approximately NIS 16,567 thousand (last year: NIS 18,755 thousand), which constitutes 1.3% (last year: 1.4%) of the overall exposure.

4) The rating was primarily determined by the rating company S&P. In cases where a rating has not been given by S&P, the rating is determined by another rating company, and converted according to the index prescribed in the Ways of Investment Regulations.

5) The total exposure of reinsurers to an earthquake event in Israel (including incoming business of Israeli policyholders abroad), with an MPL of 1.5% in the apartments and mortgages branches, and MPL of 2.5% in other branches, is approximately NIS 9,099 million (last year: NIS 9,313 million), of which the share of the most material reinsurer in this exposure is approximately 18.9% (last year: 16.6%).

6) There are no additional reinsurers beyond those specified above, the exposure to which exceeds 10% of the total exposure of reinsurers, or where the premiums with respect to them exceeds 10% of the total premiums for reinsurance for the years 2016 and 2015.

7) The unrated group includes balances with respect to outstanding claims through brokers up to and including 2003, the exposure to which amounted to approximately NIS 93 thousand (last year: NIS 312 thousand).

8) The data includes balances of companies in Israel which were included in accordance with the rating conversion table as specified in section 4 above, in the amount of approximately NIS (163) thousand (last year: NIS (163) thousand).

Note 40 - Risk Management (Cont.)

G. Information regarding financial investments for investment-linked contracts

1. Details regarding the composition of investments by linkage bases

	As of December 31, 2016				
NIS in thousands	**Unlinked**	**CPI-linked**	**In foreign currency or linkage thereto *)**	**Non-monetary items and others**	**Total**
Cash and cash equivalents	**2,549,669**	**-**	**403,566**	**-**	**2,953,235**
Marketable assets	**9,133,363**	**10,271,273**	**5,308,461**	**18,407,487**	**43,120,584**
Non-marketable assets	**399,968**	**4,789,086**	**1,422,139**	**2,462,717**	**9,073,910**
Total assets	**12,083,000**	**15,060,359**	**7,134,166**	**20,870,204**	**55,147,729**

	As of December 31, 2015				
NIS in thousands	**Unlinked**	**CPI-linked**	**In foreign currency or linked thereto *)**	**Non-monetary items and others**	**Total**
Cash and cash equivalents	3,550,832	-	216,978	-	3,767,810
Marketable assets	8,770,303	9,607,226	3,041,946	17,206,363	38,625,838
Non-marketable assets	722,135	5,050,362	1,025,755	2,420,630	9,218,882
Total assets	13,043,270	14,657,588	4,284,679	19,626,993	51,612,530

*) The USD is a major foreign currency.

2. Credit risk for assets in Israel

As of December 31, 2016

	Local rating *)				
NIS in thousands	**AA and higher**	**A to BBB**	**Lower than BBB**	**Unrated**	**Total **)**
Debt assets in Israel:					
Government bonds	**12,934,275**	-	-	-	**12,934,275**
Other debt assets - marketable	**5,288,738**	**832,095**	**79,840**	**15,234**	**6,215,907**
Other debt assets - non-marketable	**3,251,988**	**1,934,126**	**79,666**	**257,753**	**5,523,533**
Total debt assets in Israel	**21,475,001**	**2,766,221**	**159,506**	**272,987**	**24,673,715**
Of which - internally rated debt assets	-	**508,710**	-	-	**508,710**

Note 40 - Risk Management (Cont.)

G. Information regarding financial investments for investment-linked contracts (Cont.)

2. Credit risk for assets in Israel (Cont.)

As of December 31, 2015

	Local rating *)				
NIS in thousands	**AA and higher**	**A to BBB**	**Lower than BBB**	**Unrated**	**Total **)**
Debt assets in Israel:					
Government bonds	12,326,521	-	-	-	12,326,521
Other debt assets - marketable	4,937,672	801,145	74,677	28,700	5,842,194
Other debt assets - non-marketable	3,849,597	1,908,558	5,917	371,978	6,136,050
Total debt assets in Israel	21,113,790	2,709,703	80,594	400,678	24,304,765
Of which - internally rated debt assets	-	669,767	-	-	669,767

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

**) The book value constitutes an approximation of the maximum credit risk. Therefore, the total column represents maximum credit risk.

3. Credit risk for foreign assets

As of December 31, 2016

	International rating *)				
NIS in thousands	**AA and higher**	**A to BBB**	**Lower than BBB**	**Unrated**	**Total **)**
Total debt assets abroad	**504,002**	**1,112,086**	**625,498**	**435,287**	**2,676,873**

As of December 31, 2015

	International rating *)				
NIS in thousands	**AA and higher**	**A to BBB**	**Lower than BBB**	**Unrated**	**Total **)**
Total debt assets abroad	451,846	499,494	874,402	429,106	2,254,848

*) All debt assets which are rated abroad were rated by recognized international rating agencies. Each rating includes all ranges, for example: an A rating includes A- to A+.

**) The book value constitutes an approximation of the maximum credit risk. Therefore, the total column represents maximum credit risk.

Note 40 - Risk Management (Cont.)

H. Geographical risks

NIS in thousands	Government bonds	Corporate bonds	Stocks	ETF's	Mutual funds	Investment property	Other investments	Total balance sheet exposure	Derivatives in delta terms	Total
	As of December 31, 2016									
Israel	**18,749,738**	**2,707,883**	**1,085,986**	**93,209**	**-**	**832,922**	**7,029,409**	**30,499,147**	**19,407**	**30,518,554**
United States	**-**	**134,588**	**46,868**	**341,255**	**97,534**	**201,305**	**984,342**	**1,805,892**	**(430)**	**1,805,462**
Great Britain	**-**	**8,025**	**1,921**	**-**	**25,995**	**151,680**	**668,724**	**856,345**	**-**	**856,345**
Germany	**-**	**-**	**-**	**-**	**-**	**-**	**260,702**	**260,702**	**-**	**260,702**
Switzerland	**-**	**-**	**-**	**-**	**-**	**-**	**329,009**	**329,009**	**-**	**329,009**
Emerging markets	**-**	**-**	**-**	**3,470**	**-**	**-**	**41,418**	**44,888**	**-**	**44,888**
Other	**-**	**46,903**	**4,785**	**245,167**	**225,682**	**-**	**908,899**	**1,431,436**	**133**	**1,431,569**
Total assets	**18,749,738**	**2,897,399**	**1,139,560**	**683,101**	**349,211**	**1,185,907**	**10,222,503**	**35,227,419**	**19,110**	**35,246,529**

NIS in thousands	Government bonds	Corporate bonds	Stocks	ETF's	Mutual funds	Investment property	Other investments	Total balance sheet exposure	Derivatives in delta terms	Total
	As of December 31, 2015									
Israel	19,007,817	3,055,613	828,868	86,145	27,725	812,722	7,034,271	30,853,161	117,710	30,970,871
United States	151,193	24,466	97,202	362,356	87,271	199,626	581,504	1,503,618	-	1,503,618
Great Britain	-	13,092	4,951	13,365	37,767	193,471	729,759	992,405	-	992,405
Germany	-	-	4,804	-	-	-	380,615	385,419	-	385,419
Switzerland	-	1,642	10,442	-	-	-	350,195	362,279	-	362,279
Other	-	53,853	28,543	221,870	133,382	-	984,649	1,422,297	-	1,422,297
Total assets	19,159,010	3,148,666	974,810	683,736	286,145	1,205,819	10,060,993	35,519,179	117,710	35,636,889

Note 41- Related Parties and Interested Parties

A. Parent company, controlling shareholder and subsidiaries

(1) Further to that stated in Note 1, regarding the appointment of Mr. Terry as the trustee for the control shares of IDB Development on August 21, 2013, and the letters of the Commissioner of Insurance regarding IDB Development's inability to direct the company's activities, Mr. Terry, and for the sake of caution also IDB Development, are considered the controlling shareholders in the group. For additional details regarding the parent company, IDB Development, and the person who is considered to be the group's controlling shareholder, see Note 1 above.

Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**") is an interested party in the group. For details regarding an engagement for the receipt of current operating services of provident funds from Bank Hapoalim, see Note 44(b)(2).

(2) For details regarding investee companies, see Note 9.

(3) In the ordinary course of business, the group performs transactions with entities who are considered its controlling shareholders, or with entities who are considered entities in which the controlling shareholders have a personal interest (hereinafter: "**Interested Party Transactions**"), including transactions with companies in which the company's controlling shareholders have a personal interest, as well as undertakings to perform transactions under ordinary commercial conditions, as part of the provision of the group's services to the controlling shareholders and to companies held by them (such as insurance policies, insurance agency services, management services with respect to provident funds and/or pension funds and/or various financial services) and/or as part of the acquisition of services and products from the controlling shareholders and/or from companies which are held by them (such as telecommunication and telephony services, shopping vouchers, tourism services, etc.) and/or as part of the group's investments (including investments in securities, credit, real estate and funds). Insofar as these transactions constitute non-extraordinary and insignificant transactions, according to the policy which was adopted by the group as specified in regulation 41(a3)(1) of the Securities Regulations (Annual Financial Statements), 2010, they are not separately described in these reports.

For details regarding engagement in transactions with entities from the IDB Group and/or with other parties in which IDB and/or the trustee have a personal interest, and which were not listed in section 270(4) of the Companies Law, and are not insignificant, see section E below.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors)

The company's Chairman of the Board, as well as the group's CEO and senior executives, are also entitled, in addition to their salaries, to receive non-cash benefits (such as a vehicle, etc.). The group also deposits, on their behalf, funds as part of a post-employment defined benefit plan and a defined deposit plan.

Executives also participate in the plan involving warrants for Company shares (see Note 42).

1. Employment benefits for key management personnel (including the Chairman of the Board) include [1]:

	For the year ended December 31					
	2016		2015		2014	
	Number of people	NIS in thousands	Number of people	NIS in thousands	Number of people	NIS in thousands
Short term employee benefits	**12**	**20,223**	15	31,254	12	31,175
Post-employment benefits	**12**	**107**	15	1,166	11	2,362
Share-based payments [2]	**11**	**1,911**	14	5,542	11	8,608
		22,241		37,962		42,145
Year end balances of loans to key management personnel, primarily to secure mortgages [3]	**1**	**1,506**	1	880	3	1,954

1) The benefits include benefits for key management personnel until the conclusion of their employment, and benefits with respect to key management personnel, beginning on the date of their appointment.
2)This amount is determined based on the value of the warrants as of the date of their allocation, such that the fair value of each tranche is spread over its vesting period.
3) The loans are from a consolidated company and are secured by a mortgage. The loans are primarily CPI-linked and bear annual interest at a rate of approximately 1.6%, repayable in monthly installments over periods of 4 to 20 years.

2. Benefits with respect to the employment of key management personnel who are directors not employed in the company:

	For the year ended December 31					
	2016		2015		2014	
	Number of people	NIS in thousands	Number of people	NIS in thousands	Number of people	NIS in thousands
Directors compensation [1]	**7**	**1,668**	5	1,065	8	1,119

1) The compensation provided to directors in the company is based on the company's rating, and constitutes the maximum limit with regard to directors who do not have financial and accounting expertise (the compensation is not in consideration of any particular skill), in accordance with the Companies Regulations (Rules for Compensation and Expenses of an External Director), 2000. It is noted that Clal Insurance bears 80% of the compensation to common directors. The aforementioned amount is after the participation of Clal Insurance.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

3. The company acquires (on its behalf and on behalf of the group's member companies) directors and officers liability insurance. See section 6 below. Amount paid on behalf of the company and on behalf of the group's member companies:

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
With respect to directors and officers liability insurance	**889**	931	895

4. Chairman of the Board

Mr. Danny Naveh (hereinafter: "**Mr. Naveh**") has served as the Chairman of the Board of Directors of the company and of Clal Insurance in a 85% position since June 5, 2013.

Further to the approval of the company's compensation committee and board of directors, on July 14, 2013, the general meeting of the company's shareholders approved an agreement regarding the tenure of Mr. Naveh for a period of three years, until June 5, 2016 (hereinafter: the "**Old Agreement**"). The agreement was approved before the approval of the company's previous compensation policy, and his terms of tenure were approved by the audit committee, board of directors and the general meeting.

On April 17 and 18, 2016, the company's compensation committee and the company's board of directors, respectively, approved the company's engagement in a new agreement with Mr. Naveh, beginning on June 5, 2016, for an undefined period (hereinafter: the "**New Agreement**"), for the purpose of his continued tenure as the Acting Chairman of the Board of the company and of Clal Insurance, in a 85% position, as specified below. The agreement was approved in the general meeting, for the sake of caution, by a special majority, on May 26, 2016.

Presented below are details regarding the old agreement and the new agreement:

Old agreement

in accordance with the old agreement, Mr. Naveh will serve as the Acting Chairman of the Board of the company and of Clal Insurance. During the period of the old agreement, Mr. Naveh is entitled to hold other position/s, subject to the aforementioned scope of employment, dedicated to member companies in the group, and subject to restrictions regarding avoidance of conflict of interests and/or competition with the company's areas of business. During the period of the old agreement, Mr. Naveh undertakes to act in accordance with his undertakings towards the company and towards the Commissioner, as specified below.

in accordance with the old agreement, the monthly salary of Mr. Naveh as the Chairman of the Board amounted to a total of NIS 110,000, CPI-linked from the index for June 2013. Additionally, Mr. Naveh will be entitled to receive repayment of expenses spent in connection with the fulfillment of his position, according to the conventional practice in the company, for the cellphone and vehicle which will be used by Mr. Naveh during the entire period of the agreement, and the company will also bear all expenses involved in the vehicle's maintenance, including the grossing-up of the charge of the benefit with respect to the vehicle and the cellphone for tax purposes (without determining a ceiling limit for the vehicle expenses).

Mr. Naveh is entitled, throughout the entire agreement period, with respect to calendar year, to receive an annual bonus as stated below:

A preliminary condition for the distribution of a bonus to Mr. Naveh will be the company's fulfillment of at least 70% of the comprehensive income target (after tax) for the relevant year. The comprehensive income target for the year, as stated above, will be determined in accordance with the "comprehensive income for the period" (after tax), which will be determined in the comprehensive income forecast which will be included in the annual work plan which will be approved by the company's board of directors with respect to that year (hereinafter: the "**Comprehensive Income Target**").

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

4. Chairman of the Board (Cont.)

The amount of the annual bonus paid to Mr. Naveh, with respect to a relevant year, will be determined in accordance with the degree to which the company's comprehensive income target (after tax) for the period is reached, with respect to the relevant year (hereinafter: the "**Target**"), according to the comprehensive income (after tax) which is presented in the company's consolidated financial statements for the relevant year.

The target bonus to which Mr. Naveh will be entitled in case of 100% fulfillment of the target specified above (hereinafter: the "**Target Bonus**") will be determined as 0.25% of the comprehensive income target. The annual bonus will be calculated as a multiplier of the target bonus by a factor which will reflect the fulfillment of the target. The calculation of the factor's value will be performed in the following manner:

In case the target fulfillment rate is lower than 70%, the factor's value will be 0; In case the target fulfillment rate is in the range between 70.01% and 100%, the factor will range between 0.7 (for 70.01%) and 1 (for 100%), with the factor being calculated within the above range in a linear fashion; In case the target fulfillment rate is in the range between 100.01% and 130%, the factor will be calculated according to the target fulfillment rate (in percent) divided by 100, with this sum being multiplied by 150 and divided by 130 (for example, in case of a target fulfillment rate of 120%, the factor will equal 1.38). The factor's value will not exceed 1.5. On this matter, it was determined that the comprehensive income target with respect to the target bonus of Mr. Naveh will not fall below NIS 300 million per year.

In any case, the annual bonus will not exceed a total of NIS 1.7 million (hereinafter: the "**Bonus Limit**"), CPI-linked, with the base index being the index for June 2013.

Beginning with the bonus for 2014, Mr. Naveh was entitled to receive, in each year, a total of 75% of the annual bonus, while the payment of the remaining 25% of the bonus, which was calculated with respect to that year (hereinafter: the "**Bonus Remainder**"), was postponed to the subsequent year, and its allocation was conditional upon entitlement to the receipt of an annual bonus with respect to the subsequent year, in accordance with the principles specified above.

In other words, if, in the following year, Mr. Naveh will not be entitled to an annual bonus, Mr. Naveh will also not be entitled to the bonus remainder for the preceding year, and vice versa - if, in the following year, Mr. Naveh is entitled to an annual bonus with a different factor (higher or lower) than the factor to which he was entitled in the previous year - the factor for the following year will be applied to the amount of the bonus remainder.

In the event that the tenure of Mr. Naveh as Chairman of the Board concludes during a calendar year, the amount of the annual bonus, in accordance with that stated above in this section, will be calculated such that the comprehensive income target will be amended and calculated proportionately with respect to the period of Mr. Naveh's employment during a part of that year. Comprehensive income for the period will be calculated in accordance with comprehensive income for the period (after tax), as included in the company's consolidated annual financial statements, proportionately for the relevant year, for the relevant period of Mr. Naveh's tenure in that year. The annual bonus will be paid after the publication of the annual reports. It is hereby clarified, with respect to the same calendar year, that the bonus part for the subsequent year will not be deferred, as specified above.

The company's board of directors reserves the right to cancel the annual bonus in the event that the board of directors has requested to cancel the annual bonus for the company's other corporate officers in that year.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

4. Chairman of the Board (Cont.)

The agreement includes various provisions with regard to eligibility for annual holiday, convalescence pay, sick pay and social benefits as is conventionally practiced in the company. In case of the termination of the employer - employee relationship, excluding under extraordinary circumstances, Mr. Naveh will be entitled to release and/or to transfer to his ownership all of the which were funds accumulated on his behalf in the managers' insurance and in the study fund, including their accumulated profits. Additionally, if and inasmuch as the amount accumulated in the severance pay component of the managers' insurance policy does not reach the severance pay amount to which Mr. Naveh is entitled by law, the company will supplement the difference owed to Mr. Naveh, in any manner whereby his last salary will be calculated according to his last linked monthly salary.

The cancellation of the agreement will be effected by providing written notice three months in advance, and the company will be entitled to shorten the above period subject to the payment of all rights until the end of the advance notice period. Mr. Naveh will also be entitled to receive an adjustment holiday period of six (6) months following the end of the advance notice period, during which time Mr. Naveh will be paid the full monthly linked salary, as well as the value of the full social benefits and fringe benefits under this agreement (excluding vehicle and cellphone), without Mr. Naveh being required to appear for his work.

The eligibility for the aforementioned adjustment amount will not apply in case of the termination of the employer - employee relationship, as a result of Mr. Naveh's resignation within 24 months from the employment commencement date.

The agreement stipulates non-competition restrictions during the agreement period. The aforementioned restrictions will apply to Mr. Naveh during a period of nine months after the end of the advance notice period.

On June 5, 2013, further to the approval of the company's compensation committee, the company's board of directors approved a material private offer to Mr. Naveh of 175,000 warrants (not listed for trading) (herein, jointly: the "**Warrants**"), exercisable into ordinary shares in the company, according to the value of the benefit embodied in the Warrants (herein: the "**Private Allocation**"). The Private Allocation was performed according to the terms of the 2013 plan, as specified in Note 42(a)(2), subject to several exceptions and adjustments, of which the primary ones are specified below.

The warrants were offered without consideration. The exercise price was set on July 9, 2013 as NIS 72.5 per warrant with regard to the warrants included in the first tranche, NIS 75 per warrant per warrant included in the second tranche, and NIS 77.5 per warrant with regard to the warrants included in the third tranche. A ceiling for the share price upon exercise has also been determined as NIS 137 per Company share.

The fair value of the warrants as of July 9, 2013 is NIS 13.03 on average per warrant, reflecting total fair value of approximately NIS 2.3 million, with respect to all warrants, at the time of their allocation.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

4. Chairman of the Board (Cont.)

New agreement

The new agreement was approved as required in accordance with the Compensation to Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Compensation), 2016 (hereinafter: the "**Executive Compensation Law**"), which was published on April 12, 2016, in accordance with the Commissioner's directives from October 2015 with respect to the compensation to the Chairman of the Board of institutional entities, within the framework of an amendment to the circular regarding compensation in institutional entities from April 2014 (hereinafter: the "**Amendment to the Compensation Circular**"), and in accordance with the compensation policy of the company and of Clal Insurance. It is noted that in accordance with the compensation circular, compensation agreements which were approved before the publication of the draft circular on the matter will be adjusted according to the provisions of the circular by the end of 2016, and in accordance with the amendment to the compensation circular, compensation agreements which were approved before its publication will be adjusted by the end of 2017.

During the period of the new agreement, the Chairman of the Board will be entitled to hold other position/s, either as an employee or as a service provider, subject to the aforementioned scope of employment, which will be dedicated to members in the group of companies which is owned by the company, and to restrictions regarding avoidance of conflicts of interest and/or competition with the company's business and/or the Commissioner's directives, as agreed upon between the parties on the date of his first appointment.

In accordance with the new agreement, the monthly salary of Mr. Naveh as the Chairman of the Board amounts to a total of NIS 131,750, linked to the index for June 2016, in accordance with the definition of "linkage to the index" in the company's compensation policy. The annual employment cost of Mr. Naveh is expected to amount to approximately NIS 2.37 million, including the provisions for the severance pay component, compensation component, study fund, loss of working capacity insurance, National Insurance and vacation days. Mr. Naveh will not be entitled to any variable component (in cash or in capital) or to a 13th salary. The aforementioned cost of salary (translated to terms of a full time position) will not exceed a ratio of 35 of the lower employment cost of any employee in the company (including a contract employee who is employed directly by the company, or who is employed by a directly or indirectly service provider which is employed by the company), directly or indirectly.

Within the framework of the amendment to the compensation circular, it was determined, inter alia, that the compensation paid to the Chairman of the Board will be determined as a multiplication ratio of the compensation paid to an outside director, as defined below, in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 2000 and Institutional Entities Circular 2009-9-4 (hereinafter: the "**Multiplication Ratio**"), in a manner whereby the maximum compensation paid to the Chairman of the Board will not exceed the result obtained by multiplying the compensation paid to an outside director by the multiplication ratio. The compensation committee and board of directors of Clal Insurance determined that the aforementioned multiplication ratio, with respect to a full time position, will not exceed 12.5 times the compensation paid to an outside director, which is calculated, for this purpose, according to the minimum number of meetings of the board of directors and its committees which is required in Clal Insurance per year (hereinafter: "**Compensation Paid to Outside Director**"). The terms of tenure of the Chairman of the Board fulfill the multiplication ratio which was determined as stated above. The actual multiplication ratio, in accordance with the salary of the Chairman of the Board, in accordance with the new employment agreement and the scope of his position, is approximately 10.4[2], and the multiplication ratio according to the salary of the Chairman of the Board in accordance with the new employment agreement in terms of a full time position, is approximately 12.2.

[2] The aforementioned ratio includes the cost of salary in accordance with the new employment agreement for a position at a scope of 85%, without the non-recurring components specified below, by virtue of the old agreement: annual bonus and deferred bonus, adjustment bonus and options.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

4. Chairman of the Board (Cont.)

New agreement (Cont.)

Additionally, Mr. Naveh will be entitled to receive repayment of expenses spent in connection with the fulfillment of his position, according to the conventional practice in the company, for the cellphone and vehicle which will be used by Mr. Naveh during the entire period of the agreement, and the company will also bear all expenses involved in the vehicle's maintenance, including the grossing-up of the charge of the benefit with respect to the vehicle and the cellphone for tax purposes.

The new agreement includes various provisions with regard to eligibility for annual holiday, convalescence pay, sick pay and social benefits as is conventionally practiced in the company. In case of the termination of the employer - employee relationship, excluding under extraordinary circumstances, Mr. Naveh will be entitled to release and/or to transfer to his ownership all of the which were funds accumulated on his behalf in the managers' insurance and in the study fund, including their accumulated profits. Additionally, if and inasmuch as the amount accumulated in the severance pay component of the managers' insurance policy did not reach the severance pay amount to which Mr. Naveh was entitled by law had he been dismissed, the company would have supplemented the difference owed to Mr. Naveh.

In the new agreement, it was determined that the cancellation of the agreement will be effected by providing written notice six months in advance, and the company will be entitled to shorten the above period subject to the payment of all rights until the end of the advance notice period.

The new agreement stipulates non-competition restrictions during the agreement period. The aforementioned restrictions will apply to Mr. Naveh during a period of six months after the end of the advance notice period.

It is noted that, at the time of approval of the new agreement, it was clarified that existing rights which accrued by virtue of the old agreement would not be harmed, including options, a proportional annual bonus and a deferred variable bonus with respect to the period during which the old agreement was in effect, the supplementation with respect to severance pay, and an adjustment bonus.

Within the framework of the meeting's approval of the new agreement, it was determined that the aforementioned compensation terms are in accordance with the company's compensation policy (at the time), the compensation committee and board of directors are entitled to increase them at a rate of up to 5% (i.e., an addition of up to NIS 6.5 thousand to the monthly salary), provided that, in any case, the total employment cost does not exceed NIS 2.5 million or an amount exceeding 85% of the multiple of the employment cost of the employee or contract employee who receives the lowest salary in the company, by 35, whichever of the two is lower, and insofar as it can be increased in case of an increase to the maximum payment limit, as a result of an increase in the salary of the employee who receives the lowest salary, or as a result of an interpretation which will be received with respect to the provisions of the Executive Compensation Law, in connection with the method used to calculate the employment cost (hereinafter: the "**Update Limit**").

On November 7, 2016, the company's compensation committee and board of directors approved changes and adjustments to the compensation update limit of Mr. Naveh, in accordance with the company's new compensation policy and to clarifications which were received in connection with the interpretation of the Executive Compensation Law, in a manner whereby the employment cost of the Chairman of the Board may not exceed 85% of NIS 2.5 million, plus the provisions for severance pay and compensation, in accordance with the law (hereinafter, jointly: the "**Updated Restrictions**"). The update was approved in the general meeting, for the sake of caution, by a special majority, on December 18, 2016. Following the aforementioned amendment, at this stage, no change will be applied to the salary of the Chairman of the Board; however, in accordance with the meeting's approval, the company's compensation committee and board of directors will be entitled to approve an increase of up to 5% to the aforementioned salary (i.e., an addition of up to approximately NIS 6.5 thousand to the monthly salary), in accordance with the updated restrictions.

It is noted that Clal Insurance has invested in two funds in which Mr. Naveh was a partner and manager was a partner and manager before his appointment as the company's Chairman of the Board. As part of the approval process of Mr. Naveh's appointment, inter alia, it was agreed that Mr. Naveh will not receive any compensation on account of members' funds which were invested in the R.M. Investments and Medical Technologies Fund Ltd. (hereinafter: the "**First Fund**"), and that it will sell its share in the second fund, within a defined period. As of the reporting date, Mr. Naveh's share in the general partner and managing partner of the first fund amounts to 100% (and is held through a trustee). During the reporting year, Clal Insurance paid to the first fund (with respect to the nostro share) a total of approximately USD 214 thousand in management fees.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO employment agreement

A. Main terms of the employment agreement

In November 2012, the company's board of directors approved the engagement in an employment agreement (hereinafter: the "**Agreement**") with the company's CEO, Mr. Izzy Cohen (hereinafter: "**Mr. Cohen**"). In accordance with the agreement, which is in effect for a period of five years beginning on November 1, 2012, Mr. Cohen's monthly salary will be NIS 180,000, CPI-linked, beginning from September 2012 (hereinafter: the "**Base Index**"), and he will not be entitled to receive a 13th salary. Additionally, Mr. Cohen will be entitled to receive repayment of expenses incurred by him in connection with the fulfillment of his position, as well as a cellphone and vehicle, including expenses involved in the maintenance thereof, and including the embodiment of the charge of the benefit with respect to the vehicle and the cellphone for tax purposes.

During Mr. Cohen's tenure as CEO of the company and as CEO of Clal Insurance, Mr. Cohen may be asked to serve as a director in other member companies of the group, without payment of any consideration in addition to the consideration paid to him by force of, and in accordance with, the terms of the agreement.

Mr. Cohen will be entitled, in each calendar year during the period of the agreement, to receive an annual monetary bonus (hereinafter: the "**Annual Bonus**"), in accordance with the compensation policy adopted by the company (hereinafter: the "**Compensation Policy**"), including the restrictions and preconditions for the distribution of an annual bonus, and including the method used to calculate the annual bonus as specified in the Compensation Policy, but excluding the following:

1. The amount of the annual bonus to Mr. Cohen with respect to a relevant year will be determined according to two categories:

   A. The degree to which the company's comprehensive income target (after tax) is reached for the relevant year;

   B. An assessment made by the company's board of directors regarding the activities of Mr. Cohen, as will be determined each year (hereinafter: the "**Targets**"). The board of directors' assessment will address, inter alia, non-financial criteria;

2. Mr. Cohen's target bonus (the annual bonus to which he will be entitled in case of fulfillment of 100% of the targets, according to the two categories specified in section 1 above) will be set as a rate of 1% of the comprehensive income target (hereinafter: the "**Target Bonus**");

3. The calculation of the annual bonus according to Mr. Cohen's rate of fulfillment of the relevant targets, in accordance with the two categories specified in section 1 above, will be performed in the manner determined in the compensation policy, where the relative weight given to each of the two aforementioned categories, as determined in the aforementioned resolution of the board of directors, will amount to 70% for the category specified in section 1(a) above, and 30% for the category specified in section 1(b) above; Notwithstanding the foregoing, as part of the company's compensation policy, which was approved by the general meeting of the company's shareholders in September 2013, the aforementioned ratio was changed, and it was determined that the relative weight assigned to the category specified in section 1(a) will be 80%, and 20% for the category specified in section 1(b) above.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO Employment Agreement (Cont.)

A. Main terms of the employment agreement (Cont.)

4. The annual bonus will be calculated for each of the categories listed in section 1 above, as a multiple of the target bonus, by a factor which will reflect the manner in which the targets are fulfilled in each of the above categories. The value of each of the factors will be calculated in the following manner: in cases where the target fulfillment rate is lower than 70%, the value of the factor will be 0; In case the target fulfillment rate is in the range between 70.01% and 100%, the factor will range between 0.7 (for 70.01%) and 1 (for 100%), with the factor being calculated within the above range in a linear fashion; In case the target fulfillment rate is in the range between 100.01% and 130%, the factor will be calculated according to the target fulfillment rate (in percent) divided by 100, with this sum being multiplied by 150 and divided by 130 (for example, in case of a target fulfillment rate of 120%, the factor will equal 1.38). The total of the bonuses which will be calculated for each of the categories in section 1 above will together constitute (according to the relative weight determined for each category listed in section 3 above) the annual bonus to Mr. Cohen; it is noted that in September 2013 and June 2014, the company and Clal Insurance, respectively, adopted a compensation policy. The policy documents did not adversely affect the engagements and/or other rights which existed prior to the entry into effect of the compensation circular, subject to the transitional provisions which were determined therein. Notwithstanding the foregoing, the CEO agreed, with respect to the years 2014 and 2015, that 25% of the variable bonus will be deferred with respect to those years, to the subsequent year, in accordance with the company’s compensation policy.

5. The annual bonus will not exceed a total of NIS 6.5 million, CPI-linked according to the last known index method, starting with the base index until the last known index prior to the actual payment date of the annual bonus.

6. In the event that the employer - employee relationship between Mr. Cohen and the company is terminated during a calendar year, the amount of the annual bonus will be calculated in accordance with the provisions of this section above, with the comprehensive income target being amended and calculated proportionally relative to the duration of Mr. Cohen’s employment during a part of that year (for example: if the comprehensive income target was NIS 300 million and Mr. Cohen worked exactly half a year during the preceding last year, the comprehensive income target with respect to the above half-year period for the purpose of calculating Mr. Cohen’s Annual Bonus will be NIS 150 million), and the comprehensive income for the period will be calculated according to the comprehensive income for the period (after tax) as included in the company’s quarterly financial statements with reference to the relevant work period for that year.

   The annual bonus will not be taken into account when calculating Mr. Cohen’s entitlement to receive social benefits of any kind from the company and/or from Clal Insurance, including and without derogating from the generality of the above, for the purpose of calculating the severance compensation and provisions for pension insurance, for loss of working capacity insurance, for study funds, etc.

   In the event of resignation or dismissal during the employment period, Mr. Cohen will receive from the company and/or from Clal Insurance, during an advance notice period of ninety (90) days, his full monthly linked salary, as well as the full social benefits and fringe benefits, including an annual bonus. Additionally, the entitlement for warrants (as specified in section B below) will continue to accrue for him, including in the event that the company and/or Clal Insurance dismiss the employment of Mr. Cohen during the Advance Notice Period, in whole or in part (in the event that the company dismisses the employment of Mr. Cohen as aforesaid, the annual bonus will not be paid to him with respect to this period).

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO Employment Agreement (Cont.)

A. Main terms of the employment agreement (Cont.)

6. (Cont.)

In the event of the termination of the employer - employee relationship between the company as Mr. Cohen, as a result the dismissal of Mr. Cohen by the company prior to the end of the employment period, Mr. Cohen will be entitled, in addition to the severance pay to which he is entitled by law, to receive one-time monetary compensation equal to 50% of the salary which would have been paid to him, in addition to social benefits and fringe benefits to salary with respect to the aforementioned half salary, but without any bonuses and/or grants whatsoever, for the period beginning upon the termination of employer - employee relationship until the end of the employment period (hereinafter: "**Compensation For Dismissal**"). Notwithstanding the above, in the event that following the dismissal and before the end of the original employment period, Mr. Cohen begins working in a corporation in the fields of insurance and finance, or to provide services to a corporation in the fields of insurance and finance, then Mr. Cohen will repay to the company the proportional part of the compensation with respect to the dismissal for the period beginning on the commencement date of his employment and/or his provision of services as above, until the end of the original employment period.

In the event that Mr. Cohen resigns from his position in the company after the end of 24 months of employment, or that the employer - employee relationship is terminated at the end of the employment period, Mr. Cohen will be entitled to receive financial compensation in an amount equal to six months' work salary, with the addition of social benefits and fringe salary benefits (but with no eligibility to receive bonuses and/or allocations of any kind) ("**Severance Pay**").

Without derogating from the above, in the event that Mr. Cohen resigns his position in the company within 12 months after the control transfer date, and no later than 48 months after the employment commencement date, Mr. Cohen will be entitled, in addition to the advance notice, or as consideration in place of the advance notice and as compensation for resignation (if and insofar as it applies), to receive compensation in the amount of six additional salaries, with the addition of the social benefits and fringe benefits set forth in the agreement. The above compensation will not include the payment of bonuses and/or grants of any kind. For this purpose, "transfer of control" means a transaction in which IDB Holdings Ltd. transfers the control of IDB Development Ltd. and/or IDB Development Ltd. transfers the control of the company to a third party. "Control", for this purpose, is as defined in the Securities Law, 1968. It is hereby clarified that the appointment of a functionary on behalf of the Court for any of the aforementioned companies and/or the appointment of a trustee in accordance with the amendment to the permit for control of Clal Insurance, which entered into effect on August 31, 2012, will not constitute a change in control.

The agreement includes non-competition restrictions during the agreement period.

The above restrictions will apply to Mr. Cohen with respect to the fields of insurance and finance, including for a period of nine months beginning on the date of the termination of the employer - employee relationship between him and the company.

The agreement stipulates various provisions and other commonly accepted arrangements. It was further determined that the social provisions made by the company on behalf of Mr. Cohen will be made available to Mr. Cohen upon the conclusion of his employment with the company and/or with Clal Insurance, for any reason whatsoever, excluding extraordinary circumstances. The company has undertaken that upon the conclusion of Mr. Cohen's period of employment, the amount accrued in pension insurance in the severance pay component (insofar as may be required) for the severance pay amount which is calculated according to the last linked monthly salary will be supplemented using a cumulative calculation beginning from the commencement date of Mr. Cohen's employment.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO Employment Agreement (Cont.)

A. Main terms of the employment agreement (Cont.)

6. (Cont.)

It is noted that the company's compensation policy specifies that it shall not derogate from the rights which have accrued and/or which will be accrued with respect to periods prior to that date, and will not adversely affect any engagements and/or other rights of employees in connection with their tenure and employment in the company, until the date of their adjustment to the policy, or until the deadline for their adjustment, in accordance with the relevant provisions of the law (the "**Transitional Provision**"). In accordance with the circular which was published by the Commissioner, compensation agreements which were approved before the publication of the draft circular on the matter will be adjusted according to the provisions of the circular by the end of 2016. As stated above, Mr. Cohen's employment agreement is in effect until the end of October 2017.

On October 9, 2016, following the entry into effect of the Executive Compensation Law, the company notified the company's CEO (and additional corporate officers therein who are subordinate to the CEO) that beginning from the application date of the Executive Compensation Law, on October 12, 2016, the compensation to which he is entitled will be reduced in a manner which corresponds to the provisions of the Executive Compensation Law, and that until the end of the agreement period with him, his compensation terms will be adjusted according to the provisions of the Executive Compensation Law, in a manner whereby, beginning on October 12, 2016, he will receive payment of fixed compensation only, which will be restricted in a manner whereby he will not be entitled to compensation regarding which the annual expected expense, in accordance with generally accepted accounting principles, exceeds NIS 2.5 million, plus the provision for severance pay and compensation, in accordance with the law. For the avoidance of doubt, the change to the aforementioned conditions will not adversely affect any rights which accrued prior to that date. On November 7, 2016, the company's CEO notified the Chairman of the Board that he accepted the company's letter, while reserving his rights in accordance with the law and the agreement.

B. Warrants

On June 6, 2012, further to the approval of the company's audit committee, the company's board of directors approved a material private offer to Mr. Cohen of 600,000 warrants (not listed for trading) (herein, jointly: the "**Warrants**"), exercisable into ordinary shares in the company, according to the value of the benefit embodied in the warrants (herein: the "**Private Allocation**"). The private allocation is being implemented according to the terms of the 2013 plan, as specified in Note 43(a)(2), subject to several exceptions, of which the primary ones are specified below.

The warrants were offered without consideration. The exercise price was determined as a total of NIS 55 per warrant, with respect to the warrants which are included in the first tranche; NIS 57.5 per warrant, with respect to the warrants which are included in the second tranche; and NIS 60 per warrant, with respect to the warrants which are included in the third tranche. A ceiling limit for the share price upon exercise has also been determined (as specified in Note 42(a)(2)) in the amount of NIS 135 per Company share.

The warrants' vesting periods are as follows:

- 200,000 warrants (hereinafter: the "**First Tranche**") will be exercisable beginning after the end of one year after the date of their allocation to the trustee on February 26, 2013 (hereinafter: the "**Allocation Date**").
- 200,000 warrants (hereinafter: the "**Second Tranche**") will be exercisable beginning after the end of two years after the allocation date.
- The 200,000 warrants (hereinafter: the "**Third Tranche**") will be exercisable beginning after the end of three years after the allocation date.

Note 41-Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO Employment Agreement (Cont.)

B. Warrants (Cont.)

All of the warrants will be exercisable by the offeree beginning on their vesting dates and until the end of five years after the allocation date to the trustee (excluding exceptions regarding the transfer of control in the company, as specified below, and excluding additional exceptions regarding the termination of the employer - employee relationship), i.e., until February 26, 2018.

In case of a transfer of the control of the company, Mr. Cohen's eligibility to exercise all of the warrants which are included in the following tranches, which have not vested until that date, will be accelerated, and Mr. Cohen will be entitled to exercise all of the warrants which were allocated to the trustee on his behalf, from the date of the transfer of control, until the end of five years after the allocation date of the warrants to the trustee (hereinafter: the "**Option Period**"), or in case of termination of the employer - employee relationship between the company and Mr. Cohen, after the transfer of control, until the end of 24 months after the termination date of the aforementioned working relationship, whichever is earlier. For this purpose, "transfer of control" means a transaction in which IDB Holdings Ltd. transfers the control of IDB Development Ltd. and/or IDB Development Ltd. transfers the control of the company, and/or the company transfers the control of Clal Insurance to a third party. For the avoidance of doubt, it is hereby clarified that the transfer of control of any of the aforementioned companies to a company under the control of IDB Holdings Corporation Ltd., directly and/or indirectly, will not be considered a "transfer of control". "Control", for this purpose, is as defined in the Securities Law, 1968. It is hereby clarified that the appointment of a functionary on behalf of the Court for any of the aforementioned companies and/or the appointment of a trustee in accordance with the amendment to the permit for control of Clal Insurance, which entered into effect on August 31, 2012, will not constitute a change in control.

Further to that stated in note 1(a) above, and as approved by the company's board of directors in August 2014, following the recommendation of the compensation committee, on May 8, 2014, upon the entry into effect of the creditors' settlement in IDB Development, the "transfer of control" condition was fulfilled, which led to Mr. Cohen's exercise of all warrants until the end of five years after the allocation date of the warrants to the trustee. The foregoing had no significant influence on the company's financial statements.

The fair value of the warrants as of December 6, 2012 is NIS 18.29 per warrant, reflecting total fair value of approximately NIS 11 million with respect to all of the warrants on that date. For additional details, see Note 42(c).

Note 41-Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period

A. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the company:

(1) On July 28, 2013, the general meeting of the company's shareholders approved, after the receipt of approval from the company's board of directors and compensation committee, advance engagements of the company in basic insurance policies which are shared by the company's division and by its investee companies, and which in the future may also include member companies of the Clal Finance Group Ltd., directly and indirectly (hereinafter, respectively: "**Basic Policy**" and the "**Company's Division**") and/or in collective insurance policies which are shared by the company's division and additional divisions in the IDB Group (hereinafter: the "**Additional Divisions**") and/or in another insurance policy, for corporate officers' liability insurance, for a number of insurance periods which will not cumulatively exceed three (3) years after the end of the period of the policy which concluded on July 31, 2013 (i.e., from August 1, 2013 to July 31, 2016), and which will include coverage for corporate officers in the company's division, including corporate officers who are and/or whose relatives are controlling shareholders in the company (hereinafter: "**Corporate Officers Who Are Controlling Shareholders**"), who hold office from time to time, during those periods, where such engagements may also be implemented by way of an extension of the concluding insurance policies, including a change in their terms, provided that the engagements are based on the main terms of the engagement, as specified in section 5 below, and will not deviate from the material terms which are included in the main terms of the engagement, as stated above.

(2) Additionally, advance approval was given for the stipulation that, in any case of non-renewal or cancellation of an existing corporate officers' liability insurance policy, as stated above (hereinafter: the "**Concluded Policy**"), the company will be entitled to acquire (or to participate in the acquisition of) liability insurance coverage, as stated above, for a period of up to seven (7) years after the end of that concluded policy, regarding claims which will be submitted after the end of that policy, with respect to actions which were performed before the end of its period, in consideration of premiums which will be agreed upon vis-à-vis the insurers according to the conventional framework for this purpose, provided that they do not exceed a total of 300% of the premiums which were paid with respect to the concluded policy, and with liability limits, per claim and cumulatively for the insurance period, which will not exceed that specified in the main terms of the engagement, as specified in section 5 below. The aforementioned insurance policies may be issued by or with the participation of companies under the company's control.

(3) Approval was also given to allow the company to acquire an additional insurance layer which will include insurance coverage to supplement the liability limit amount under the collective policy up to the original liability limit amount, in case the liability limit amount under the collective policy is reduced or used up due to one or more claims, insofar as these may be filed, under the collective policy, against any of the participating divisions, provided that the aforementioned supplementation amount does not cumulatively exceed an amount equal to the original liability limit of the collective policy. It is hereby clarified that the aforementioned additional insurance layer does not constitute a surplus layer which applies in excess of the original liability limit of the collective policy, but rather supplements the liability limit of the collective policy up to the original liability limited covered by it, to cover additional claims, as aforesaid, insofar as any may be filed.

(4) It was further resolved that all of the aforementioned policies may also include entity cover insurance for the company with respect to claims filed against it pursuant to securities laws (whether such claims are filed against the company alone, or against the company as well as its corporate officers).

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period (Cont.)

A. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the company: (Cont.)

(5) In accordance with the approval of the general meeting, the company's engagement in a basic and/or collective and/or other corporate officers' liability insurance policies, including regarding corporate officers which are controlling shareholders, as stated above, will be paid subject to the following conditions:

- The total amount of the insurer's liability limits within the framework of the aforementioned basic policy will be between USD 50 and 70 million, per claim and cumulatively, for the insurance periods under that policy. The maximum total of the insurer's liability limits within the framework of the collective policy will be between USD 90 and 120 million per claim and cumulatively for the insurance period under that policy (hereinafter: the "**Original Liability Limit**"). It should be noted that, with respect to each division, the collective policy will apply (subject to its terms) only in excess of indemnification by force of the basic policy of that division, and that no certainty exists that the division will be able to actually use the insurance coverage, in whole or in part, by force of the collective policy and/or by force of the aforementioned additional insurance layer.
- The total annual insurance premiums which will be paid by the company's division for any insurance year with respect to the aforementioned corporate officers liability insurance will not exceed USD 500 thousand. The deductible amounts which will be determined in the basic policy will not deviate from the conventional practice in the insurance market for policies of this type and scope, as of the date of preparation and periodic renewal of the policy. Insofar as the insurance period is shorter than one year, the total premiums which will be paid by the company will not exceed a part of the aforementioned amount relative to the aforementioned insurance period.
- The insurance premiums paid by the company's division, and the premiums paid by each of the Other Divisions with respect to a basic policy, will be determined by the reinsurers (according to their estimate of the risks for each aforementioned division). The premiums which will be paid for the collective policy will be determined by the reinsurers, in accordance with their assessment of the overall risks of all participating divisions, and will be divided between the company's division and the other divisions in accordance with the ratio between the premiums which will be paid by the company's division for the basic policy, and the total premiums which will be paid by any of them for their basic policy.
- If and insofar as the corporate officers' liability insurance policies are shared by the company's division and other divisions which are under the control of the company's controlling shareholders (and which are not under the company's control), as stated above, and are issued by and/or with the participation of Clal Insurance, the engagements in those insurance policies will also be subject to the following rules: (a) Clal Insurance will not be involved in the determination of the premiums for those policies by the reinsurers; and (b) the fronting fees of Clal Insurance will not deviate from the conventional practice in the insurance market for transactions of the same type and scope, as of the date of the engagement, and will not exceed 10% of the premiums which are paid with respect to the aforementioned policies.

(6) In accordance with the aforementioned resolution (hereinafter: the "**General Meeting Resolution**"), the company acquired from Clal Insurance, on July 31, 2013, a corporate officers' liability insurance policy for a period of one year, from August 1, 2013 to July 31, 2014, which was extended until November 30, 2014, under the same conditions, according to which the total liability limit within the framework of the basic insurance policy for the company's division, as defined above, for corporate officers' liability insurance will not exceed USD 50 million, per claim and cumulatively, and the total liability limit in the collective insurance policy which is shared by the company's division and the other divisions[3] will not exceed USD 90 million[4].

[3] The additional divisions which participate in the collective policy are the Property & Building division (Property & Building Ltd. and some of its investee companies), the DIC division (Discount Investment Corporation Ltd. and some of its investee companies), the Clal Finance division (Clal Finance Ltd. and some of its investee companies), and the Shufersal division (Shufersal Ltd. and some of its investee companies).

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period (Cont.)

A. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the company:(Cont.)

(7) Upon conclusion the period of the aforementioned policies, in accordance with the decision of the general meeting, the company acquired corporate officers' liability insurance for a period of one year, from December 1, 2014 to November 30, 2015, and then for an additional year, from December 1, 2015 to November 30, 2016, according to which the total liability limits will not exceed USD 140 and 150 million, respectively, with respect to a single claim, or cumulatively for the insurance period. Each of the aforementioned policies are shared by the company and member companies of the group, including Clal Finance, and they do not include engagement in a collective corporate officers' liability insurance policy with additional companies from the IDB Group, as was done in the past. The aforementioned policies were not acquired from Clal Insurance as an insurer.

(8) It is noted that over the years 2005–2014, including as specified in sections 1 to 6 above, member companies of the IDB Group, including the company ((hereinafter: "**Member Companies of the IDB Group**") acquired basic insurance policies for each division in the group, separately (hereinafter: the "**Basic Policy**"). The liability limits of the basic policy in those years was between USD 20 and 50 million for the insurance period, according to the relevant policy. Additionally, member companies of the IDB Group in those years acquired collective insurance which were shared by the group's member companies (hereinafter: the "**Collective Policy**"). The collective policy applies (subject to its terms) only beyond the liability limits by virtue of the basic policy of each division in the group. The maximum total of the insurer's liability limits within the framework of each collective policy, as stated above, was USD 90 million (hereinafter: the "**Original Liability Limit**") for the insurance period, in accordance with the relevant policy. Additionally, beginning in August 2010, the insurance coverage of the group's member companies included an additional layer of insurance layer, in which insurance coverage was provided to supplement the liability limit amount according to the collective policy, up to the original liability limit, in cases where the liability limit according to the collective policy has decreased or has been exhausted due to a claim or claims, insofar as these have been submitted according to the collective policy by any of the group's member companies which participated in it, provided that the aforementioned supplementation amount did not cumulatively exceed an amount equal to the original liability limit of the collective policy (hereinafter: "**Additional Insurance Layer**"). It is hereby clarified that the additional insurance layer applies to new claims, which are not related to a claim or claims which caused a reduction or exhaustion of the original liability limit amount. Despite the above, beginning in August 2012, the additional insurance layer does not apply to the IDB division (which includes IDB Holdings, IDB Development and private companies under their control).

For details regarding the insurance for the years 2013-2014, which also included member companies from the IDB Group, see section 6 above.

[4] It is noted that the insurance for 2013-2014 which was acquired by the company included an additional layer of insurance coverage which includes insurance coverage to supplement the liability limit amount under the collective policy, up to an amount of the original liability limit (USD 90 million), in cases where the liability limit according to the collective policy is reduced or exhausted due to a claim or claims, insofar as these will be submitted according to the collective policy by any of the participating divisions, provided that the supplementation amount does not cumulatively exceed USD 90 million, as stated above ("Additional Insurance Layer").

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period (Cont.)

A. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the company:(Cont.)

(9) It is further noted that in recent years, various claims were filed against member companies of the IDB Group and against corporate officers in member companies of the IDB Group, as well as alerts regarding additional claims against them, in the total sum amounting to billions of NIS. The aforementioned claims and alerts refer to different underwriting years, each of which was covered by the separate policies, as stated above. Some of the claim and demand amounts are beyond the liability limits in the policies. As of the reporting date, claims are being conducted in the Courts with respect to various underwriting years (some of which exceed the liability limit amount in the policy) in a claimed total of approximately NIS 3.9 billion.[5]

The company is covered, through these policies, in 100% reinsurance, whereby the reinsurers in the policies are international reinsurers with an international rating of at least A-. For details regarding the exposure to reinsurers, see Note 40(f).

It is hereby clarified that non-fulfillment of the reinsurers' undertakings towards the company will not release the company from its liabilities towards the policyholder according to the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the company to incur losses.

(10) On December 18, 2016, the general meeting of the company's shareholders approved the compensation policy, which includes a clause regarding exemption, indemnification and insurance for corporate officers. In the compensation policy, it was determined that the company will be entitled to acquire, for the corporate officers in the group, corporate officers' liability insurance, in insurance amounts which will not exceed USD 400 million, and in consideration of an annual premium which will not exceed USD 1 million, and that the company will be entitled to acquire runoff insurance for corporate officers, in case of the transfer of the control of the company and/or of a subsidiary.

In accordance with the aforementioned resolution, the company engaged in an insurance policy which was issued by an insurer which is a non-related party, for the period from December 1, 2016 to November 30, 2017 (the "**Policy for 2017**"), in which the company acquired insurance coverage for the company and its investee companies, including Clal Finance Ltd. and its investee companies. The overall liability limit of the insurance policy for 2017 is up to USD 200 million with respect to a single claim or cumulatively. In accordance with the aforementioned compensation policy, the total annual premium which was paid for corporate officers' liability insurance does not exceed USD 1 million.

[5] The aforementioned amount includes a motion to approve a class action with respect to which legal proceedings are being conducted in connection with the filing of an amended claim, the amount of which may change in the future.

Note 41- Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period (Cont.)

B. The following is a description of the arrangement which applies to the indemnification of directors and senior officers in the company:

(1) On October 10, 2002, the general meeting of the company's shareholders approved an undertaking to indemnify directors and corporate officers in the company and in additional member companies of the group, up to a rate of 25% of the company's equity on the indemnification date. Accordingly, the company issues letters of indemnity to officers in the company and in certain subsidiaries.

(2) On April 16, 2008, the company's audit committee and board of directors approved the provision of updated letters of indemnity to corporate officers in certain member companies of the group, including the company, which are materially similar to the letters of indemnity which were approved, as stated above.

(3) On May 3, 2012, the general meeting of the company's shareholders approved the provision of new letters of indemnity by the company to directors and corporate officers in the company and/or in additional member companies of the group (hereinafter: the "**New Letter Of Indemnity**"), up to a rate of 25% of the capital attributed to the company's shareholders on the date of indemnification. Accordingly, the company issues letters of indemnity to officers in the company and in certain subsidiaries.
The provisions of the new letter of indemnity take precedence over any previous obligation or agreement (prior to the signing of the new letter of indemnity), whether verbal or in writing, between the company and a corporate officer on the subjects specified in the new letter of indemnity, including with regard to events which took place prior to the signing of the new letter of indemnity. The above is subject to the condition that a previous letter of indemnity which has been provided to a corporate officer, if any, will continue to apply and will continue to be valid with regard to any events which occurred prior to the signing of the new letter of indemnity (including in the event that legal proceedings with respect to the above have been filed against a corporate officer after the signing of the new letter of indemnity), in the event that the terms of the new letter of indemnity worsen the reimbursement terms for the corporate officer with respect to the above event, subject to all laws.
On July 28, 2013, the general meeting of the company's shareholders approved a correction of omissions in the definitions of "administrative procedure" and "payment to injured party" in the new letter of indemnity, which is not in accordance with the definitions which appear in the company's bylaws. Accordingly, the definitions of "administrative procedure" and "payment to injured party" in the new letter of indemnity were adjusted in accordance with the definitions which appear in the company's bylaws.

(4) On December 18, 2016, the company's general meeting of shareholders approved the compensation policy, which includes, as stated above, a clause regarding exemption, indemnification and corporate officer's insurance.

Within the framework of the company's compensation policy for 2016, it was determined that the company will be entitled to grant letters of indemnity, according to a wording which will be decided by the company, and which has been approved and/or will be approved by the general meeting of the company's shareholders. Insofar as the company wishes to make changes to the letters of indemnity, for any reason whatsoever, the company will present the amended letters of indemnity to the competent organs for approval, in accordance with the provisions of the law.

C. Presented below is a description of the arrangement which applies with respect to the exemption for directors and senior officers in the company:

On October 9, 2016, the company's compensation committee and board of directors approved the provision of an exemption from liability to the company's corporate officers, subject to the receipt of the authorizations which are required by law in order to grant the exemption. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.
The compensation policy which was approved in December 2016 includes a determination according to which the company will be entitled to grant an exemption from liability to the company's corporate officers. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.
Accordingly, the company granted letters of exemption to directors and corporate officers in the company.

Note 41- Related Parties and Interested Parties (Cont.)

C. Balances of related parties and interested parties

	As of December 31, 2016					As of December 31, 2015				
	Related party / interested party									
NIS in thousands	**Trustee**	**IDB Development Corporation [2)]**	**Related parties Others**	**Bank Hapoalim group [3)]**	**Associate companies**	**Trustee**	**IDB Development Corporation [2)]**	**Related parties Others**	**Bank Hapoalim group [3)]**	**Associate companies**
Financial investments for investment-linked contracts	-	-	**746,220**	**2,093,511**	**75,415**	92,276	-	343,380	2,038,812	143,773
Other financial investments:										
Marketable debt assets	-	-	**116,659**	**422,453**	-	-	-	49,377 *)	500,615 *)	-
Non-marketable debt assets	-	-	-	**302,548**	-	4,314	-	-	315,766	-
Stocks	-	-	**77,656**	**60,752**	-	5,654	-	16,118	47,578	-
Loans to investee companies accounted by the equity method [1)]	-	-	-	-	**54,100**	-	-	-	-	101,826
Other accounts receivable	-	-	**438**	**9,659**	-	-	-	86	19,041	-
Outstanding premiums	-	-	**27,081**	**1,334**	-	736	-	16,374	1,687	-
Cash and cash equivalents for investment-linked contracts	-	-	-	**236,188**	-	-	-	-	403,211	-
Other cash and cash equivalents	-	-	-	**762,745**	-	-	-	-	678,104	-
Other accounts payable	-	-	**61**	**682**	**15,432**	25	-	435	858	15,172
Liability certificates **)	-	-	-	**111,938**	-	-	-	-	111,938	-
Liabilities to banking corporations and others	-	-	-	**76,901**	-	-	-	-	93,879	-

*) Re-classified, see Note 2(f).
**) See Note 25(a)4.
1) Included under the item for investments in investee companies.
2) The highest balance of debt assets of the IDB Group in 2016 amounted to a total of NIS 135,557 thousand (2015: NIS 209,466 thousand).
3) The highest balance of debt assets of Bank Hapoalim in 2016 amounted to a total of NIS 2,636,197 thousand (2015: NIS 1,929,903 thousand).

Note 41- Related Parties and Interested Parties (Cont.)

D. Amounts included in the statement of income with respect to transactions with related parties and interested parties, and descriptions of these transactions

	As of December 31, 2016					As of December 31, 2015					As of December 31, 2014				
	Related party / interested party														
NIS in thousands	Trustee	IDB Development Corporation Ltd.	Related parties Others	Bank Hapoalim group	Associate companies	Trustee	IDB Development Corporation Ltd.	Other related parties	Bank Hapoalim Group	Associate Companies	Trustee	IDB Development Corporation Ltd. and IDB Holding Corporation Ltd.	Related parties Others	Bank Hapoalim Group	Associate companies
Gross premiums	-	**1,351**	**78,892**	**33,695**	-	6,756	4,351*)	73,793	59,177	-	5,408	4,626	96,214	64,031	-
Income (loss) from investments, net, and financing income	-	-	**75,438**	**139,506**	**(14,049)**	15,501	-	8,756	64,616	7,798	(15,550)	-	(17,681)	38,478	41,049
Income from management fees and portfolio management	-	-	-	**145,483**	-	-	-	-	102,305	-	-	-	-	35,840	-
Other income	-	-	**28**	**850**	-	-	-	28	850	-	-	-	-	850	-
Payments with respect to insurance contracts	-	**7,189**	**40,213**	**17,712**	-	6,094	25,858*)	26,803	7,800	-	955	-	6,014	1,777	-
Insurance fees	-	-	**2,673**	**2**	-	21	-	1,181	(44)	-	31	-	2,671	60	-
General and administrative expenses	-	-	**5,587**	**7,490**	-	154	-	5,383	6,515	-	271	-	5,319	5,832	-
Financing expenses	-	-	-	**4,742**	**459**	-	-	-	7,861	539	-	-	-	5,703	762

*) Re-classified, see Note 2(f).

Note 41- Related Parties and Interested Parties (Cont.)

E. Other transactions

(1) On August 21, 2006, prior to the change of control in IDB Development, as specified in Note 1 to the financial statements, the general meeting of the company's shareholders approved, after approval was received for this purpose from the audit committee and board of directors, a fixed framework for the company's donations, directly and/or through its subsidiaries, to the IDB Community Fund (RA) (hereinafter: the "**Fund**"). The fund is a registered association which collects donations for large, ongoing projects in the fields of welfare, education, culture, lifesaving efforts and community support. In the aforementioned general meeting, it was determined that the company's donation to the fund in each calendar year will amount to a total of up to 75% of the company's overall donations budget for that year, and no more than 0.75% of the company's annual net profit, according to its consolidated audited financial statements for the preceding year. Following Amendment No. 16 to the Companies Law, 1999, on March 18, 2012, the audit committee decided to set the duration of the general meeting's resolutions from August 21, 2006 for a period from the date of the aforementioned general meeting until May 15, 2018, i.e., an additional six years after the date of the audit committee's decision. In the years 2012 and thereafter, the company did not give any donations to the fund.

(2) In 2010, an agreement was signed between the Clal Insurance Group and Koor Industries Ltd., a member company of the IDB Group (hereinafter: "**Koor**"), which formalized their mutual rights and obligations (hereinafter: the "**Agreement**") in Credit Suisse Emerging Markets Opportunity Fund L.P. (hereinafter: "**Amco**"). Amco is a private investment fund which is managed by corporations from the Swiss banking group Credit Suisse (hereinafter: "**Credit Suisse**"), and which is intended to invest in emerging markets, primarily through debt products. By virtue of the agreement, Clal Insurance has significant influence in Amco, due to the fact that it has the power to take part in certain material decision of Amco, such as investment, through the joint representative of Clal Insurance Group and Koor. As part of the investment agreements in Amco, Clal Insurance Group and Koor undertook to invest in Amco a total of USD 250 million (where the share of the Clal Insurance Group is USD 125 million, of which, a total of approximately USD 33 million is out of funds held against non-investment-linked liabilities, and the remainder is from members' funds, i.e., funds held against investment-linked liabilities, provident funds and pension funds), out of a total scope of investment in Amco, in the amount of approximately USD 1 billion. On May 8, 2013, the manager of Amco announced that it had reduced the balance of the investors liability in Amco to 2.5% of the original liability amount to Amco, which will be continued only with respect to the management fees, investments and continued undertaking to indemnify.

The cumulative scope of the investments of Clal Insurance Group in Amco amount to a total of approximately USD 45 million.

As of the reporting date, the balance of Clal Insurance Group's undertakings to invest in AMCO Fund amounts to approximately USD 2.2 million. The balance of the Clal Insurance Group's investment as of the reporting date, after deducting repayments which were received, amounts to approximately USD 9.3 million.

It is noted that, in accordance with a legal opinion which the company received and which was approved in the company's audit committee and board of directors on January 27, 2016, IDB Development is not considered a controlling shareholder in the company with respect to the chapter regarding interested party transactions in the Companies Law. However, for the sake of caution only, the company decided to continue regarding transactions with IDB Development as transactions with a controlling shareholder, and will also regard transactions with third parties in which IDB Development has a personal interest as transactions in which the controlling shareholder has a personal interest, except with respect to engagement in transactions with entities which may be considered material creditors of IDB Development or its controlling shareholders, including banking corporations, in which case it will not regard them as transactions in which the company's controlling shareholders have a personal interest, which require approvals in accordance with sections 270(4) and 275 of the Companies Law.

Note 41- Related Parties and Interested Parties (Cont.)

E. Other transactions (Cont.)

(3) Hapoalim transactions -

In January 2016, the investment committees of Clal Insurance, Clal Pension and Provident Funds, and Atudot approved an engagement with a banking corporation which is an interested party in the company, for the purpose of creating a financial partnership for the provision of loans to small and medium-sized businesses (Clal Group and the banking corporation, hereinafter: the "**Partnership**"). As part of the partnership, Clal Group will provide credit to businesses at a maximum total scope of up to NIS 2 billion, over 4 years. The share of Clal Group in the partnership amounts to 25%, while the share of the banking corporation amounts to 75%. The banking corporation manages and operates the loans in accordance with an agreement between Clal Group and the banking corporation, in consideration of an operating commission, in an immaterial annual amount which is calculated as a proportion of the share of Clal Group in the loans. It is noted, for the sake of caution, and in accordance with the position of the Israel Securities Authority from March 2013[6], that the investment committees of Clal Insurance, Clal Pension and Provident Funds, and Atudot reviewed the aforementioned engagement with the banking corporation as a transaction in which the company's controlling shareholder has a personal interest, approved the transaction and also approved that the transaction does not constitute an extraordinary transaction, as defined in the Companies Law. The nostro committee of Clal Insurance confirmed that the engagement with the banking corporation which is an interested party in the company does not constitute an extraordinary transaction as defined in the Companies Law.

For details regarding an engagement with Bank Hapoalim for the receipt of routine provident fund operation services, see Note 44(b)(2).

Note 42- Share-Based Payment

A. Details regarding plans for the allocation of warrants exercisable into Company shares

1. <u>2007 plan</u>

On March 11, 2007, the company's board of directors adopted a compensation plan for employees and corporate officers for 2007 (hereinafter: the "**2007 Plan**"), according to which the company will be entitled to allocate to employees and corporate officers of the group up to 2,000,000 warrants. The warrants are each exercisable into ordinary shares with a par value of NIS 1, in accordance with the monetary benefit value embodied in the warrants on the exercise date, and subject to adjustments and conditions, of which the primary ones are specified below, in three equal annual tranches. The exercise price is linked to changes in the CPI, and is adjusted to the dividends which the company will pay to its shareholders. The 2007 plan was approved in a capital track, in accordance with section 102 of the Income Tax Ordinance.

The vesting dates of the warrants from the 2007 plan are as follows:
First tranche - two years after the date of designation to the offeree;
Second tranche - three years after the date of designation to the offeree;
Third tranche - four years after the date of designation to the offeree;

Each tranche will expire two years after its maturity date (excluding exceptions in case of termination of employer - employee relationships).

During the years 2014, 2015 and 2016, allocation of warrants from the 2007 plan were not approved. In 2015, the company's board of directors resolved not to allocate to employees, in accordance with the aforementioned plan, the entire balance of unregistered warrants which were held in the register of warrants (470,000 warrants), and to erase them from the company's register of securities.

For additional details, see sections B and C below.

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6 In the company's reports, a position of the Israel Securities Authority was published which determined, inter alia, that a transaction made by a public company with a material creditor of the controlling shareholder, during a period when the controlling shareholder is undergoing a cash flow crisis, and when the decisions of that material creditor may affect its future, the situation in question gives rise to a personal interest for the controlling shareholder.

Note 42 - Share-Based Payment (Cont.)

A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)

2. 2013 plan

On December 6, 2012, the company's board of directors adopted a warrants plan for employees and corporate officers (hereinafter: the "**2013 Plan**"), according to which the company will be entitled to allocate to employees and corporate officers in the group up to 2,400,000 warrants. The warrants are each exercisable into ordinary shares with a par value of NIS 1 each, in accordance with the monetary benefit value which is embodied in the warrants as of the exercise date, in three equal annual tranches, and subject to adjustments and conditions, of which the primary ones are specified below. In 2015, the company's board of directors resolved not to allocate, in accordance with the aforementioned plan, 35,000 unregistered warrants out of those which are held in the register of warrants, and to erase them from the company's register of securities.

The warrants' exercise price will be subject to adjustments with respect to the following events: distribution of bonus shares; cash dividend payment; a share exchange arrangement (such as a merger transaction or re-organization); issuance of interests; cash dividend payment; and separation or consolidation of the company's share capital, or any corporate capital events of a significantly similar nature. The adjustments will be performed according to the manner set forth in the 2013 plan. The 2013 plan was approved in a capital taxation track in accordance with section 102 of the Income Tax Ordinance.

The vesting dates of the warrants are as follows:
- First tranche - after the end of two years following the allocation date.
- Second tranche - after the end of three years following the allocation date.
- Third tranche - after the end of four years following the allocation date.

Each tranche will expire two years after its vesting date (excluding exceptions in case of termination of employer - employee relationships after a transfer of control in the company, as specified below, and also excluding additional exceptions regarding the termination of employer - employee relationships, as specified in the outline of the 2013 plan).

It is noted that, after the reporting year, on February 19, 2017, the company's board of directors approved an extension, by several days, of the exercise period with respect to the options in the first tranche, which were provided to several offerees who had not yet exercised them, and regarding which the deadline for exercise occurred during a period which was determined by the company as a lock-up period, due to the existence of potential existence or inside information. The additional cost with respect to the extension of the period was negligible. It is noted that the options plan for 2015 established a similar provision, as specified below.

The plan manager is entitled to determine, upon the allocation of the warrants, that if after the vesting of a certain tranche of warrants, and before its expiration, the stock exchange price at the closing of any trading day reaches a certain price which will be determined by him (with this price being subject to the adjustments specified above, mutatis mutandis), all of the warrants from that tranche will be automatically exercised (hereinafter: the "**Maximum Price**"). It is noted, with respect to all of the warrants which were allocated in accordance with the 2013 plan, that a maximum price was determined, as stated above.

Note 42 - Share-Based Payment (Cont.)

A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)

2. 2013 plan (Cont.)

In case of termination of the employer - employee relationship between the offeree and the company and/or another member company of the group (as applicable), as a result of resignation or dismissal (except in case of termination of employment under certain circumstances, as specified in the 2013 plan) during the 12 months after the transfer of control of the company, the offeree's eligibility to exercise only the next tranche of warrants which will be formulated (if any) after the termination of the aforementioned employer - employee relationship will be accelerated, and the offeree will be entitled to exercise the warrants which are included in that aforementioned tranche, during a period of 90 days after the termination date of the working relationship, until the end of the warrants period, whichever is earlier. The offeree's entitlement to the remaining warrants which were allocated in favor of the offeree will expire on the termination date of the employment relationship.

On this matter, "transfer of control" means a transaction in which IDB Holdings transfers the control of IDB Development and/or IDB Development transfers the control of the company and/or the company transfers the control of Clal Insurance Company Ltd. to a third party. For the avoidance of doubt, it is hereby clarified that the transfer of control of any of the aforementioned companies to a company under the control of IDB Holdings Corporation Ltd., directly and/or indirectly, will not be considered a "transfer of control". "Control", for this purpose, is as defined in the Securities Law, 1968. It is hereby clarified that the appointment of a functionary on behalf of the Court for any of the aforementioned companies and/or the appointment of a trustee in accordance with the amendment to the permit for control of Clal Insurance, which entered into effect on August 31, 2012, will not constitute a change in control.

In 2015, the board of directors of Clal Insurance approved an extension of the outline according to which warrants were allocated in accordance with the 2013 plan, and the publication thereof, without any change to its conditions, in order to allow the company to perform future allocations to employees who are not senior position holders, of warrants by virtue of the 2013 plan, which have been returned, and will be returned in the future (if any) to the register of warrants.

For additional details, see sections B and C below.

3. 2015 plan

Further to the compensation policy of Clal Insurance from June 2014, on March 24, 2015 the company's board of directors approved a capital compensation plan conditional upon performance for 2015 (hereinafter: the "**2015 Plan**"), according to which the company will be entitled to allocate warrants to employees who are not senior position holders (as this term is defined in the compensation circular[7]).

The warrants are each exercisable into ordinary shares with a par value of NIS 1, in accordance with the monetary benefit value embodied in the warrants on the exercise date, and subject to adjustments and conditions, of which the primary ones are specified below, in three equal annual tranches.

The warrants' exercise price will be subject to adjustments with respect to the following events: distribution of bonus shares; cash dividend payment; a share exchange arrangement (such as a merger transaction or re-organization); issuance of interests; cash dividend payment; and separation or consolidation of the company's share capital, or any corporate capital events of a significantly similar nature. The adjustments will be performed according to the manner set forth in the 2015 plan. The 2015 plan was approved in a capital taxation track, in accordance with section 102 of the Income Tax Ordinance.

[7] "Senior position holders" include any of the following: (i) corporate officers; (ii) any person who is not a corporate officer, and regarding whom one of the following conditions are fulfilled: (a) the total compensation which he received with respect to each of the last two years exceeds NIS 1.5 million, or (b) he is engaged in management of the company's investments and of the funds of those saving through it; (iii) any person who is employed by the company, either directly or indirectly, and whose activities may have a significant impact on the company's risk profile or on the funds of those saving through it, regardless of whether or not there is an employer - employee relationship between him and the company, as well as any person who is included in a group of employees which is subject to the same compensation arrangements according to the company's compensation policy, and where the if not of their compensation may cumulatively expose the company or the funds of those saving through it, to significant risk. Subject to the provisions of the compensation circular, the evaluation of the scope of application of the compensation policy may change from time to time. As of the present date, it was found that the managers of the company's distribution channels will be included under this definition.

Note 42 - Share-Based Payment (Cont.)

A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)

3. 2015 plan (Cont.)

The eligibility of an offeree to the warrants and to the exercise thereof will be subject to the fulfillment of the preconditions for the formulation of eligibility, the fulfillment of target profit, as defined below, and the vesting conditions which constitute measurable quantitative targets.

The eligibility materialization conditions are preconditions involving (a) Clal Insurances fulfillment of the minimum solvency ratio with respect to that bonus year, as defined in the compensation policy of Clal Insurance, or another metric to be determined in case of a regulatory changes to the capital governance ("**Minimum Solvency Ratio**"); (b) The company's fulfillment of a return on equity target rate of at least 5%, with respect to that year. Additionally, as a condition for materialization of the eligibility, the company is entitled to fulfill a target of at least 70% of the target which will be determined for the purpose of the profit target, and which will be determined in the range between NIS 250 million and NIS 600 million, with respect to each bonus year (the "**Profit Target**"). A condition for eligibility for warrants with respect to an eligibility year is the fulfillment of the preconditions and fulfillment of the profit target (hereinafter: the "**Conditions for Eligibility**"). In the event that any of the conditions for eligibility have not been fulfilled in a particular bonus year, the offeree will not be entitled to all of the warrants which were allocated to him with respect to that bonus year, and those warrants will be returned to the register of warrants, and may be re-allocated to any offeree.

The materialization of the conditions for eligibility for a certain year will be evaluated proximate to the publication date of the period report for the evaluated year (the "**Materialization of Eligibility Date**"). The warrants will vest in three tranches. The first warrant vesting date will be April 1 after the passage of one year, two years and three years after the materialization date. The vesting will be conditional upon the fulfillment of a minimum solvency ratio at the end of the year before the vesting date. Each tranche will vest two years following after its vesting date (the "**Expiration Date**").

Notwithstanding the foregoing, if the option period of a certain tranche concludes during a period which was determined by the company as a lock-up period with respect to the existence or potential existence of insider information, then subject to the plan terms, the option period will be extended automatically, for an additional period, in a number of days equal to the number of days in the lock-up period.

The plan manager will be entitled to determine, upon the allocation of the warrants, a maximum price, as defined above. It is noted, with respect to all warrants which were allocated in accordance with the 2015 plan, that a maximum price was determined, as stated above.

In case of termination of the employer - employee relationship between the offeree and the company and/or another member company in the group (as applicable), before the date of formulation of eligibility with respect to a certain eligibility year, although except in case of termination of employment during the 6 months after the transfer of the control of the company, the offeree's eligibility to all warrants which were allocated to him according to the plan will expire, upon the conclusion of the working relationship, as stated above. Notwithstanding the foregoing, the plan manager will be entitled to decide that the offeree will be entitled to a proportional part (in accordance with the offeree's period of employment in the relevant bonus year) of the warrants which were allocated to the offeree with respect to the relevant bonus year, subject to the fulfillment of the conditions for materialization of eligibility, and the fulfillment of the vesting terms. In case of the termination of the working relationship between the offeree and the company and/or another company in the group, after the eligibility materialization date, with respect to a certain eligibility year, the warrants will expire at the end of the exercise period, or, if exercised before (in other words, if they have not expired as a result of the termination of the working relationship).

Note 42 - Share-Based Payment (Cont.)

A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)

3. <u>2015 plan</u> (Cont.)

For this purpose, "transfer of control" means a transaction in which the controlling shareholders in IDB Development transfer the control of IDB Development and/or IDB Development transfers the control of the company, and/or the company transfers the control of Clal Insurance, to a third party. For the avoidance of doubt, it is hereby clarified that the transfer of control in any of the aforementioned companies to a company under the control of the controlling shareholder of IDB Development, directly and/or indirectly, will not be considered a "transfer of control". "Control", for this purpose, is as defined in the Securities Law, 1968. It is hereby clarified that the appointment of a senior position holder on behalf of the Court for any of the aforementioned companies and/or a transfer of the control shares in the company from the trustee (Mr. Moshe Terry or any trustee who may be appointed in his place) to IDB Development will not constitute a change in control.

In 2015, the company's board of directors resolved to publish outlines pertaining to the allocation of up to 470,000 warrants, which will be offered by virtue thereof, in accordance with the plan, to employees and corporate officers of the company and/or of companies under its control. All of the warrants according to the aforementioned outline were allocated.

For additional details, see sections B and C below.

For details regarding the allocation of warrants to the Chairman of the Board and to Company's CEO, see Note 41(b)(4) and (5), respectively.

Note 42 - Share-Based Payment (Cont.)

B. Movement in warrants and additional details

	Average lifetime *) in years	Weighted average of the exercise addition in NIS 1)	Number of options
Balance as of January 1, 2014	4.22	60.83	3,134,334
Allocated during the year		72.09	221,000
Forfeited during the year		62.05	(304,666)
Expired during the year		76.71	(44,334)
Exercised during the year 2)		52.83	(46,667)
Total outstanding warrants as of December 31, 2014	3.24	61.43	2,959,667
Allocated during the year		63.45	672,000
Forfeited during the year		63.33	(218,000)
Expired during the year		65.98	(65,667)
Exercised during the year 2)		54.73	(361,665)
Total outstanding warrants as of December 31, 2015	2.99	62.46	2,986,335
Forfeited during the year		**67.82**	**(245,001)**
Expired during the year		**63.95**	**(85,667)**
Total outstanding warrants as of December 31, 2016	**1.88**	**63.19**	**2,655,667**
Of which, total outstanding warrants as of December 31, 2016			
2007 plan	0.97	66.55	25,000
2013 plan	1.73	63.72	1,542,334
2015 plan	4.25	68.73	313,333
In the CEO’s plan	1.15	55.33	600,000
In the Chairman’s plan	1.58	75.00	175,000
Total exercisable warrants:			
End of 2016		**60.10**	**1,561,666**
End of 2015		58.66	1,035,333
End of 2014		56.62	676,334

*) Weighted average of the remaining contractual duration to expiration.

1) The weighted average of the exercise addition with respect to forfeitures and expirations was calculated based on the value of the exercise addition at the end of each year.
The exercise price of the outstanding warrants as of December 31, 2016, 2015 and 2014 was NIS 52.83-77.50.

2) No exercise took place in 2016. The weighted average of the share price on the exercise date of the warrants, with respect to warrants which were exercised in 2015, was NIS 64.29, and in 2014: NIS 60.71.

Based on a maximum theoretical assumption of full exercise of all warrants from the 2007 plan, to an identical number of Company shares, and according to a maximum theoretical assumption of the exercise of all of the warrants from the 2013 plan and the 2015 plan, when the price of the company’s shares on the stock exchange reaches a price where, according to the terms of the warrants plan, an automatic exercise is implemented, and subject to the adjustments specified in the 2013 plan and the 2015 plan, the outstanding warrants will confer upon the recipients, as of December 31, 2016, 2015 and 2014, approximately 2.59%, 2.92% and 3.06%, respectively, of the company’s issued and paid-up share capital after the allocation.

Note 42 - Share-Based Payment (Cont.)

B. Movement in warrants and additional details (Cont.)

This assumption, regarding the full exercise of the warrants, is theoretical only. Offerees who exercise the warrants will not be allocated all shares arising therefrom, but rather, only shares in a quantity which reflects the amount of the monetary benefit which is embodied in the warrants, in accordance with the actual benefit amount on the exercise date, i.e., the difference between the price of an ordinary company share on the exercise date, and the exercise price of the warrant.

C. Details regarding the fair value measurement of the warrant plans

The fair value of the warrants is estimated by applying the Black-Scholes model, with reference to the warrants which were allocated to offerees within the framework of the 2007 plan, and using the binomial model with respect to the warrants which were allocated to the company's CEO, to Chairman of the Board and to the offerees as part of the 2013 plan and the 2015 plan.

The main assumptions in the models includes the share's closing price on the measuring date, the instrument's exercise price, the expected volatility (based on the average historical volatility of the company's stock, over the expected lifetime of the warrants), the expected lifetime of the instruments (based on the past experience and the general behavior of warrant holders) and the risk-free interest rate in accordance with the lifetime of the warrants (based on an interest rate yield curve). Terms of service and performance conditions which are not market conditions are not taken into account when determining fair value.

Presented below are the parameters which were used in the application of the models and the fair value on the allocation date:

	2007 plan [1)]	Chairman of the Board	Company CEO	2013 plan [1)]	2015 plan [1)]
Number of warrants allocated, less forfeitures, until the balance sheet date	1,720,668	175,000	600,000	2,069,333	313,333
Weighted average share price (in NIS)	91.56	59.31	54.00	59.50	61.70
Weighted average of the exercise addition on the allocation date (in NIS)	100.41	75.00	57.50	63.01	68.73
Weighted average of expected volatility [2)]	31.71%	42.26%	46.41%	42.30%	34.06%
Average warrant lifetime (in years) [3)]	4.04	6.00	5.00	4.90	5.75
Weighted average of risk free interest rate [4)]	2.83%	2.54%	2.80%	2.44%	1.49%
Maximum price	-	137	135	135-151	139-146
Fair value as of the allocation date of all warrants issued by the company (NIS in thousands) [5)]	40,013	2,281	10,972	34,991	4,550

1) The data presented below constitute a weighted average of the allocations on the various dates, by tranches, after deducting forfeitures and replacements of offerees.
2) The expected volatility of the share price over the expected lifetime of the warrants was determined based on the historical volatility of the company's share price, and is based on the assumption that the historical volatility of the share price constitutes a good indication of future trends.
3) The projected average lifetime of the warrants was determined based on past experience and general behavior of warrant holders, which does not necessarily represent the future pattern of exercising the warrants into shares. Accordingly, it was assumed that the warrants will be exercised on the expiration date, except with respect to the 2007 plan, regarding which it was assumed that the warrants will be exercised in the middle of the period between the vesting date and the expiration date.
4) The risk-free interest rates were determined by a company providing interest rate quotes for interest rates (for additional details, see Note 14(f)(4)), where the interest rate periods corresponded to the expected lifetime of the warrants (based on the interest rate yield curve).
5) The cumulative fair value of all of the allocation, in each of the warrants plans.

Note 42 - Share-Based Payment (Cont.)

D. Payroll expenses with respect to share-based payments

NIS in thousands	2007 plan	Chairman of the Board	Company CEO 1)	2013 plan	2015 plan	Total
In 2016	**-**	**333**	**-**	**3,363**	**224**	**3,920**
In 2015	124	631	-	6,659	3,388	10,802
In 2014	282	770	2,075	12,095	-	15,222

1) Due to changes in control, as specified in section A(2) above, the expense recording period was accelerated.

Note 43-Contingent Liabilities and Claims[8]

Presented below are details regarding claims which are not in the ordinary course of business, as follows: material claims[9] 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.

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[8] 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.

[9] It is noted that, in this note, a claim will be 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 34.9 million, or where it is not estimable.

Note 43 – Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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.

Note 43 – 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 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 43 – 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[10] 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.

[10] 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 43 – 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. The settlement agreement is subject to the approval of the Court, the provision of which is uncertain. 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.	As a class action, 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 43 – 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. The settlement arrangement's entry into effect is conditional upon the receipt of court approval.	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 43 – 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 43 – 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.	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 43 – 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. Clal Insurance is studying the decision, and intends to appeal against it, 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 43 – 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 cause of action approved in the decision is: "contractual cause of action and breach of duty of care, due to a breach of the duty of disclosure which applies to the respondent, due to the non-disclosure of the existence of a conventional practice regarding the update to the policy and the reimbursement of excess premiums". The Court also ordered the payment of professional fees to the plaintiff's representative in a negligible amount. Clal Insurance is studying the Court's decision.	The total claim amount was estimated by the plaintiff in the amount of approximately NIS 26 million.

Note 43 – 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 on the board of directors of Clal Finance Batucha Investment Management Ltd. ("**Clal Batucha**") from 2007 until the sale of Clal Batucha to Bank of Jerusalem in December 2013[11].	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 a notice regarding the filing of the claim, and a demand for indemnification from 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[11]. 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.[12]	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.

[11] For additional details, see Note 28(c)(1)(b).

[12] 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 43 – 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. Clal Insurance is studying the Court's decision.	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.

Note 43 – 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, in September 2016. 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 43 – 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 43 – 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 43 – 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	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. In November 2014, a motion to approve an additional class action was filed against Clal Insurance, on the same matter, in an immaterial sum.[13] 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.

[13] 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 43.A.A2(4).

Note 43 – 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 43 – 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 43 – 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**")[14]	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.

[14] 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 43 – 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.

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
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 association of pensioners under 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 amendment 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 included claims against Harel in connection with its obligation to disclose 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 43 – 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.	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 43 – 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
11.	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.
12.	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 43 – 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
13.	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.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. Clal Insurance's motion to remove sections and annexes from the plaintiff's response to its response to the motion to approve was accepted, and its motion for disclosure and review of documents was dismissed. With respect to these two decisions, the plaintiff filed a motion for leave to appeal with the National Labor Court. The Court has decided to hear the appeal against the decisions.	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.
14.	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 43 – 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
15.	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.
16.	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 43 – 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
17.	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.
18.	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 43 – 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
19.	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[15].
20.	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.

[15] 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 43 – 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
21.	2/2016 District - Tel Aviv	The company and the company's directors[16].	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.

[16] It is noted that directors in the company have letters of indemnity from the company.

Note 43 – 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	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 43 – 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.	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 43 – 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.	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 43 – 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.	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 43 – 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 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. 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 defendant amounts to a total of approximately NIS 479 million.
27.	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 43 – 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
28.	11/2016 District - Center Lod (1) 09/2016 District Tel Aviv Yafo (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 damage ranges between NIS 150 and 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 did not specify estimated damages for 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 43 – Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions and motions to approve class action status for material claims which concluded during the reporting period, until its signing

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	4/2007 District - Tel Aviv	Clal Batucha, and against several other stock exchange member companies, including Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Israel Discount Bank Ltd., First International Bank of Israel Ltd., Harel Investment House Ltd. and the Central Company for Stock Exchange Services[17].	The claim and the motion to approve involve brokerage fees which, as alleged by the plaintiffs, were paid as a practice of Clal Mutual Funds Management Ltd. (which was, during part of the period relevant to the claim, under the control of Clal Batucha, hereinafter: "**Clal Mutual Funds**") as the manager of the mutual funds, to Israel Discount Bank Ltd. (hereinafter: "**Discount Bank**") and to Clal Batucha, with respect to actions involving the purchase and sale of securities and/or foreign currency, which Discount Bank and/or Clal Batucha performed on its behalf, as members of the Stock Exchange. The plaintiffs contend that some of the defendants unlawfully collected brokerage fees from the mutual funds which are managed by their subsidiaries, at rates which are higher than the rates collected from other customers of the defendants, in frameworks other than the mutual funds, who had lower scopes of activity and caused the reduced profit of each investor. The plaintiffs further claim that the continued collection of the aforementioned high fee is due to various agreements which Clal Batucha reached with Discount Bank, within the framework of the sale of control in Clal Mutual Funds.	To repay the commissions that were allegedly overcharged since 2004, and a mandamus order requiring the defendants to change their conduct on all matters associated with the collection of commissions.	Holders of participation units in various mutual funds which were managed in the past by the banks' subsidiaries, including by Clal Mutual Funds, which was sold to Clal Finance.	In May 2016, the District Court gave a ruling in which it dismissed the motions to approve.	The damage alleged for the class was estimated by the petitioners, against all defendants, in the amount of approximately NIS 386.15 million. The petitioners contend that, out of this amount, Clal Batucha is liable for a sum of approximately NIS 50.3 million, where with respect to part of the aforementioned amount, it is the sole defendant, and with respect to another part, it is a defendant jointly and severally with Bank Discount.

[17] The company is not party to the claim; however, it received notice regarding the filing of the claim from Bank of Jerusalem, in accordance with the agreement for the sale of Clal Batucha to Bank of Jerusalem, under which Clal Finance Ltd., a wholly owned subsidiary of the company, has an undertaking to indemnify, which the company accepted, as specified in Note 27b to the annual financial statements. The aforementioned undertaking to indemnify may be activated if and insofar as Bank of Jerusalem is given orders by law in connection with the aforementioned claim, and subject to the terms of the agreement between the parties.

Note 43 – Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	8/2008 District - Tel Aviv	Clal Insurance	According to the plaintiff, Clal Insurance acts in breach of the provisions of Section 1 of the Addendum to the Insurance Business (Control) Regulations (Terms of Private Motor Vehicle Insurance Contract), 1998 (hereinafter: the "**Standard Policy**") by not reimbursing motor vehicle insurance policyholders of the defendant with respect to damages caused to the protective components which had been installed in the vehicle at their request, and signs the policyholders on a letter of settlement in breach of the Commissioner's directives.	Payment of the amount which constitutes, according to the plaintiff, the cost value of the protective measures in the vehicle for the class members, whether directly or by means of compensation to the public.	All holders of Clal motor property insurance policies and/or all former holders of Clal motor property insurance policies, during the effective period, excluding policyholders who belong to vehicle fleets, who meet all of the following conditions: 1. Protective measures were installed in their vehicle, in accordance with Clal's requirement, and/or in whose vehicles such protective measures were present, in accordance with Clal's requirement; 2. The insurance event occurred to them during the effective period; 3. They were insured by Clal at the time of the occurrence of the insurance event. And they did not receive reimbursement (full or partial) from Clal with respect to the protective measures which were installed in their vehicle, as stated above, including by way of dismantling the protective measures.	In June 2016, the Court approved and gave force of ruling to an amended settlement arrangement which was signed between the plaintiff (and additional plaintiffs) and Clal Insurance (and additional insurance companies). The settlement arrangement establishes a mechanism for partial repayment due to total loss of the protective measures of policyholders who are included in the class of entitled parties according to the settlement arrangement, and who did not receive indemnification for them, and who will contact Clal Insurance through the methods set forth in the arrangement. It was further determined in the settlement arrangement that a minimum amount will be determined (hereinafter: the "**Minimum Amount**") regarding which, if the total payment amount to the eligible class members is lower than that amount, then Clal Insurance will contribute the difference, up to the minimum amount. The amended settlement agreement which was filed, inter alia, following the findings of a supplementary evaluation by the examiner and the position of the Attorney General of Israel, includes several changes which refer, inter alia, to the method used to implement the reimbursement, and to the amounts which will be paid within the framework of the settlement agreement, including with respect to the increase of the minimum payment rate which Clal Insurance will be required to pay within the framework of the settlement agreement, and which will be donated to public causes, if it is not effectively reimbursed to the class members.	According to the plaintiff, based on data from the defendant's financial statements, and on the assumption that the total sum of unreimbursed protective components amounts to approximately 2% of the total insurance benefits paid by Clal Insurance in each year, the plaintiff sets the damage amount for the entire class, as defined above, at approximately NIS 48.8 million.

Note 43 – Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	7/2015 District - Tel Aviv	Clal Insurance and an additional insurance company	The plaintiff contends that Clal Insurance allegedly does not take into account, in its determination of premiums in comprehensive motor insurance, subjective historical data regarding the policyholder's vehicle, which affect its value, but does take into account these data when calculating the amount of compensation to which the policyholder is entitled, and also does not specify in the insurance policy the value of the vehicle as the basis for the calculation of the compensation, upon the occurrence of an entitling event.	To order Clal Insurance to cease determining insurance rates without taking into account the history of the insured vehicle, to repay to the class members the amounts which were unlawfully overcollected by it, with the addition of duly calculated linkage differentials and interest, from the date of collection until the date of its actual reimbursement; to order it to change the insurance agreements in a manner whereby, from now on, they will include the values of the insured vehicles, as the basis for the calculation of the premiums.	Policyholders who, during the last seven years, or during a certain part thereof, insured their vehicles in comprehensive insurance, and where there is a difference, with respect to the insured vehicle, between the basic price list price and the weighted price list price.	In July 2016, Clal Insurance was erased from the motion to approve, due to procedural reasons.	The personal damage claimed by the plaintiff with respect to Clal Insurance amounts to NIS 1,300 for each year during which his vehicle was insured by Clal Insurance. According to the plaintiffs' estimate, the total alleged damage claimed for all of the members of the class which they wish to represent amounts to NIS 1,170 million. The plaintiffs have not specified the amount claimed from Clal Insurance only, if the claim is approved as a class action.
4.	5/2012 District - Jerusalem	Clal Insurance, Clal Health an additional insurance company and three health funds	The plaintiffs contend that Clal Insurance refuses to insure the plaintiffs, persons with disabilities, in long term care insurance (or alternatively, establishes terms which are impossible for them), thereby injuring the right of the class members to equality and dignity, in breach of the provisions of the law, including, inter alia, the Equal Rights for Persons with Disabilities Law, 1988 (the "**Equal Rights Law**").	To determine that the defendants breached the provisions of the law, including, inter alia, the Equal Rights Law, and to order them to stop discriminating against the class members, and to establish clear policies regarding individual, specific and egalitarian treatment towards persons with disabilities, and to provide retroactive coverage to the class members who are found eligible to receive insurance and/or to the class members who were insured and removed from insurance by the insurance companies.	All persons with disabilities (according to the definition of "person with disabilities" in the Equal Rights Law) who were customers of the defendants, and whose long term care insurance contracts were canceled by the defendants, as well as all persons with disabilities who applied for long term care insurance, but were refused insurance by the defendants, as well as all persons with disabilities who applied for long term care insurance, but did not contact the defendants, due to the knowledge that they would refuse them to insure them.	In April 2016, the plaintiffs filed with the Court a motion to withdraw the motions to approve (hereinafter: the "**Motion to Withdraw**"). In September 2016, the Court approved the motion to withdraw, without ruling compensation for the petitioners, or professional fees to their representatives.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 660 million.

Note 43 – Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	5/2012 District - Jerusalem	Clal Insurance, Clal Health, Thorne Insurance Agencies and additional insurance companies	The plaintiffs contend that Clal Insurance discriminates against the class members by refusing to cover them in individual insurance policies, such as health, travel, pension, personal accidents, life, long term care and loss of working capacity insurance (the "Individual Insurance").	To determine and declare that the defendants have breached the provisions of the law, including the Equal Rights Law, and to order the defendants to stop discriminating against the class members, and to establish clear policies regarding the specific, unique and egalitarian treatment, without prejudice, of all persons with disabilities; to present an orderly policy on all matters pertaining to the refusal to provide insurance and to implement it with respect to insurance for persons with disabilities; and to provide retroactive coverage to the class members who will be found eligible to receive insurance after an egalitarian underwriting process.	The plaintiffs estimate the size of the class as approximately 700,000 people, which includes the entire group of people who requested insurance from the defendants during the effective period, and who were refused coverage under one of the individual insurance types by the defendants, due to an illness or disability which affect them, as well as persons with disabilities (as defined in the Equal Rights Law) who did not contact or will not in the future contact the defendants with a request for insurance, due to the knowledge that the defendants would refuse to cover them, due to their disability.	See section 4 above.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 934 million.

Note 43 – Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
6.	1/2013 District - Center	Clal Insurance, the Israeli Compulsory Motor Insurance Database (hereinafter: the "**Pool**") and additional insurance companies.	According to the plaintiff, the defendants collect insurance premiums in compulsory motor insurance for a period of one full year, even in cases where the certificate of insurance is paid by the policyholder on a date later than the date specified in the certificate of insurance, despite the fact that the policy entered into effect only on the actual payment date, and not on the date specified in the certificate of insurance.	Repayment of the unlawfully overcollected premiums, with the addition of linkage and interest.	Policyholders of the defendants in compulsory motor insurance, who paid the premiums in arrears, in other words, after the date specified in the certificate of insurance which was issued to them, during the 7 year period which preceded the filing of the claim. Alternatively, the class which the plaintiff seeks to represent includes only the group of above policyholders who are insured as part of the Pool.	In April 2016, a ruling was given by the District Court, which dismissed the motion to approve, and in June 2016, an appeal was filed with the Supreme Court on behalf of the plaintiffs against this ruling. In October 2016, the appellants accepted the recommendation of the Court and withdrew the appeal, and the appeal was struck out, with no expenses ruled.	The estimated aggregate damage of all of the respondents together amounted to approximately NIS 26.7 million, where out of this amount, a total of approximately NIS 2.7 million is attributed to the Israeli Compulsory Motor Insurance Database (the "Pool").
7.	2/2016 District - Center Lod	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 plaintiff, the association Financial Justice (R.A.), 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 damages which they incurred, due to the overpayment which was imposed on them through excess management fees which were collected from them, or alternatively, to issue any other remedy in favor of the class.	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 claim.	In November 2016, the Court approved the plaintiff's motion to withdraw.	The class action amount stated in the statement of claim, with respect to the damages incurred by the class members, amounts to a total of approximately NIS 368 million against all defendants, of which, approximately NIS 109 million was attributed to Tmura.

Note 43 – Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
8.	5/2015 District - Center Lod	Clal Insurance	According to the plaintiff, the holder of a health insurance policy of Clal Insurance, the insurance coverage for tests for pregnant women, with respect to married policyholders, is contingent upon the stipulation that “both partners must be insured by the insurance company, except in cases where the other partner is insured through his workplace, or in an individual personal framework” (hereinafter: the “**Condition**”). The plaintiff contends that the condition is discriminatory and is in breach of the prohibition set forth in the Prohibition Against Discrimination in Products, Services and Entrance to Places of Entertainment and Public Places Law, 2000.	To order Clal Insurance to pay, to each one of the class members, insurance benefits in accordance with the provisions of the relevant policy, with respect to the pregnancy tests which she performed, which the policyholder did not receive due to the condition, with the addition of interest and linkage, and with the addition of compensation for the non-monetary damages which were caused to her, and to order the cancellation of the condition.	Any policyholder who did not contact Clal Insurance with respect to the condition, or who contacted Clal Insurance and was rejected, in part or in full, by Clal Insurance, in an attempt to realize her health insurance policy due to the condition, including by claiming that her partner is not insured by Clal Insurance, or is not insured through his workplace, or in a individual personal framework, or where the foregoing has not been proven to the satisfaction of Clal Insurance.	In February 2017, the settlement arrangement was approved which had been filed by the parties, and force of ruling was given for it. In accordance with the settlement arrangement, the condition will not serve as grounds for the dismissal of claims in the future, and Clal Insurance will not insist on the fulfillment of the condition, with respect to claims whose grounds materialized beginning on May 14, 2012 (the “Effective Date”). Accordingly, Clal Insurance will credit insurance benefits to anyone whose claim was rejected due to the condition, and additionally, will send an orderly notice, and will allow, for a period of 6 months, the filing of retroactive claims, beginning on the effective date. As part of the approval of the settlement agreement, payment of compensation to the plaintiff and professional fees to his representative was approved in immaterial amounts.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff’s estimate, to a total of over NIS 2.5 million.
9.	4/2010 District - Center	Clal Insurance and 3 additional insurance companies	The plaintiff contends that the defendant is in breach of its obligations and does not act to identify policyholders and beneficiaries and to repay funds which are held by it and have not been claimed, and, inter alia, avoids the performance of the location and information delivery actions, does not contact the Population Registry, and does not transfer the funds to the Administrator General on the required date. The plaintiff contends that the rights holders are not receiving their funds, and also that the defendant is receiving management fees above the permissible rate, as well as commissions and returns generated for it by the unclaimed assets.	To order the defendant to transfer the funds to the entities holding rights thereto, and to order the defendant to perform all of the required actions. To order the defendants to compensate the class members and to repay the funds, with the addition of duly calculated linkage differentials and interest. To repay the commissions and management fees which were collected with respect to these funds, to appoint a functionary for the purpose of enforcing the orders, or alternatively, to order any other remedy in favor of the class or the public.	Any person who holds rights to the assets held by the defendant, or to assets which are under its responsibility or control, and who were not informed by the defendant regarding the fact that they were the owners of assets held by it, as it was required to do according to the duties which applied to it.	In February 2017, the Court approved a settlement arrangement and a motion to approve it (hereinafter: the “**Settlement Arrangement**”) according to which the defendants undertake to take certain identification actions with respect to the group members which were defined in the claim, according to the alternatives the settlement arrangement, and that they are required to pay to the plaintiff and her representatives compensation and professional fees, in immaterial amounts.	The plaintiff is unable to estimate the amount of the claim.

Note 43 – Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (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.	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.

Note 43 – 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 45(a)(a1), to the pending motions for the approval of class action status for material claims, as described in Note 45(a)(a2), and to the motions to approve class action status for material claims which were withdrawn during the reporting year, as described in Note 45a(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, there are 12 claims of this kind 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 186 million[18].

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.

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18 Including one claims in which the plaintiffs did not specify the claim amount. For additional information regarding all class actions, see section 43(c) below.

Note 43 – 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. In July 2013, a circular was published 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 with the Commissioner's position regarding "principles for the phrasing of insurance plans". These circulars included the definition of appropriate and inappropriate practices with respect to provisions which should or should not be included in insurance plans, and additionally, the exceptions in the policy were restricted. In February 2017, a draft amendment to the circular was published, regarding principles for the phrasing of insurance plans, which included, inter alia, provisions which signify expansion of the insurance coverage and reduction of the policyholder's liability (hereinafter: the "Insurance Plans 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 43 – 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 implemented, in their financial statements, provisions as required and in accordance with their estimates as of that date, and during the reporting period, in the amount of NIS 65 million (last year - NIS 21 million); however, they 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. The adoption of the draft as binding law 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 43 – 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 issuance of 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.

Note 43 – Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

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

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(b)(1)(b) to the company's consolidated financial statements as of December 31, 2015. The aforementioned undertaking to indemnify may be activated if and insofar as Bank of Jerusalem is given orders 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 43 – 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.

<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")[19]</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 at 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")[20]</td></tr>
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[19] 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.

[20] See note 12 above.

Note 43 – 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 43 – 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**"). [21]	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).

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

Note 43 – 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. [22]

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 [23]	2	-
4. An annual amount has been specified (and accordingly, the total amount is period-dependent)	1	107 [24]
B. Pending motions to approve claims as class actions		
1. An amount referring to the company was presented	30	5,696
2. The claim was filed against a number of entities, with no specific amount attributed to the company	8	11,565
3. Claim amount not presented [25]	6	-
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 43(a) and 43(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 43(b)(b1)(2) above.

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 43(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.

[22] 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.
[23] The plaintiff did not specify a claim amount in the motion, although an estimate was given of hundreds of millions of NIS.
[24] The specified amount refers to one year only. The claim was filed in March 2010, with respect to a legislative amendment from 2008.
[25] 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 43 – Contingent Liabilities and Claims (Cont.)

D. Exposure due to regulatory provisions and position papers (Cont.)

The institutional entities in the group are evaluating 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 January 2017, a draft position paper of the Commissioner was filed with respect to the collection of fronting fees with respect to loans. The draft position paper primarily involves a determination according to which the institutional entities must cease the collection of fronting fees from loan takers, in connection with the expenses involved with the creation of handling of the loan, also including cases where the borrower pays funds independently and directly to the third party which is providing services to the institutional entity, in connection with the creation or handling of the loan.

4. In February 2017, the Commissioner published a draft industry-wide position paper regarding the obligations of a license holder (the "Draft Position Paper"). In accordance with the draft position paper, it was determined, inter alia, that in cases where an employer is engaged in a business partnership with a license holder, and the employer's employees are customers of the license holder, such cases place the license holder in a conflict of interest towards the customers, which is reflected in a reduction of the license holder's interest to provide beneficial conditions their customers. In accordance with the draft position paper, the license holder is obligated to disclose to the employee that it has a conflict of interest, and to receive their advance written consent, before implementing the transaction with respect to its pension product. Additionally, according to the Commissioner's position, preference of the employer's interests over their employees' interests, with respect to the selection of pension products, and the receipt of beneficial conditions therein, is inconsistent with the fiduciary duty by which a license holder is bound towards its customers.

5. In February 2017, a position of the Commissioner was published regarding clarification with respect to the re-evaluation of eligibility pertaining to 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 43 – Contingent Liabilities and Claims (Cont.)

E. With respect to the costs that may arise due to the claims and exposures described in Notes 43(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 risk are based on the opinions of their legal counsel and/or on the estimates of the relevant companies 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 claim (it is hereby clarified, for the avoidance of doubt, that the hearing of a legal 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.

It is not possible, at this preliminary stage, to estimate the chances of the motions to approve class actions which are specified in Notes 43(a)(a2)(24), 43(a)(a2)(25), 43(a)(a2)(26), 43(a)(a2)(27) and 43(a)(a2)(28) 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 December 31, 2016, with respect to all of the legal claims mentioned in Note 43(a), 43(b) and 43(c) above, amounted to a total of approximately NIS 103 million.

Note 43 – Contingent Liabilities and Claims (Cont.)

F. Guarantees and pledges which were provided

1. The company

For details regarding guarantees in connection with companies from the credit and finance group, and regarding Clal Finance, see Note 27.

2. Clal Insurance

A. As part of the acquisition of the provident fund Bar Keren Gmulim Ltd., which includes a guaranteed-return track (hereinafter: "**Bar A**"), Clal Insurance accepted an obligation to minimum guaranteed annual returns for all assets invested in Bar A (real net returns of 5.5%, in accordance with the terms specified in the fund regulations). This undertaking is backed by an undertaking of the Accountant General to CPI-linked guaranteed returns, plus interest at a rate of 5.95% per year, on 89% of the assets, while the other assets are invested in free investments. For additional details, see Note 3(a)(5).

B. Clal Insurance has guaranteed towards some members of certain provident funds managed in the group, subject to certain terms, that the payments to which they will be entitled upon withdrawal of the funds will be no less than the nominal deposits made by them to the same fund.

C. In connection with Clal Insurance's activities in derivatives, Clal Insurance received credit facilities from various banking corporations, for the purpose of its activities. Against the credit facilities which were received, Clal Insurance provided to the banking corporations securities by way of letters of offsetting and/or withholding rights with respect assets in the relevant investment portfolios.

G. Undertakings to invest

1. The balance of liabilities for additional investments of Clal Insurance in investment funds, in equity assets, and in other debt assets, amounted, as of the end of the reporting period, to approximately NIS 3,446 million, of which approximately NIS 2,156 million was from profit-sharing policies (December 31, 2015: NIS 2,299 million, of which a total of NIS 1,360 million from the funds of profit-sharing policies).

2. For details regarding undertakings to invest in investment property, see Note 10(f) above.

Note 44 - Additional Events During and After the Reporting Period

A. Changes to actuarial estimates

1. Strengthening of insurance reserves in the low interest rate environment, and its effect on discount rates in life insurance

During the reporting period, the risk-free interest rate curve decreased further, as did the estimated rate of return in the portfolio of assets held against insurance liabilities. This decrease was partially lessened in the second half of 2016. For additional details, see Note 40(e)(e1)(d)(1).

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

For details regarding an update to the mortality tables and the discount rates used to calculate National Insurance annuities, according to which the interest rate for the purpose of discounting the annuity will be 2% instead of 3%, as specified in the Discounting Regulations prior to the amendment.
and accordingly, increased the insurance liabilities for 2016 in the compulsory motor and liabilities branches by approximately NIS 141 million, on retention and before tax, and by a total of approximately NIS 90 million after tax. See Note 40(e)(e2)(4)(g).

B. Engagements for the receipt of routine provident fund operation services

All assets of the capital-based provident funds and savings-based provident funds (formerly: "non-annuity paying provident funds") which are managed by Clal Pension and Provident Funds are operated by external factors, as specified below. The replacement of an operating services supplier without a preliminary preparatory period may temporarily adversely affect the provision of services for the funds under its management, until an alternative supplier has been found. As of January 1, 2017, total assets operated by Bank Leumi amount to approximately NIS 28 billion, and total assets managed by Bank Hapoalim amount to approximately NIS 6.2 billion.

1. Engagement with D.S.S. Consulting and Services Ltd. (which was merged with MLM Provident Fund Operations Ltd.) (hereinafter: "**Dov Sinai**"), in which Dov Sinai operated, on behalf of Clal Pension and Provident Funds, during the reporting year, seven provident funds which are managed by the company, including a study fund, in consideration of operating fees in a fixed monthly amount. In January 2017, the provident funds which were operated by Dov Sinai were transferred to the operation of Bank Leumi, as specified below. Dov Sinai continues providing additional services to the company.

2. Contractual agreement with Bank Hapoalim - In July 2007, Clal Insurance and Clal Pension and Provident Funds Ltd. entered into an agreement with Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**"), which involved the operation of some of the provident funds which are managed by the company, in consideration of operating fees paid at a fixed annual rate out of the total assets managed in the funds for which the operating services are provided. In March 2015, Clal Pension and Provident Funds engaged in an operating agreement with Bank Hapoalim, according to which, beginning in July 2015, the provident funds which were previously managed by Bank Discount and by Dov Sinai will be transferred to the operation of Bank Hapoalim. Accordingly, in July 2015, the provident fund which was previously operated by Bank Discount, was transferred to the operation of Bank Hapoalim. In January 2017, the provident funds which were operated by Bank Hapoalim were transferred to the operation of Bank Leumi, excluding the Bar provident fund, as specified below.

3. Engagement with Bank Leumi Le-Israel Ltd. - In June 2016, the company engaged in an operating agreement with Bank Leumi Le-Israel Ltd. and Leumi Capital Market Services Ltd. (hereinafter, jointly: the "**Bank**"), according to which the bank will provide to the company operating services with respect to the provident funds which are managed by it. In accordance with the agreement, with respect to the operation of the provident funds, a consideration will be paid to the bank at an annual rate out of the fund assets, and with respect to the operation of the study fund, a consideration will be paid to the company in a fixed monthly amount. The commencement date of operation by the bank was set as January 1, 2017, excluding the provident fund "Bar Gemulim Fund", whose operation commencement date was set as January 1, 2018. The agreement period will be 5 years, and the company will be entitled to terminate the agreement by providing notice 6 months in advance, and the bank will be entitled to terminate the agreement by providing notice 12 months in advance. Accordingly, in January 2017, the provident funds which were previously operated by Bank Hapoalim and by Dov Sinai (excluding the "Bar" provident fund, which is expected to be transferred to the operation of the bank in January 2018), were transferred to the operation of the bank.

Note 44 - Additional Events During and After the Reporting Period (Cont.)

C. Engagement for the acquisition of automation systems to manage pension activities

In September 2013, Clal Pension and Provident Funds, a second-tier subsidiary of the company, engaged in an agreement for the acquisition of automation systems for the management of the group's pension operations (hereinafter: the "**System**") with Sapiens Technologies (1982) Ltd. (hereinafter: "**Sapiens**"), in consideration of NIS 47.5 million, plus VAT (hereinafter: the "**Agreement**"). Under the agreement, Sapiens undertook to implement and install the system in the automation systems of Clal Pension and Provident Funds until the end of 2014, and to adjust the system to the new regulatory directives which entered into effect over the years 2013 and 2014. Beginning in January 2015, Clal Pension and Provident Funds began operating the pension operations through the Nissan system, and also launched a commission payment system module which was purchased from Sapiens. Clal Pension and Provident Funds, through Sapiens and Clalbit Systems, is currently in a gradual process of implementing and improving the Nissan system. The total investment in the Nissan system until December 31, 2016 amounted to a total of approximately NIS 168 million.

D. Engagement in an agreement for the featurization, adjustment and development of components in the core systems

In January 2015, Clal Insurance engaged with A.R.M.L. Klein Technologies 2012 Ltd. (hereinafter: "**ARML**") in an agreement for the featurization, adjustment and development of components in the life insurance, MSS and ALIS systems, for the purpose of adjusting them to the requirements of the project involving the strengthening of the core systems, which is also required for the fulfillment of the project involving the optimization of members' rights. During the project period, the actual costs incurred by ARML will be paid to it, without profit. ARML's profit in the transaction will be paid by means of an additional payment, in the maximum amount of 20% of the cost of the project, whose estimated cost has not yet been determined. With respect to 2016, Clal Insurance paid to ARML, in accordance with this agreement, a total of approximately NIS 39 million (with respect to 2015 - a total of approximately NIS 28 million).

E. Issuance and exchange of deferred liability notes through Clalbit Finance

For details regarding an issuance and exchange of deferred liability notes, see Note 25 below.

F. Structural change in long term savings

On November 27, 2016, the company reached a decision to 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.

G. General and administrative expenses

Further to that stated in Note 5(c), regarding the allocation of general and administrative expenses and costs which apply to companies whose activities include several operating segments which are attributed to the operating segments through the specific attribution of direct expenses (of the relevant departments) and allocation of the expenses of the departments which are not directly associated with the operating segment, according to a model whose principles include allocation in accordance with the inputs which are given by the departments to all operating segments.

Following the organizational changes, and the change in the mix of the group's sales, and in accordance with the work plans which were approved by the board of directors in December 2016, updates to the cost allocation model will enter into effect in January 2017, which is expected to result in an increase in annual expenses in 2017 in the pension segment and health segment, in the amount of approximately NIS 19 million and in the amount of approximately NIS 13 million, respectively, in parallel with the decrease in expenses in the non-life insurance segment, in life insurance and in the provident fund segment, in the amount of approximately NIS 22 million, in the amount of approximately NIS 6 million, and in the amount of approximately NIS 4 million, respectively. The direct implications on pre-tax profit in the various segments will be in accordance with the above.

Note 44 - Additional Events During and After the Reporting Period (Cont.)

H. Regulatory provisions with respect to pension and provident operations

1. Provisions regarding the selection of provident funds

In July 2016, a letter from the Commissioner was published on the subject of "Provisions regarding the selection of provident funds", regarding the process of determining select default funds by the Ministry of Finance, which is intended to establish provisions regarding the selection of provident funds for employees who have not selected a provident fund, although they were given the opportunity to do so, and regarding the conditions applicable to such provident funds. In accordance with the circular, two select default funds will be chosen, where the only criterion for their selection will be the management fees offered therein (a formula combining the rate of management fees from accrual and the rate of management fees from deposits). The management fees from deposits may not exceed 2%.

In August 2016, the results of the select default funds selection process were published, in which two 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.

The provisions of the circular, including the competitive advantages which are available to a select default fund, may have a significant broad impact on the market for pension and provident funds. The provisions of the 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 pension funds, provident funds and study funds, in a change in the business model of business model, in harm to their profitability, changes to the market shares of the current competitors, and accordingly, may also affect the company. The related party restriction specified in the circular may have an impact on the company's competitive conditions, competitive conditions employers' tenders.

In January 2017, a draft amendment to the circular was published, in which it was determined that the default agreement which was in effect until 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, only if the rate of management fees which were determined therein is not the maximum rate of management fees prescribed in law. The provisions of this amendment, insofar as they become binding, are expected to result in a significant decrease in the amount of default arrangements of employers which exist in the company, and accordingly, to promote and accelerate the aforementioned implications, on all matters associated with employers who engaged in default arrangements, before the circular's entry into effect.

2. Provident fund for investment

In November 2016, the Commissioner approved the creation of the "Clal Provident for the Future" provident fund, a provident fund for investment managed by Clal Pension and Provident Funds. The activity in the fund commenced in January 2017.

For details regarding the impairment of goodwill with respect to provident funds which the company implemented, see Note 6.

I. Exchange and extension of deferred liability notes in Clalbit Finance

For details regarding the exchange and issuance of bonds by Clalbit Finance, see Note 25 above.

J. Data cleansing

For details regarding the comprehensive data cleansing process in systems of the long-term savings segment, for which the institutional entities in the group implemented provisions in their financial statements, as required, and in accordance with their estimates as of the present date, and during the reporting period, in the amount of NIS 65 million, see Note 43(a)(a4)(2).

Note 44 - Additional Events During and After the Reporting Period (Cont.)

K. Update to the tax rates which apply to the group during the reporting period

For details regarding changes in the tax rates which apply to the group during the reporting period, which led the company to reduce the balance of the reserve for deferred taxes, and recorded tax income in the amount of approximately NIS 36 million, see Note 23 above.

L. Developments in the capital market subsequent to the reporting date

Subsequent to the reporting date, the risk-free interest rate curve increased. Further to that stated in Note 40(e)(e1) and (e2) above, an increase in interest rates may lead to an decrease in insurance liabilities in non-life insurance, in the compulsory, liabilities and personal accidents branches, to a decrease in liabilities in life and long-term care insurance with respect to the supplementation of annuity reserves, and in paid pension liabilities in life insurance, and also as part of the liability adequacy test (LAT) and changes to the K factor.

At this stage, it is not possible to estimate the implications of the increased risk-free interest rate curve during this period on the results for the first 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 increased interest rate curve on the fair value of debt assets, and regarding continuing developments in financial markets until the end of the first quarter of 2017, and the above does not any estimate regarding the company’s expected financial results for the first quarter of 2017.

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

Annex A - Details of Other Financial Investments of Consolidated Insurance Companies Registered in Israel

The following data were included in the consolidated financial statements:

NIS in thousands	As of December 31, 2016 Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets [1)]	**49,640**	**5,479,395**	**-**	**5,529,035**
Non-marketable debt assets	**8,290**	**-**	**21,266,950**	**21,275,240**
Stocks [2)]	**-**	**1,139,029**	**-**	**1,139,029**
Others [3)]	**204,423**	**2,139,058**	**-**	**2,343,481**
Total	**262,353**	**8,757,482**	**21,266,950**	**30,286,785**

NIS in thousands	As of December 31, 2015 Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets [1)]	275,187	6,155,775	-	6,430,962
Non-marketable debt assets	11,477	-	20,940,755	20,952,232
Stocks [2)]	-	973,992	-	973,992
Others [3)]	287,918	1,797,292	-	2,085,210
Total	574,582	8,927,059	20,940,755	30,442,396

1. Marketable debt assets

NIS in thousands	As of December 31 2016		2015	
	Book value	Amortized cost	Book value	Amortized cost
Government bonds				
Available for sale	**3,374,599**	**3,373,925**	4,057,390	3,972,204
Total government bonds	**3,374,599**	**3,373,925**	4,057,390	3,972,204
Other debt assets				
<u>Non-convertible</u>				
Presented at fair value through profit and loss:				
Designated upon initial recognition	**49,503**	**48,855**	273,116	261,462
Available for sale	**2,104,796**	**2,097,745**	2,098,385	2,094,299
Total other non-convertible debt assets	**2,154,299**	**2,146,600**	2,371,501	2,355,761
<u>Convertible</u>				
Presented at fair value through profit and loss				
Designated upon initial recognition	**137**	**564**	2,071	2,463
Total marketable debt assets	**5,529,035**	**5,521,089**	6,430,962	6,330,428
Fixed impairments charged to income statement (cumulative)	**2,916**		67,257	

Annex A - Details Regarding Other Financial Investments of Consolidated Insurance Companies Registered in Israel (Cont.)

2. Stocks

NIS in thousands	As of December 31			
	2016		2015	
	Book value	Cost	Book value	Cost
Marketable				
Available for sale	**1,062,027**	**1,058,551**	893,109	909,343
Total marketable stocks	**1,062,027**	**1,058,551**	893,109	909,343
Non-marketable				
Available for sale	**77,002**	**107,493**	80,883	107,489
Total non-marketable stocks	**77,002**	**107,493**	80,883	107,489
Total stocks	**1,139,029**	**1,166,044**	973,992	1,016,832
Fixed impairments charged to income statement (cumulative)	**171,000**	**-**	155,092	-

*) See Note 14(f)(2).

3. Other financial investments

NIS in thousands	As of December 31			
	2016		2015	
	Book value	Cost	Book value	Cost
Marketable				
Presented at fair value through profit or loss:				
Designated upon initial recognition	**148,713**	**150,708**	222,459	191,031
Available for sale	**883,599**	**859,345**	816,845	798,197
Derivative instruments	**1,673**	**2,681**	3,386	2,561
Total marketable financial investments	**1,033,985**	**1,012,734**	1,042,690	991,789
Non-marketable				
Presented at fair value through profit or loss:				
Designated upon initial recognition	**16,566**	**28,033**	37,023	46,093
Available for sale	**1,255,459**	**1,002,201**	980,447	810,185
Derivative instruments	**37,471**	**-**	25,050	922
Total non-marketable financial investments	**1,309,496**	**1,030,234**	1,042,520	857,200
Total other financial investments	**2,343,481**	**2,042,968**	2,085,210	1,848,989
Fixed impairments charged to income statement (cumulative)	**69,699**	**-**	82,388	-

Part D

Additional Details Regarding the Corporation

Company name	:	Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**")
Company number in registrar	:	52-003612-0
Address	:	36 Raul Wallenberg St., Kiryat Atidim, Tower 8, Tel Aviv 6136902
Email address	:	Talc@clal-ins.co.il
Telephone	:	03-6387504
Facsimile	:	03-7965678
Balance sheet date	:	31.12.2016
Publication date of the report	:	21.03.2017

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1. Details required in connection with a material valuation (Regulation 8B)

None.

Clal Insurance Enterprises Holdings Ltd.

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

As of December 31, 2016 (Regulation 9C)

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Building a better working world

Attn.:
Shareholders of Clal Insurance Enterprise Holdings Ltd.

Re: Auditors' Special Report Regarding the Separate Financial Information in Accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970, of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") as of December 31, 2016 and 2015, and for each of the three years the last of which ended on December 31, 2016, and which is included in the company's periodic report. The company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion regarding the separate financial information, based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Israel. In accordance with these standards, we are required to plan and perform the audit in order to obtain a reasonable measure of assurance that the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and details presented in the separate financial information. An audit also includes performing an evaluation of the accounting principles which were applied in the preparation of the separate financial information and of the significant estimates which were made by the company's board of directors and management, as well as an evaluation of the overall adequacy of presentation of the separate financial information. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial information was prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel Aviv, March 21, 2017	Kost Forer Gabbay and Kasierer Certified Public Accountants	Somekh Chaikin Certified Public Accountants

Joint Auditors

Data Regarding the Financial Position

NIS in thousands	Additional information	As of December 31, 2016	As of December 31, 2015
Assets			
Investments in investee companies	2.5	**4,651,374**	4,537,681
Loans and balances of investee companies	2.5	**27**	51
Other accounts receivable		**81**	149
Other financial investments:			
Marketable debt assets		**46,024**	57,261
Stocks		**531**	818
Total other financial investments	2.2 (A)	**46,555**	58,079
Cash and cash equivalents	2.3	**54,528**	25,631
Total assets		**4,752,565**	4,621,591
Capital			
Share capital		**143,216**	143,216
Premium on shares		**977,898**	976,329
Capital reserves		**484,165**	460,554
Retained earnings		**3,068,909**	2,967,929
Total capital		**4,674,188**	4,548,028
Liabilities			
Other accounts payable	2.2 (B)	**7,504**	1,741
Balances of investee companies		**873**	-
Deferred tax liabilities		**-**	1,822
Liabilities to banking corporations and others	2.2 (C)	**70,000**	70,000
Total liabilities		**78,377**	73,563
Total capital and liabilities		**4,752,565**	4,621,591

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

March 21, 2017				
Approval date of the financial statements	Danny Naveh	Izzy Cohen	Anath Levin	Tal Cohen
	Chairman of the Board	Chief Executive Officer	Investments, Finance, and Financial Services Division Manager	Chief Accountant

Data Regarding Income

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Company's share in the income (loss) of investee companies, net of tax	**104,864**	483,827	238,752
Income from investments, net, and financing income from investee companies	**29**	100	1,322
Others	**218**	101	480
Other income	**-**	-	2,000
Total income	**105,111**	484,028	242,554
General and administrative expenses	**3,278**	2,201	3,226
Financing expenses	**1,715**	3,932	17,686
Other expenses	**5,539**	610	-
Total expenses	**10,532**	6,743	20,912
Income (loss) before taxes on income	**94,579**	477,285	221,642
Taxes on income (tax benefit)	**(1,822)**	-	-
Income (loss) for the period	**96,401**	477,285	221,642

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

Data Regarding Comprehensive Income

	For the year ended December 31		
NIS in thousands	**2016**	**2015**	**2014**
Income (loss) for the period	**96,401**	477,285	221,642
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	**(288)**	405	(66)
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	**(2)**	5	(73)
Other comprehensive income (loss) with respect to investee companies which has been or will be transferred to profit and loss, net of tax	**23,901**	(198,599)	131,832
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	**23,611**	(198,189)	131,693
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	**23,611**	(198,189)	131,693
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	**2,228**	6,214	8,563
Other comprehensive income for the period which will not be transferred to profit and loss, net of tax	**2,228**	6,214	8,563
Other comprehensive income (loss) for the period	**25,839**	(191,975)	140,256
Total comprehensive income for the period	**122,240**	285,310	361,898

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

Data Regarding Cash Flows

NIS in thousands	2016	2015	2014
Cash flows from operating activities			
Income (loss) for the period	**96,401**	477,285	221,642
Adjustments:			
Company's share in the income (loss) of investee companies	**(104,864)**	(483,827)	(238,752)
Dividends from investee companies	**17,300**	23,829	11,880
Interest accrued with respect to liabilities to banking corporations	**1,686**	3,842	17,577
Income from other financial investments	**1,174**	(215)	(387)
Taxes on income (tax benefit)	**(1,822)**	-	-
	(86,526)	(456,371)	(209,682)
Changes to other items in the data regarding financial position, net:			
Change in other accounts receivable	**68**	5,013	(3,194)
Change in other accounts payable	**5,763**	999	(266)
	5,831	6,012	(3,460)
Cash which was received during the period for:			
Net cash from operating activities with respect to transactions with investee companies	**4,817**	12,878	17,305
Interest received	**29**	349	1,154
Income tax received	-	-	3,338
Net cash from operating activities	**20,552**	40,153	30,297
Cash flows from investing activities			
Consideration from disposal of investments and capital reductions in investee companies	-	-	250,451
Repayment of loans to investee companies	-	21,811	15,000
Investment in available for sale financial assets	**(36,998)**	(62,126)	(108,333)
Consideration from sale of available for sale financial assets	**47,058**	40,782	148,397
Net cash from (used in) investing activities	**10,060**	467	305,515
Cash flows from financing activities			
Repayment of liabilities to banking corporations	-	(75,000)	(271,990)
Interest paid with respect to liabilities to banking corporations	**(1,715)**	(7,632)	(18,053)
Receipt (repayment) of other liabilities	-	-	(81,563)
Net cash used in financing activities	**(1,715)**	(82,632)	(371,606)
Increase (decrease) in cash and cash equivalents	**28,897**	(42,012)	(35,794)
Cash and cash equivalents at beginning of period	**25,631**	67,643	103,437
Cash and cash equivalents at end of period	**54,528**	25,631	67,643

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

2.1 General

Presented below are financial data from the company's consolidated financial statements as of December 31, 2016 (hereinafter: the "**Consolidated Reports**") which are published as part of the periodic reports (in Chapter C - financial statements), which are attributed to the company itself (hereinafter: the "**Separate Financial Information**"), and which are presented pursuant to Regulation C9 and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 2010 (hereinafter: the "**Regulation**" and the "**Tenth Addendum**", respectively), regarding the corporation's separate financial data. The separate financial information should be read together with the consolidated reports.

Significant accounting policies applied in the separate financial information:

The accounting policies specified in the consolidated reports were applied consistently in all periods which are presented in the separate financial information by the company, including the manner in which the financial data were classified in the consolidated reports, with the required adjustments, as specified below:

A. Presentation of financial data

1. Data regarding the financial position

   These data include information regarding the amounts of assets and liabilities which are included in the consolidated reports attributed to the company itself (except with respect to investee companies), including details by types of assets and liabilities. These data also include information regarding the net amount, based on the consolidated reports, attributed to the shareholders of the company itself, of the total assets less total liabilities with respect to investee companies, including goodwill.

2. Data regarding comprehensive income

   These data include information regarding the amounts of assets and liabilities which are included in the consolidated report, segmented between profit and loss and other comprehensive income, as attributed to the company itself (except with respect to investee companies), including details by types of assets and liabilities. The data also include information regarding the net amount, based on the consolidated reports, attributed to the shareholders of the company itself, of the total income less total expenses with respect to the results of operations of investee companies, including impairment of goodwill, impairment or cancellation of investment in an associate company, and impairment or cancellation of an investment in a company under joint control accounted by the equity method.

3. Data regarding cash flows

   These data include details regarding the cash flow amounts which are included in the consolidated reports attributed to the company itself (excluding with respect to investee companies), and are taken from the consolidated statement of cash flows, segmented by cash flows from operating activities, investing activities and financing activities, including specification of their components. Cash flows with respect to operating activities, investing activities and financing activities in respect of transactions with investee companies are presented separately, net, under the relevant activity, according to the characteristics of the transaction.

2.1 General (Cont.)

B. Transactions between the company and investee companies

1. Presentation

The inter-company balances in the group, and income and expenses due to inter-company transactions, which were canceled within the framework of the preparation of the consolidated reports, were presented separately from the balance with respect to investee companies and income with respect to investee companies, together with similar balances vis-à-vis third parties.

Unrealized profit and loss which are due to transactions between the company and its investee companies were presented under the balance with respect to investee companies and under income with respect to investee companies.

2. Measurement

Transactions which were performed between the company and its consolidated companies were measured in accordance with the principles of recognition and measurement, as set forth in International Financial Reporting Standards, which establish the accounting treatment for transactions of this kind which are performed vis-à-vis third parties.

2.2 Financial Instruments

A. Financial investments

The composition is as follows:

	As of December 31	
NIS in thousands	**2016**	**2015**
Marketable debt assets		
Government bonds (1)	**46,024**	57,261
Total marketable debt assets	**46,024**	57,261
Stocks (2)		
Non-marketable - available for sale	**10**	10
Marketable - available for sale	**521**	808
	531	818
Total financial investments	**46,555**	58,079

(1) Government bonds, NIS and CPI-linked, repayable during the years 2017-2018, with an effective interest rate of 0.5% p.a.
Last year - short term bill in NIS, which was repaid during the reporting period.

(2) The forecasted exercise date of the shares has not yet been determined.

B. Other accounts payable

The composition is as follows: [1)]

	As of December 31	
NIS in thousands	**2016**	**2015**
Expenses payable	**721**	493
Interest payable to banking corporations, see section D below	**150**	150
Institutions	**3**	9
Suppliers	**53**	19
Others [2)]	**6,577**	1,070
Total	**7,504**	1,741

(1) The balances of payables are unlinked.
(2) Primarily with respect to the provision for claims. For additional details, see Note 44 to the consolidated reports.

2.2 Financial instruments (Cont.)

C. Liabilities to banking corporations and others

Composition and linkage:

	Margin from prime rate	As of December 31	
NIS in thousands	**%**	**2016**	**2015**
Unlinked NIS	0.85	**70,000**	70,000
Total		**70,000**	70,000
Prime interest rate		1.60%	1.60%

2.2 Financial instruments (Cont.)

C. Liabilities to banking corporations and others

Contractual repayment dates:

Presented below are the contractual repayment dates of liabilities to banking corporations, including an estimate of interest payments:

	As of December 31	
NIS in thousands	**2016**	**2015**
Up to one year	**1,715**	1,720
One year to two years	**36,715**	1,715
Two years to three years	**35,858**	36,715
Three years to four years	**-**	35,858
Calculated amount	**74,288**	76,008
Book value (without estimated interest payments)	**70,000**	70,000

2.3 Cash and cash equivalents

Composition and linkage:

	Interest rate as of December 31, 2016	As of December 31	
NIS in thousands	**%**	**2016**	**2015**
Unlinked NIS	0.0-0.1	**54,042**	25,216
Linked to the EUR	0	**268**	260
Linked to the USD	0	**214**	155
Total		**54,528**	25,631

Most of the cash and cash equivalents are checking account balances and daily deposits in banking corporations. The interest rates on checking account balances are based on interest rates with respect to daily deposits.

2.4 Taxes on income

A. For details regarding the tax environment in which the company operates, including the change to the corporate tax rate, see Note 23(a) to the consolidated reports.

B. For details regarding deferred tax liabilities which were not recognized, and losses and deductions for tax purposes which are transferable to subsequent years, see Note 23(f) to the consolidated reports.

2.5 Investee companies - investments, balances, engagements and material transactions

The composition is as follows:

	As of December 31	
NIS in thousands	**2016**	**2015**
Investments in investee companies	**4,651,374**	4,537,681
Current balances	**27**	51
Loans and debit balances of investee companies	**27**	51
Total	**4,651,401**	4,537,732

A. For details regarding the list of main investee companies, the direct investment amounts in investee companies and the amounts of guarantees which were provided to them by the company, see Note 9(b) to the consolidated reports.

B. For details regarding the company’s undertakings regarding the capital supplementation required of its investee companies, and the validity thereof, and insofar as may be required upon the application of the Solvency II regime, see Note 16(e) to the consolidated reports.

C. The company has agreements in immaterial amounts with investees which include management fees to the company, guarantee commission, cost of collaboration on development, and business promotion.

D. For details regarding a shelf prospectus which was published in 2015, see Note 25(d) to the consolidated reports.

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3. Report Regarding the Liabilities of the Reporting Corporation and its Consolidated Companies by Repayment Dates as of December 31, 2015 (Regulation 9D)

3.1 Liabilities of the reporting corporation as a separate entity

A. Credit received by the reporting corporation from banks in Israel

	Principal payments						Interest payments
	NIS, CPI-linked	NIS, non-CPI-linked	EUR	USD	GBP	Other	Gross (without tax deduction)
First year	-	-	-	-	-	-	1,715
Second year	-	35,000	-	-	-	-	1,715
Third year	-	35,000	-	-	-	-	858
Fourth year and thereafter	-	-	-	-	-	-	-
Total	-	70,000	-	-	-	-	4,288

B. Financial guarantees

	Principal payments						Interest payments, gross (without tax deduction)
	NIS, CPI-linked	NIS, non-CPI-linked	EUR	USD	GBP	Other	
First year	-	-	-	-	-	-	-
Second year	-	-	-	-	-	-	-
Third year	-	-	-	-	-	-	-
Fourth year	-	-	-	-	-	-	-
Fifth year and thereafter	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

3.2 Liabilities of the reporting corporation's consolidated companies

Credit received by consolidated companies from banks in Israel

	Principal payments						Interest payments, gross (without tax deduction)
	NIS, CPI-linked	NIS, non-CPI-linked	EUR	USD	GBP	Other	
First year	3,089	-	-	-	-	-	31
Second year	-	-	-	-	-	-	-
Third year	-	-	-	-	-	-	-
Fourth year and thereafter	-	-	-	-	-	-	-
Total	3,089	-	-	-	-	-	31

4. Condensed quarterly statements of comprehensive income (Regulation 10A)

Condensed quarterly statements of comprehensive income for 2016

NIS in thousands	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Gross premiums earned	2,228,114	2,210,769	2,352,191	2,318,929	9,110,003
Premiums earned by reinsurers	262,441	258,775	262,594	258,437	1,042,247
Premiums earned on retention	1,965,673	1,951,994	2,089,597	2,060,492	8,067,756
Income from investments, net, and financing income	(505,417)	849,260	1,248,280	1,024,251	2,616,374
Income from management fees and portfolio management	212,769	207,301	235,762	300,625	956,457
Income from commissions	56,277	62,268	58,278	49,595	226,418
Other income	40	38	1,284	57	1,419
Total income	**1,729,342**	**3,070,861**	**3,633,201**	**3,435,020**	**11,868,424**
Payments and change in liabilities with respect to insurance contracts and investment contracts, gross	1,609,867	3,028,811	2,710,968	2,335,161	9,684,807
Share of reinsurers in payments	(174,709)	(127,502)	(120,406)	(234,409)	(657,026)
Payments and change in liabilities with respect to insurance contracts and investment contracts on retention	1,435,158	2,901,309	2,590,562	2,100,752	9,027,781
Commissions, marketing expenses and other acquisition costs Others	458,153	449,883	468,281	437,882	1,814,199
General and administrative expenses	188,046	193,144	188,824	203,338	773,352
Impairment of intangible assets	-	2,585	549	31,112	34,246
Other expenses	4,194	4,752	(404)	6,220	14,762
Financing expenses	17,006	67,001	39,257	36,431	159,695
Total expenses	**2,102,557**	**3,618,674**	**3,287,069**	**2,815,735**	**11,824,035**
Share in the results of associate companies, net	605	1,679	3,929	35,266	41,479
Income before taxes on income	(372,610)	(546,134)	350,061	654,551	85,868
Taxes on income	(140,313)	(192,718)	113,635	205,683	(13,713)
Income (loss) for the period	**(232,297)**	**(353,416)**	**236,426**	**448,868**	**99,581**
Attributable to:					
Shareholders in the company	(233,190)	(354,506)	235,612	448,485	96,401
Minority interests	893	1,090	814	383	3,180
Income (loss) for the period	(232,297)	(353,416)	236,426	448,868	99,581

Earnings per share attributable to company shareholders	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Basic earnings (loss) per share (in NIS) from continuing operations	(4.21)	(6.40)	4.25	8.10	1.74
Diluted earnings (loss) per share (in NIS) from continuing operations	(4.21)	(6.40)	4.25	8.10	1.74
Basic earnings (loss) per share (in NIS)	(4.21)	(6.40)	4.25	8.10	1.74
Diluted earnings (loss) per share (in NIS)	(4.21)	(6.40)	4.25	8.10	1.74
Number of shares used to calculate Earnings per share					
Basic	55,412	55,412	55,412	55,412	55,412
Diluted	55,412	55,412	55,412	55,412	55,412

4. Condensed quarterly statements of comprehensive income (Regulation 10A)

Condensed quarterly statements of comprehensive income for 2016 (Cont.)

NIS in thousands	Q1	Q2	Q3	Q4	Total
Income (loss) for the period	(232,297)	(353,416)	236,426	448,868	99,581
Components of other comprehensive income					
Foreign currency translation differences for foreign operations applied to capital reserves	(17,702)	3,497	(11,875)	4,074	(22,006)
Foreign currency translation differences for foreign operations applied to the statement of income	-	-	-	(553)	(553)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	26,141	110,547	(1,018)	61,215	196,885
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	(44,347)	(68,623)	(75,304)	(46,223)	(234,497)
Impairment loss of available for sale financial assets transferred to profit and loss	14,699	39,641	14,021	5,400	73,761
Tax impact	(6,045)	22,714	(25,208)	(1,442)	(9,981)
Total components of net profit which will subsequently be reclassified to profit and loss	(15,164)	62,348	(48,968)	25,355	23,571
Amounts which will not subsequently be reclassified to profit and loss.					
Income with respect to re-evaluation of property, plant and equipment which was classified as investment property					
Actuarial income (loss) from defined benefit plan	(1,664)	(546)	(940)	6,316	3,166
Taxes with respect to other components of comprehensive income	(459)	(166)	(301)	1,864	938
Total components of net income (loss) which will not subsequently be reclassified to profit and loss	(1,205)	(380)	(639)	4,452	2,228
Other comprehensive income (loss) for the period, before taxes on income	(16,369)	61,968	(49,607)	29,807	25,799
Total comprehensive income (loss) for the period	(248,666)	(291,448)	186,819	478,675	125,380
Attributable to:					
Shareholders in the company	(249,767)	(292,644)	186,216	478,435	122,240
Minority interests	1,101	1,196	603	240	3,140
Total comprehensive income (loss) for the period	(248,666)	(291,448)	186,819	478,675	125,380

5. Use of consideration from securities (Regulation 10C)

None.

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11)

Company name	Stock number on the stock exchange	Share class and par value	Number of Shares	Total par value in NIS	Value in the separate financial statements as defined in Regulation 9C NIS in thousands	Holding rates in % In capital	Holding rates in % In voting	Holding rates in % In right to appoint directors	Stock exchange price as of the date of the statement of financial position in NIS per share	Country of incorporation other than Israel
Clal Insurance Company Ltd. ("Clal Insurance") [1] [2]		Ordinary shares with a value of NIS 1	118,490,456	118,490,456	4,520,997	99.98	99.98	99.98		
Clal Agency Holdings (1998) Ltd. ("Clal Agencies") [3]		Ordinary shares with a value of NIS 1	100	100	73,559	100.00	100.00	100.00		
Clalbit Systems Ltd. ("Clalbit Systems) [4]		Ordinary shares with a value of NIS 1	1,000	1,000	5,568	100.00	100.00	100.00		
Clal Credit and Finance Ltd. [5]		Ordinary shares with a value of NIS 1	34,667	34,667	56,591	100.00	100.00	100.00		

[1] For details regarding the company's undertaking to supplement the equity of Clal Insurance and the validity thereof, see Note 16(e)(8) to the financial statements.

[2] Including holdings of 1 ordinary share through Clal Credit and Finance Ltd.

[3] Includes the holding of 1 ordinary share, through Betach - Thorne Insurance Agency Ltd. until January 2016, at which time this share became a deferred share, and was distributed as a payment in kind dividend to Clal Agencies.

[4] Includes holding of 1 ordinary share through Betach - Thorne Insurance Agency Ltd.

[5] The company provided full guarantees to banks with respect to short and long term loans which were received by a consolidated company of Clal Credit and Finance (Clal Consumer Credit) from the banks. The balance of the aforementioned guarantees, as of the date of the financial statements, is approximately NIS 3 million.

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of Shares	Total par value in NIS	Value in the separate financial statements as defined in Regulation 9C NIS in thousands	Holding rates in % In capital	In voting	In right to appoint directors	Stock exchange price as of the date of the statement of financial position in NIS per share	Country of incorporation other than Israel
Subsidiaries and related companies of Clal Insurance										
Clal Credit Insurance Ltd. ("Clal Credit") [6]		Ordinary shares with a value of NIS 1	8,537,280	8,537,280	156,398	80.00	80.00	80.00		
ADC Holdings Ltd. [7]		Ordinary shares with a value of NIS 1	500	500	15,390	33.00	33.00	33.00		
Clal Insurance Company Property Ltd. [8]		Ordinary shares with a value of NIS 0.0001	100	0.1	111,571	100.00	100.00	100.00		
Clal Pension and Provident Funds Ltd. [9] ("Clal Pension and Provident Funds")		Ordinary shares with a value of NIS 1	124,638	124,638	719,369	100.00	100.00	100.00		
HaClal HaRishon Ltd.		Ordinary shares with a value of NIS 1	101	101	2,075	100.00	100.00	100.00		
Clalbit Finance Ltd.		Ordinary shares with a value of NIS 1	1,000	1,000	-	100.00	100.00	100.00		
Clal Insurance Company Property Ltd. [10]		Ordinary shares with a value of NIS 1	100	100	26,846	100.00	100.00	100.00		

[6] For details regarding an undertaking of Clal Insurance to supplement the equity of Clal Credit Insurance and the validity thereof, see Note 16(e)(5) to the financial statements.

[7] Formerly Shagrir Towing Services Ltd.

[8] Includes holding of 1 ordinary share through Canaf - Clal Financial Management Ltd.

[9] For details regarding an undertaking of the company to supplement the equity of Clal Pension and Provident Funds and the validity thereof, see Note 16(e)(6) to the financial statements. As part of the merger of Clal Management Services with and into Clal Pension and Provident Funds, 872 ordinary shares with a par value of NIS 1 each of Clal Pension and Provident Funds were allocated to Clal Insurance, which transferred all of the shares of Clal Management Services to Clal Pension and Provident Funds.

[10] Includes direct holding of 1 ordinary share through the company.

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of Shares	Total par value in NIS	Value in the separate financial statements as defined in Regulation 9C NIS in thousands	Holding rates in % In capital	Holding rates in % In voting	Holding rates in % In right to appoint directors	Stock exchange price as of the date of the statement of financial position in NIS per share	Country of incorporation other than Israel
Atudot Pension Fund for Workers & Independent Workers Ltd.		Ordinary shares with a value of NIS 1	4,000,000	[11] 4,000,000	46,010	50.00	50.00	50.00		
Canaf - Clal Financial Management Ltd. (“Canaf”)		Ordinary shares with a value of NIS 1	1,000	1,000	4,253	100.00	100.00	100.00		
Kingsway 22 Ltd. (“Kingsway 22”)		Ordinary shares with a value of NIS 0.1	10	1	32,363	50.00	50.00	50.00		
115 Colmore Row Limited [12]		No par value	99,000	-	77,599	99.00	99.00	99.00		Jersey
		Class A with a value of EUR 1	7,500	7500 (Euro)	567	60.00	50.00	50.00		Luxembourg
Mealli Holding S.A.R.L [13]		Class B with a value of EUR 1	500	500 (Euro)	65	50.00	50.00	50.00		

[11] Partially paid-up issued share capital.

[12] Includes holding of 19,800 ordinary shares through Clal Pension and Provident Funds.

[13] Includes holding of 3,335 class A shares and 222 class B shares through Clal Pension and Provident Funds.

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total value of Par value in NIS	Value in the report separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in % In capital	Holding rates in % In voting	Holding rates in % In right to appoint directors	Stock exchange price As of the reporting date statement of financial position In NIS per share	Country of incorporation other than Israel
[14] 150 Broomeilaw Limited		No par value	1,000	-	60,204	100.00	100.00	100.00		Jersey
Clal 75 Tresser RH, LP [15]		Limited Partnership	-	-	100,829	100.00	100.00	100.00		United States
Ibex House Ltd.		Ordinary shares with a value of NIS 0.1	500	50	40,672	50.00	50.00	50.00		
Clal (US) Management Inc		No Par Value	200	-	-	100.00	100.00	100.00		United States
Clal Infinity RH, LP [15]		Limited Partnership	-	-	41,913	100.00	100.00	100.00		United States
Pipers Properties Limited		No par value	100	-	28,828	100.00	100.00	100.00		Jersey
Clal Harper Court RH, LP [17]		Limited Partnership	-	-	107,804	100.00	100.00	100.00		United States
Clal Glenview RH, LP [15]		Limited Partnership	-	-	67,675	100.00	100.00	100.00		United States
DCE 1 APS]16]		Ordinary shares with a value of DKK 1	24,500	13,943	20,955	49.00	49.00	-		Denmark
DCE 2 APS]16]		Ordinary shares with a value of DKK 1	24,500	13,943	20,677	49.00	49.00	-		Denmark
Clal 660 Columbus RH, LP []18		Limited Partnership	-	-	23,667	100.00	100.00	100.00		United States
Clal Port Royale RH, LP []18		Limited Partnership	-	-	71,160	100.00	100.00	100.00		United States
Clal Dominion RH, LP []18		Limited Partnership	-	-	49,128	100.00	100.00	100.00		United States

Clal Insurance also holds Clal US Inc. (through the partnership Clal US LP), a company registered in the United States, which was established in order to invest in foreign investment funds.

[14] Includes holding of 200 shares through Clal Pension and Provident Funds.
[15] Canaf is the general partner in the partnership; Clal Insurance is the limited partner
[16] After the reporting year, Clal Insurance sold its entire holdings in the companies DCE1 APS and DCE2 APS.
[17] Canaf is the general partner in the partnership; Clal Insurance and Israeli partnerships of Clal Pension and Provident Funds are the limited partners.
[18] Canaf is the general partner in the partnership; Clal Insurance is the limited partner.

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Number of share on the stock exchange	Share class and par value	Number of shares	Total value of Par value in NIS	Value in the report separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in % In capital	Holding rates in % In voting	Holding rates in % In right to appoint directors	Stock exchange price as of the reporting date statement of financial position in NIS per share	Country of incorporation other than Israel
<u>Subsidiaries and related companies of Clal Agencies</u>										
Betach - Thorne Insurance Agency Ltd. (Betach - Thorne) [19]		Ordinary shares with a value of NIS 1	20,339	20,339	39,955	100.00	100.00	100.00		
		Class A management shares with a value of NIS 1	418	418	41,202	-	-	100.00		
		Class B management shares with a value of NIS 1	418	418	-	-	-	100.00		
		Ordinary shares with a value of NIS 1	4,359	4,359	-	100.00	100.00	-		
Tmura Insurance Agency (1987) Ltd. (“Tmura”)		Preferred shares with a value of NIS 1	1,392	1,132	-	100.00	-	-		
<u>Subsidiaries and related companies of Tmura</u>										
Tmura Mele’a Insurance Agency Ltd.		Ordinary shares with a value of NIS 0.001	100,000,000	100,000	1,237	100.00	100.00	100.00		
<u>Subsidiaries and related companies of Betach - Thorne</u>										
Trans Betach Marine Insurance Agency (1991) Ltd. (“Trans Betach”) [20]		Ordinary shares with a value of NIS 1	662	662	885	50.00	50.00	50.00		

[19] Formerly Batach Ltd.

[20] In September 2016, Batach Thorne engaged in an agreement for the sale of Trans Betach shares to DSV Air and Sea Ltd., which is the parent company of the holder of the additional Trans Betach shares. The sale process has not yet been completed, and is subject to the Commissioner’s approval.

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Number of share on the stock exchange	Share class and par value	Number of shares	Total value of Par value in NIS	Value in the report separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in % In capital	Holding rates in % In voting	Holding rates in % In right to appoint directors	Stock exchange price As of the reporting date statement of financial position In NIS per share	Country of incorporation other than Israel
Subsidiaries and related companies of Ibex House Ltd.										
Ibex London Limited [21]		Ordinary shares with a value of GBP 0.01	196,000	1,960 (GBP)	148,432	49.00	49.00	49.00		**Jersey**
Subsidiaries and related companies of Clal Credit and Finance [22]										
Clal Finance Consumer Credit Ltd. [23]		Ordinary shares with a value of NIS 1	10,000	10,000	16,277	100.00	100.00	100.00		
Clal Finance Business Credit Ltd.		Ordinary shares with a value of NIS 1	10,000	10,000	21,230	100.00	100.00	100.00		
Clal Factoring and Finance Ltd. ("Clal Factoring and Finance")		Ordinary shares with a value of NIS 1	10,001	10,001	14,327	100.00	100.00	100.00		

[21] Includes holding of 47,040 ordinary shares through Clal Pension and Provident Funds.

[22] For details regarding the reduction of activities in Clal Credit and Finance, see Note 27 to the financial statements.

[23] The company is a guarantor for the liabilities of Clal Consumer Credit Ltd. towards banks in the amount of approximately NIS 3 million, as of December 31, 2016. The ratio of the guarantees out of the total loans is approximately 100%.

7. Loans and capital notes to the company's subsidiaries and related companies

Loan provider	Loan recipient	Balance of loans and capital notes (including accrued interest) NIS in thousands	Rate of interest %	Type of linkage	Years of repayment
Loans from Clal Insurance					
Clal Insurance	Clal Agencies	8,529	4.00%	Consumer price index	Ten equal principal payments beginning on December 1, 2010
Clal Insurance	Elite Real Estate A.P. Ltd. [24]	19,028	-	Unlinked capital note	Undetermined
Loans from Clal Agencies					
Clal Agencies	Tmura Insurance Agency (1987) Ltd. [25]	2,656	4.00%	Consumer price index	Undetermined
Clal Agencies	Clal Heath Solutions Insurance Agency (1989) Ltd. [24]	273	-	Unlinked capital note	Undetermined
Clal Agencies	Clal Leaders Insurance Agency Ltd. [24]	15,176	-	Unlinked capital note	Undetermined
Loan from Betach					
Betach	Tmura Insurance Agency (1987) Ltd.	4,018	3.23%	Interest in accordance with income tax provisions	2017
Betach	Korin Insurance Agency (1997) Ltd. [26]	244	-	Unlinked capital note	Undetermined

[24] Inactive
[25] The loan was originally extended to Nahalim Henry Harel Insurance Agency (2006) Ltd. In March 2015, Nahalim was merged with and into Tmura.
[26] Registered as voluntarily liquidated.

7.1 Changes in investments in subsidiaries and related companies which are active during the reporting period (Regulation 12)

Clal Holdings and subsidiaries

Name of investee company	Date of change	Description of change	Number of share on the stock exchange	Class of shares and par value	Total par value in NIS	Cost (consideration) in NIS thousands
Clal Insurance						
Clal Pension and Provident Funds Ltd.	March 2016	Allocation of shares to Clal Insurance		Ordinary shares with a value of NIS 1	872	- [27]

[27] As part of the merger of Clal Management Services with and into Clal Pension and Provident Funds, 872 ordinary shares with a par value of NIS 1 each of Clal Pension and Provident Funds were allocated to Clal Insurance, which transferred all of the shares of Clal Management Services to Clal Pension and Provident Funds.

7.2 Changes in loans to subsidiaries and to related companies during the reporting period (Regulation 12)

Clal Holdings and subsidiaries

The company	Date	Name of investee company	Description of change	Amounts in millions of NIS
Clal Insurance				
Clal Insurance	December 2016	Clal Agencies	Current repayment of loan	3
Clal Agencies				
Clal Agencies	February 2016	Tmura Insurance Agency (1987) Ltd.	Early and current repayment of loan *)	2
Betach				
Betach Ltd.	November 2016	Tmura Insurance Agency (1987) Ltd.	Current repayment of loan	4

*) Total repayment amount - NIS 0.5 million of current repayment, and additionally, NIS 1.5 million early repayment, possible as part of the loan terms.

8. Income and loss of active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2016 (Regulation 13)

8.1 Clal Holdings and subsidiaries

	Income (loss) for the year		Other comprehensive income (loss) for the year		Total comprehensive income (loss) for the year		Income		
	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Dividend	Interest	Management fees and directors' compensation
					NIS in thousands				
Subsidiaries of Clal Holdings through direct holding									
Clal Insurance Company Ltd.	108,649	3,343	21,621	(41)	130,270	3,302	-	-	-
Clal Agency Holdings (1998) Ltd.	12,537	-	512	-	13,049	-	10,000	-	-
Clalbit Systems Ltd.	652	-	116	-	768	-	-	-	-
Clal Credit and Financing Ltd.	5,525	-	(36)	-	5,489	-	6,500	-	664

8. Income and loss of active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2016 (Cont.)

(Regulation 13)

8.1 Clal Holdings and subsidiaries (Cont.)

	Income (loss) for the year		Other comprehensive income (loss) for the year		Total comprehensive income (loss) for the year		Income		
	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Dividend	Interest	Management fees and directors' compensation
					NIS in thousands				
Subsidiaries and related companies of Clal Insurance									
Clal Credit Insurance Ltd.	12,721	3,180	(204)	(51)	12,517	3,129	-	-	-
ADC Holdings Ltd.	170	-	-	-	170	-	-	-	-
Ararat Holdings Ltd.	(26)	-	-	-	(26)	-	-	-	-
Clal Pension and Provident Funds Ltd.	20,315	-	(22)	-	20,293	-	-	-	-
HaClal HaRishon Ltd.	699	-	(608)	-	91	-	-	-	-
Atudot Pension Fund for Workers & Independent Workers Ltd.	(986)	-	31	-	(955)	-	-	-	13,781
Canaf - Clal Financial Management Ltd.	(519)	-	474	-	(45)	-	-	-	-

8. Income and loss of active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2016 (Cont.)

(Regulation 13)

8.1 Clal Holdings and subsidiaries (Cont.)

	Income (loss) for the year		Other comprehensive income (loss) for the year		Total comprehensive income (loss) for the year		Income		
	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Dividend	Interest	Management fees and directors' compensation
	in NIS thousands								
Subsidiaries and related companies of Clal Agencies									
Betach - Thorne Insurance Agency Ltd.	3,652	-	158	-	3,810	-	3,600	-	200
Tmura Insurance Agency (1987) Ltd.	8,862	-	354	-	9,216	-	7,300	155	200
Trans Betach Marine Insurance Agency (1991) Ltd.	207	-	-	-	207	-	275	-	-
Subsidiaries and related companies of Clal Credit and Finance									
Clal Finance Consumer Credit Ltd.	2,256	-	-	-	2,256	-	-	-	-
Clal Finance Business Credit Ltd.	160	-	-	-	160	-	-	-	-
Clal Factoring and Finance Ltd.	1,246	-	-	-	1,246	-	-	-	-

9. List of groups of loan balances which were given as of the date of the statement of financial position

(Regulation 14)

Not relevant.

10. Trading on the stock exchange - securities which were listed for trading - dates and reasons for suspension of trading

(Regulation 20)

A. During the reporting year

No shares of the company were listed for trading during the reporting year.

B. Suspension of trading

During the reporting year, no fixed suspensions of trading were implemented with respect to ordinary company shares on the stock exchange (excluding with respect to the publication of financial statements and/or other material reports).

11. Compensation to interested parties and corporate officers

(Regulation 21)

Presented below are details regarding the compensation which was given in 2016 (NIS in thousands), as recognized in the financial statements for 2016:

1. Each of the five highest recipients of compensation among the corporate officers in the company or in companies under its control, if the compensation was given in connection with their tenure in the company or in companies under its control, and regardless of whether the compensation was given by the company or by companies under its control;

2. Each of the three highest recipients of compensation in the company, to whom the compensation was given in connection with their tenure in the company itself, and who is not listed in section 1 above;

3. Any interested party in the company who is not listed in sections 1 and 2 above, except for a subsidiary of the company, if the compensation was given to them by the company or by a corporation under its control, in connection with the services which they provided as a senior position holder in the corporation or in a corporation under his control, regardless of whether or not a employer - employee relationship exists, including if the interested party is not a corporate officer.

11. Compensation to interested parties and corporate officers (Cont.)

Details of compensation recipient							Compensation for services					Other compensation			Total
Name	Gender	Position	Scope of Position	Holding rate in the corporation's capital	Salary [1]	Bonus [2]	Share-based payment [3]	Management fees	Consulting fees	Commission	Other	Interest	Rent	Other	
Izzy Cohen [4]	Male	Company CEO	100%	-	3,332	-	-	-	-	-	-	-	-	-	3,332
Danny Naveh [5]	Male	Chairman of the Board	85%	-	2,123	-	333	-	-	-	-	-	-	-	2,456
Anath Levin [6][7]	Female	Head of the Finance, Investments and Credit Division and CEO of Canaf	100%	-	2,242	-	51	-	-	-	-	-	-	-	2,293
Akiva Kaliman [8]	Male	CEO of Tmura	100%	-	1,445	812	-	-	-	-	-	-	-	-	2,257
Yoram Naveh [6] [9]	Male	Head of Resources Division	100%	-	1,497	-	349	-	-	-	-	-	-	-	1,846
It is hereby clarified that the details regarding the compensation which was given in 2016, as provided in the table above, are as recognized in the financial statements for 2016, and are not necessarily identical to the calculation which is performed for the purpose of the correspondence between the corporate officers' compensation and the company's compensation policy, including with respect to the compensation limit in accordance with the Executive Compensation Law, the calculation of the value of the capital compensation, the attribution of the severance package, and the variable compensation which is paid in cash, which are applied in accordance with the provisions of the compensation policy, which is attached as an annex to the periodic report for 2016.															

11. Compensation to interested parties and corporate officers (Cont.)

(Regulation 21)

Notes regarding the data in the table:

1. Linked to the consumer price index, according to the definition of linkage to the index in the company's compensation policy; The amount specified in the table includes social provisions, severance provisions, annual holiday, convalescence pay and other benefits, including grossing-up of vehicle and cellphone expenses.

2. In general, the amount specified in the table above refers to the entire amount of the variable bonus, paid in cash, to which the corporate officer is entitled with respect to the reporting year, without taking into account the distribution arrangements with respect to the deferred bonus. The amounts of variable compensation, if and insofar as any are paid, which are received, are effectively lower, in a manner whereby, with respect to corporate officers and senior positions holders, 25% to 50% of the variable bonus which was paid since 2013 is deferred to a subsequent year or years, and its payment is made conditional upon the fulfillment of the targets specified in the relevant compensation policy. There is no certainty that the deferred compensation amount will be paid. Except as specified in section 9 below, with respect to the reporting year, no bonuses were paid; however, shortly after the approval of the financial statements, deferred bonuses will be released which were recorded in the reports during the years 2014 (if and insofar as they were not released in 2015) and 2015.

3. The share-based payment amount is based on an evaluation of the warrants as of their allocation date, where the fair value of each tranche is distributed over the vesting period. For additional details regarding share-based payment, see Note 43 to the company's financial statements.

4. For details regarding the employment terms of Mr. Izzy Cohen, see Note 42(b)(5) to the company's financial statements. For details regarding the warrants which were allocated to the company's CEO in February 2013, see Note 43(a) to the financial statements.

5. For details regarding the employment terms of Mr. Danny Naveh until June 5, 2016 and beginning on June 6, 2016, see Note 42(b)(4) to the company's financial statements. For details regarding the warrants which were allocated to the Chairman of the Board, see Note 43(a) to the financial statements.

6. The employment terms of the company's corporate officers (excluding the CEO and the Chairman), including those specified in the table above (hereinafter in this section: the "**Corporate Officers**"), were specified in a personal employment agreement which defines the base salary and the social and pension conditions, according to the conventional practice for corporate officers in Clal Group, including provisions for pension insurance with respect to the severance, compensation, holiday and convalescence components. In accordance with the terms of the corporate officers' employment agreements, in case of dismissal or resignation, the party terminating the engagement must provide notice to the other party two or three months in advance. In general, in case of termination of employment, as stated above, the corporate officers will be entitled, in addition to the severance pay, to a one-time bonus in the amount of 6 monthly salaries (base salary), without social benefits and without a vehicle, provided that the termination of the working relationship was not due to the resignation of the corporate officer during the period of two years following the employment commencement date (except if the resignation took place within 12 months after the date of transfer of the control of the company), subject to the fulfillment of the terms of the compensation policy, and with reference to the transitional provisions which were determined in the compensation circular, as relevant (the "Severance Package"). The corporate officers are entitled to receive severance pay, whether upon resignation or upon dismissal, except in case which by law do not confer eligibility for severance pay. As part of their employment terms, the corporate officers are entitled to vehicles which the company provides to them, and regarding which the company bears the applicable grossing-up of tax. The corporate officers are also entitled to an annual bonus in accordance with the conventional criteria in the group for managers of their rank, and in accordance with the company's compensation policy (as published in the company's

11. Compensation to interested parties and corporate officers (Cont.)

(Regulation 21)

periodic report), or in accordance with previous agreements, where the target bonus of the corporate officers during the reporting year was a rate of 0.266% of comprehensive income, and their eligibility for the bonus is in accordance with the company's fulfillment of the minimum conditions for the receipt of an annual bonus, in accordance with the compensation policy and the corporate officers' fulfillment of the targets (which refer to their personal performance and/or to the performance of the unit for which they are responsible and/or for the company's performance, where the goals may be quantitative or qualitative, measurable or discretionary). The targets will be determined for the corporate officers on an annual basis, except with respect to the discretionary component. In any case, the corporate officers will not be entitled to an annual bonus exceeding NIS 1 million. during the reporting year, no bonuses were granted to the corporate officers, since the company did not fulfill the minimum conditions which were determined in the compensation policy. For additional details, see the annex to the periodic report. It is noted that the compensation policy does not prejudice the rights which were accrued and/or which will be accrued with respect to periods prior to this date, and nor any other engagements and/or rights of the employees in connection with their tenure and employment in the company, which existed prior to the entry into effect and publication of the compensation circular and/or the amendment to the compensation circular, and prior to the publication of the compensation policy, or with respect to periods to which previous agreements applied (the "**Transitional Provision**"). It is noted that at the end of 2016, the transitional provisions expired, and accordingly, the employment agreements of the corporate officers were adjusted to the provisions of the compensation policy, the compensation circular and the amendment to the compensation circular. On October 9, 2016, following the entry into effect of the Executive Compensation Law, the company notified its corporate officers that beginning from the application date of the Executive Compensation Law, on October 12, 2016, the compensation to which they are entitled will be reduced in a manner which complies with the provisions of the Executive Compensation Law.

In general, the corporate officers participate in the company's warrants plan, as specified with respect to each of them.
The company acquires corporate officers insurance for the corporate officers in the group, and letters of exemption and letters of indemnity from the company were given to each of the company's corporate officers.

7. Anath Levin, Executive VP, has served as the Investments, Finance, and Financial Services Division Manager and as the CEO of Canaf since February 2015 (until May 2016, she served as the Finance, Investments and Credit Manager and CEO of Canaf). Her employment terms are defined in the personal employment agreement which corresponds to the employment agreement specified in subsection 6 above. In accordance with the 2015 warrants plan, which is a performance-dependent plan, warrants were allocated to Anath Levin with respect to 3 years, where each allocation with respect to a certain year is divided into three tranches, exercisable over three years, according to a progressive exercise price (subject to adjustments, inter alia, with respect to dividend distributions). Each of the allocations will be exercisable after the eligibility for it has materialized at the end of the year for which it was allocated, during a progressive vesting period of one year (first tranche), two years (second tranche) and three years (third tranche). In August 2015, 140,000 warrants were allocated to Anath Levin from the 2015 plan, with respect to the years 2015-2017, which are exercisable into shares according to a progressive exercise price of NIS 66.12 to NIS 69.70 for tranches with respect to 2015; NIS 67.70 to NIS 70.85 for tranches with respect to 2016; and NIS 69.27 NIS 72.42 to for tranches with respect to 2017. Anath Levin is not entitled to tranches which were allocated to her with respect to 2016, since the company did not fulfill all of the basic conditions for their vesting, and therefore, these warrants were returned to the register of warrants. Accordingly, as of the present date, she has 46,667 exercisable warrants with respect to 2015, and 46,666 warrants with respect to 2017, regarding which the basic conditions for their vesting have not yet been fulfilled.

11. Compensation to interested parties and corporate officers (Cont.)

(Regulation 21)

8. Yoram Naveh, Executive VP, serves as Head of the Resources Division in Clal Insurance since January 2014. Previously served as CEO of Clal Finance and Clal Finance Batucha, beginning in December 2011. His employment terms were defined in the personal employment agreement which corresponds to the employment agreement specified in subsection 6 above. According to the 2007 warrants plan, the company allocated to Mr. Naveh 75,000 warrants in 2012, according to an exercise price of NIS 75 per warrant (linked to the consumer price index with respect to November 2011), and as of the present date, he has 25,000 exercisable warrants. In accordance with the 2013 warrants plan, in February 2014, 90,000 share warrants were allocated to Mr. Naveh, divided into three tranches, according to a progressive exercise price of NIS 71 per share (for the first tranche), NIS 72.75 per share (for the second tranche), and NIS 74.5 per share (for the third tranche) (subject to adjustment, inter alia, with respect to a dividend distribution). The tranches are exercisable following a progressive vesting period of two years (first tranche), three years (second tranche) and four years (third tranche).

9. Mr. Akiva Kaliman has served as the CEO of Tmura, a second-tier subsidiary of the company, since November 2013. His employment terms were defined in the personal employment agreement which corresponds to the employment agreement specified in subsection 6 above, excluding as regards the severance package, which is in the amount of 3 monthly salaries (base salary), without social benefits and without a vehicle, independent of the date of retirement. Mr. Kaliman received no warrants of the company. In accordance with his employment agreement, Mr. Kaliman is entitled to receive a bonus once per year, which will be determined by the Board of Directors of Tmura.

   The target bonus of Mr. Kaliman for 2016 was set as a total of NIS 1 million. His eligibility for the bonus was dependent on his fulfillment of the target plan which was determined for him, similarly to the principles which were determined in the company’s compensation policy. The bonus will be paid to Mr. Kaliman shortly after the approval of the reports, subject to the approval of the Board of Directors of Tmura. [26]

[26] It is noted that the foregoing does not include payments with respect to business engagements between Tmura and Clal Insurance, and a company in which Mr. Kaliman is a shareholder.

11. Compensation to interested parties and corporate officers (Cont.)

(Regulation 21)

A. Compensation plans

For details regarding the company's capital compensation plans, see Note 43(a) to the company's financial statements. For the company's compensation policy, see the annex "**Compensation Policy**" in Part A of the Periodic Report.

B. Directors' compensation

The company's payments in each of the years 2016 and 2015 to the company's directors, with respect to their tenure on the company's board of directors and in the various committees (excluding payments to the Chairman of the company's Board of Directors), amounted to a total of approximately NIS 1,668 thousand and approximately NIS 1,065 thousand, respectively. The compensation paid to directors in the company and in Clal Insurance is the maximum compensation allowed in accordance with the company's classification for directors without expertise (the compensation does not include taking into consideration any expertise), in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 2000, as approved on June 18, 2008. The company participates in 20% of the cost of salary of the joint directors, who are serving both in the company and in Clal Insurance (not including the salary of the Chairman of the Board, which is paid separately by Clal Insurance) and Clal Insurance bears 80% of the cost. The aforementioned amounts are after the participation of Clal Insurance in the aforementioned insurance.

For details regarding the salary of the Chairman of the company's Board of Directors, which is not included in the aforementioned amount, see section A above, and Note 42(b)(4) to the company's financial statements.

12. Controlling shareholder of the corporation (Regulation 21A)

For the sake of caution, the company considers IDB Development as the company's controlling shareholder for the purpose of Regulation 21A[28]. To the best of the company's knowledge, IDB Development is a private company whose bonds are listed for trading on the Tel Aviv Stock Exchange Ltd., and as such, constitutes a reporting corporation in accordance with the Securities Law. IDB Development holds approximately 55% of the voting rights in the company (approximately 53% at full dilution). The aforementioned holding is held directly (5%)[29] and through shares which were transferred to the trustee, Mr. Moshe Terry (50% of the issued share capital and voting rights of the company) (hereinafter: the "**Trustee**" and the "**Means of Control**", respectively).

Following the completion of the creditors' settlement in IDB Holdings in May 2014, the Elsztain-Extra Group became the controlling shareholder of IDB Development, in October 2015, Mr. Elsztain became the sole controlling shareholder of IDB Development. For details, see Note 1 to the financial statements.

For details regarding the appointment of a trustee for the company's control shares, and the letters of the Commissioner regarding the activation of the rights associated with the aforementioned means of control, see Note 1 to the financial statements.

For additional details regarding expected changes in the control of the company, including regarding a demand for the sale of IDB Development's holdings in the company and legal proceedings which are being conducted on the matter, see a description of the Commissioner's letter dated December 30, 2014 and January 7, 2016, as specified in Note 1 to the financial statements.

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[27] In accordance with a legal opinion which was received by the company, with respect to control for the purpose of the chapter regarding "Interested party transactions" in the Companies Law, as specified in section 13(b) below.

[29] Proximate to the publication of the report, 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.

12. Controlling shareholder of the corporation (Cont.)

(Regulation 21)

For details regarding an agreement between IDB Development and Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**") from March 1999, with respect to the company (the "**Shareholders Agreement**"), 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 January 5, 2017 (reference number 2017-01-002370). It is noted that, to the best of the company's knowledge, in May 2009, Bank Hapoalim announced to IDB Development (through its representatives) that it does not request to appoint any directors on its behalf to the company's board of directors, so long as it has not notified IDB Development otherwise. To the best of the company's knowledge, following IDB Development's engagement in an agreement for the sale the company's shares in August 2013 (an engagement which expired without being completed in May 2014), and following negotiations regarding the engagement in an agreement for the sale the company's shares in December 2015, Bank Hapoalim contacted IDB Development on the matter, and presented a preliminary position according to which, in accordance with the provisions of the shareholders agreement in connection with the addition of a strategic investor to the company, approval from Bank Hapoalim is required regarding the identity of the investor, and therefore, Bank Hapoalim has pro-rata joining rights to the aforementioned sale, in accordance with its holding rate in the company. According to the position of IDB Development, which was submitted to Bank Hapoalim, in connection with those transactions, the provisions of the shareholders agreement which pertain to the addition of a strategic investor do not apply, in light of the circumstances of the matter and of the transaction.

13.Transactions with the controlling shareholder (Regulation 22) [30]

A. Non-extraordinary and insignificant transactions

On March 16 and 21, 2017, the company's audit committee and board of directors, respectively, decided to update guidelines and rules for the classification of a transaction of the company or its consolidated company with an interested party therein as an insignificant transaction, as determined in Regulation 41(a3)(1) of the Securities Regulations (Annual Financial Statements), 2010 (the "**Financial Statements Regulations**"). These rules and guidelines will also be used in the evaluation of the scope of disclosure in the periodic report and in the prospectus (including in shelf offering reports) regarding a transaction of the company, a corporation under its control, or its related company, with the controlling shareholder, or regarding which the controlling shareholder has a personal interest in its approval, as determined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Periodic Reports Regulations**"), and in Regulation 54 of the Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus), 1969 (the "**Details of Prospectus Regulations**"), regarding the evaluation of the need to submit an immediate report regarding the aforementioned transactions of the company, as set forth in Regulation 37a(6) of the periodic reports regulations, which was in effect until January 15, 2016 (the types of transactions specified in the financial statements regulations, in the periodic reports regulations and in the details of prospectus regulations shall hereinafter be referred to as: "**Interested Party Transactions**"). It is noted that the aforementioned guidelines and rules are also used for transaction classification purposes, in accordance with the provisions of section 117(2a) of the Companies Law. For additional details regarding the policy with respect to transactions with interested parties, including guidelines for the classification of a transaction as an insignificant transaction, and for additional details regarding the policy with respect to the evaluation of significance, regarding the obligation to submit an immediate report regarding the foregoing, by virtue of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970, and regarding the requirement to classify the transactions specified in section 270(1), (4) and (4a) of the Companies Law, see section 6.7 of the board of directors' report.

As stated above, the company views IDB Development and its controlling shareholders as the company's controlling shareholders, and for the sake of caution only, and accordingly, considers also transactions with companies in which the aforementioned entities are interested parties (the "**Entities from the IDB Group**") as transactions in which the company's controlling shareholder has a personal interest. To the best of the company's knowledge, in their ordinary course of business, the company and its consolidated companies perform, or may perform, non-extraordinary insignificant transactions, with the aforementioned entities from the IDB Group, with the trustee or with companies in which the trustee has a personal interest, and also with entities which have, or may have, undertakings to perform transactions of the types and characteristics specified in section 6.8 of the board of directors' report (for details regarding transactions with entities which may be considered material creditors of IDB Development, see section 13B below).

It is noted that, in accordance with a legal opinion which the company received and which was approved in the company's audit committee and board of directors on January 27, 2016, IDB Development is not considered a controlling shareholder in the company with respect to the chapter regarding interested party transactions in the Companies Law. However, for the sake of caution only, the company decided to continue regarding transactions with IDB Development as transactions with a controlling shareholder, and will also regard transactions with third parties in which IDB Development has a personal interest as transactions in which the controlling shareholder has a personal interest, except with respect to engagement in transactions with entities which may be considered material creditors of IDB Development or its controlling shareholders, including banking corporations[31]**, in which case it will not regard them as transactions in which the company's controlling shareholders have a personal interest, which require approvals in accordance with sections 270(4) and 275 of the Companies Law.**

[30] It is noted that, in light of the provisions of section 12 above, the transactions described in this section include, inter alia, transactions which were implemented during the reporting year and/or which were in effect during the reporting year, with entities which, as of the agreement date, were considered, for the sake of caution, controlling shareholders or transactions in which the controlling shareholders were considered, at the time of the engagement, as having a personal interest. Additionally, in light of that stated in section 12 above, regarding the creditors' settlement in IDB Holdings, and regarding the appointment of the trustee, the company stopped considering engagements with Messrs. Nochi Dankner, Shelly Bergman, Avraham Livnat and Yitzchak and Ruth Manor, or engagements in which any of them have a personal interest, as transactions with controlling shareholders, and will continue, for now, to consider the trustee for the control shares, and for the sake of caution, IDB Development as well, as the controlling shareholders for the purpose of the approval and classification of transactions with controlling shareholders. For details regarding developments in connection with the expected changes in control in the company and/or in the company's controlling shareholder, see Note 1 to the financial statements.

[31] On March 5, 2013, within the framework of the company's reports, a position of the Israel Securities Authority was published which determined, inter alia, that a transaction made by a public company with a material creditor of the controlling shareholder, during a period when the controlling shareholder is undergoing a cash flow crisis, and when the decisions of that material creditor may affect its future, the situation in question gives rise to a personal interest for the controlling shareholder (hereinafter: the "**Authority's Position**").

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

B. Transactions which are not specified in section 270(4) of the Companies Law, and which are not insignificant

During the reporting year, the company and the Group's member companies did not engage in transactions with entities from the IDB Group and/or with other parties in which IDB and/or the trustee have a personal interest, and which were not listed in section 270(4) of the Companies Law, and are not insignificant, and no such transactions were in effect as of the reporting date.

C. Transactions specified in section 270 (4) of the Companies Law

Presented below are details, to the best of the company's knowledge, regarding extraordinary transactions of the company with the company's controlling shareholders, or extraordinary transactions of the group with third parties in which the company's controlling shareholders have a personal interest, where the engagement in the aforementioned transactions was performed during the year preceding the date of this report, or which are in effect as of the date of this report:

1. **Approval of donations to IDB Community Fund (RA)** - On August 21, 2006, prior to the change of control of IDB Development, as specified in Note 1 to the financial statements, the general meeting approved, after approval was received from the audit committee and board of directors for this purpose, a fixed annual framework for donations to IDB Community Fund (RA) (hereinafter: the "**Fund**"), out of its total annual donations budget. The fund is a Registered Association which collects donations for large, ongoing projects in the fields of welfare, education, culture, lifesaving efforts and assistance to the community. In the aforementioned general meeting, it was determined that the company's donation to the fund in each calendar year will amount to a total of up to 75% of the company's overall donations budget for that year, and no more than 0.75% of the company's annual net profit, according to its consolidated audited financial statements for the preceding year. In light of Amendment 16 to the Companies Law, on March 18, 2012, the company's audit committee decided to set the engagement period in the aforementioned transaction until May 15, 2018, i.e., approximately six additional years from the date of the aforementioned decision of the audit committee. During the reporting year, no donations funds were transferred to the fund. For additional details, see Note 42(e)(1) the company's financial statements.

   Personal interest of the controlling shareholder in the transaction - To the best of the company's knowledge, the entities which may be considered, for the sake of caution, as interested parties in the transaction, are IDB Development, and the controlling shareholder of IDB Development, as specified in section 12 above, due to the status of IDB Development as the manager of the fund.

2. **Directors and officers liability insurance** - On July 28, 2013, the general meeting of the company's shareholders approved the engagement in a framework transaction jointly with additional member companies of the IDB Group, or separately, for liability insurance with respect to the directors and officers in the company and in some of its investee companies, including officers who are, or whose relatives are, the company's controlling shareholders, for a period of 3 years beginning on August 1, 2013. The insurance period of the insurance transactions which were performed as part of the framework transaction has concluded; however, the insurance which was purchased in the past continues to cover claims which were filed before the end of the insurance period. For additional details, see section 23(d) below and Note 42(b)(6)(a) to the company's financial statements.

   Personal interest of the controlling shareholder in the transaction - To the best of the company's knowledge, the entities which may be considered, for the sake of caution, as interested parties in the transaction, are IDB Development and the controlling shareholder of IDB Development, as specified in section 12 above, due to the fact that IDB Development or companies under its control may be considered as beneficiaries in accordance with the insurance policies, and due to the tenure of the controlling shareholder and/or the tenure of his relatives (as the term "Relative" is defined in the Companies Law) as directors in the other companies which are participating in the insurance policies, which will be and/or may be beneficiaries under the insurance policies. It is noted that, as of the reporting date, the insurance period concluded of the directors and officers liability insurance policies which were obtained in collaboration with IDB Development and/or companies under its control.

   It is noted that in recent years, various claims were filed against member companies of the IDB Group and against corporate officers in member companies of the IDB Group, who purchased insurance from Clal Insurance, as specified above, and in similar transactions prior to the aforementioned period, as well as alerts regarding additional claims against them, in the total sum amounting to billions of NIS. The aforementioned claims and alerts refer to different underwriting years, each of which was covered by various policies, as stated in section 23(d) below. Some of the amounts of the aforementioned claims exceed the liability limit of the aforementioned policies. As of the reporting date, claims are being conducted with respect to various underwriting years (some of which exceed the liability limit amount in the policy) in a claimed total of approximately NIS 3.9 billion.[32]

[32] The aforementioned amount includes a motion to approve a class action with respect to which legal proceedings are being conducted in connection with the filing of an amended claim, the amount of which may change in the future.

13.Transactions with the controlling shareholder (Regulation 22) (Cont.)

C. Transactions specified in section 270(4) of the Companies Law (Cont.)

The company is covered, through these policies, in 100% reinsurance, whereby the reinsurers in the policies are international reinsurers with an international rating of at least A-. For details regarding the exposure to reinsurers, see Note 41(f).
It is hereby clarified that non-fulfillment of the reinsurers' undertakings towards the company will not release the company from its liabilities towards the policyholder according to the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the company to incur losses.

3. **Indemnification of directors and corporate officers** - On May 3, 2012, the general meeting of the company's shareholders approved the provision of new letters of indemnity to corporate officers and directors. On July 28, 2013, an amendment to the letters of indemnity was approved. For details on this matter, see section 23(d)(2) below.

   Personal interest of the controlling shareholder in the transaction - To the best of the company's knowledge, the entities which may be considered as interested parties in the transaction are Nochi Dankner, Shelly Bergman, Avraham Livnat, Yitzchak Manor and Ruth Manor, who were the company's controlling shareholders, due to their tenure and/or the tenure of their relatives as directors and/or as controlling shareholders in the company and/or in companies under the company's control, who were entitled to indemnification in accordance with the aforementioned decision.

4. **Investment in Emerging Markets Credit Opportunity Fund (EMCO)** - On August 11, 2010, the company's audit committee and board of directors approved its engagement in a transaction in which entities from the Clal Holdings Insurance Enterprises Group (hereinafter: the "**Clal Insurance Group**") and Koor Industries Ltd., a member company of the IDB Group (hereinafter: "**Koor**")33, undertook to invest a sum total of USD 250 million and USD 125 million by Clal Insurance Group and USD 125 million by Koor, in Credit Suisse Emerging Markets Opportunity Fund L.P. (hereinafter: the "**Fund**"), which is a private investment fund which will be managed by corporations from the Swiss banking group Credit Suisse (hereinafter: "**Credit Suisse**"), and whose purpose is to invest in emerging markets, primarily through debt products. An agreement was signed between member companies of the Clal Insurance Group and Koor in order to formalize their mutual rights and obligations in the fund. It was further approved, in accordance with Regulation 1(4) of the Companies Regulations (Easements Regarding Transactions with Interested Parties), 2000, that the terms of the joint investment in the fund, with respect to the Clal Insurance Group, are not materially differently from its terms with respect to Koor, in consideration of their relative share in the joint investment. On November 22, 2010, the investment agreements in the fund were signed, according to which the Clal Insurance Group and Koor undertook to invest in the fund a total of USD 250 million (USD 125 million by the Clal Insurance Group, of which, a total of USD 33 million out of funds held against non-investment-linked liabilities, and the remainder out of members' funds (funds held against investment-linked liabilities, provident funds and pension funds), and USD 125 million by Koor), out a total scope of investment in the fund, in the amount of approximately USD 1 billion. On May 8, 2013, the fund manager announced that it had reduced the balance of the investors' liability in the fund to 2.5% of the original liability amount to the fund, which will be continued only with respect to the management fees, investments and continuation of the undertaking to indemnify. The cumulative scope of the investments of Clal Insurance Group in Amco amounts to a total of approximately USD 45 million.

   The balance of Clal Insurance Group's investment as of the reporting date, after deducting repayments in the amount of approximately USD 34.6 million which were received, amounts to approximately USD 9.3 million.
   As of the reporting date, the balance of Clal Insurance Group's undertakings to invest in AMCO Fund amounts to approximately USD 2.2 million.

   Personal interest of the controlling shareholder in the transaction - To the best of the company's knowledge, the entities which may be considered, for the sake of caution, as interested parties in the engagement (excluding a personal interest which is due to an interest of the company and/or of companies under its control), during the reporting year, are IDB Development and its controlling shareholder, as specified in section 12 above. The personal interest is due to the fact that Koor is a company under the control of IDB Development, and due to the fact that the investors in the fund (including Koor) are or were related parties of Credit Suisse, or were its primary shareholders or entities related thereto. In this context, it is noted that in accordance with Koor's reports in the second half of 2013, up to and including January 2014, Koor disposed of its entire holding in Credit Suisse shares, and as of the publication date of the report, no longer holds Credit Suisse shares.

33 On March 2, 2014, Koor was merged with Discount Investment Corporation Ltd.

14. Holdings of interested parties and corporate officers

(Regulation 24)

14.1 In the corporation

A. **Stocks and other securities which are held by interested parties in the corporation** - On this matter, see the immediate report dated January 5, 2017 (reference number 2017-01-002370).

B. **Holding of the company's warrants by corporate officers** - On this matter, see the immediate report dated January 5, 2017 (reference number 2017-01-002370).

C. **Holding of the company's liability certificates** - None

14.2 Stocks and other securities which are held by an interested party in the company whose activity is material to the corporation's activity, as of February 5, 2017 *

Name of interested party	Company number	Name of security	Number of security on the stock exchange	Amount	% of total Outstanding government bonds
Epsilon Mutual Funds Management (1991) Ltd. **	511576209	Clalbit Finance Ltd. - bonds (Series C)	1120120	106,124	0.01%
		Clalbit Finance Ltd. - bonds (Series F)	1132950	15,310	0.00%
		Clalbit Finance Ltd. - bonds (Series I)	1136050	17,862	0.00%

* For details regarding the company's holdings in subsidiaries, see Regulation 11 above.
** A wholly owned company of Epsilon Investment House Ltd., which is a subsidiary of Koor Industries Ltd. (which merged, on March 2, 2013, with Discount Investment Corporation Ltd.), which is a subsidiary of IDB Development, which is considered, for the sake of caution, as the controlling shareholder (indirect) of the company.

14.3 Dormant shares - The company has no dormant shares.

15. Registered capital, issued capital and convertible securities

(Regulation 24A)

A. **Number of shares included in the corporation's registered capital** - 100,000,000 ordinary shares with a par value of NIS 1 each

B. **Number of shares included in the corporation's issued capital** - 55,412,244 ordinary shares with a par value of NIS 1 each.

C. **Number of shares included in the corporation's issued capital, less dormant shares** - 55,412,244 ordinary shares with a par value of NIS 1 each.

D. **Number of shares which do not confer voting rights** - None.

E. **There are no shares in the corporation's issued share capital which do not confer any rights whatsoever.**

F. **Convertible securities of the corporation -** See the immediate report dated January 31, 2017 (reference number 2017-01-0114631).

16. Register of shareholders

(Regulation 24B)

For additional details, see the immediate report dated January 31, 2017 (reference number 2017-01-0114631).

17. Directors of the corporation as of December 31, 2016

(Regulation 26)

Name: **Danny Naveh, Chairman**	ID number 056480049
Year of birth:	1960
Address for service of process:	55 Hashikma St., Savyon
Citizenship:	Israeli
Membership in board of directors committees:	Risk management and information technology committee and class actions committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	Yes[34], Chairman of the Board of Clal Insurance
Serves as a director since:	5.6.2013
Education:	Bachelor's degree in Law from The Hebrew University of Jerusalem
Activity in the last five years and corporations in which serves as a director:	Served as CEO and investment committee chairman of Agate Medical Investment Group; Served as a director in Ilex Medical Ltd., Medtechnica Ltd., Consent MD Ltd. and C Squared Community Services Ltd. Serves as a director in the private companies I.I.Y. Mordechai Ltd., Consent MD Ltd., and Agyat N.M. Ltd., and founder of Agatejt Healthcare GP Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

[34] For the sake of caution, it is noted that prior to the appointment of Mr. Naveh as Chairman of the Board, subsidiaries of the company invested in funds in which Mr. Naveh was a partner and manager. For details, see the immediate report dated June 6, 2013 (reference number 2013-01-058722).

17. Directors of the corporation as of December 31, 2016 (Cont.)

Name: **Varda Alsheich**	ID number 008059925
Year of birth:	1944
Address for service of process:	19 Yaakov Meridor St., Tel Aviv
Citizenship:	Israeli
Membership in board of directors committees:	Audit committee, compensation committee and class actions committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Bachelor's degree in Law from the Tel Aviv Branch of The Hebrew University of Jerusalem.
Activity in the last five years and corporations in which serves as a director:	Until 2013, served as Vice President of the District Court of Tel Aviv-Yafo, and as the Director of the Liquidation, Receivership, Recovery and Bankruptcy Department. From 2013 onwards, served as a consultant regarding the debt settlement of Hadassah Hospital, and serves as an arbitrator and mediator at the Center for Arbitration in Tel Aviv, while also providing consulting to legal firms and opinions regarding her previous areas of engagement.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	No

Name: **Hana Mazal (Mali) Margaliot**	ID number 024138497
Year of birth:	1969
Address for service of process:	36 Tchernichovsky St., Jerusalem
Citizenship:	Israeli
Membership in board of directors committees:	Balance sheet committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Bachelor's degree in Economics and Communication from The Hebrew University of Jerusalem, M.B.A. with a specialization in Finance and Information Systems from The Hebrew University of Jerusalem.
Activity in the last five years and corporations in which serves as a director:	CEO and director in Galil Mor Financial Products Ltd., CEO of Mofet Financial Products Ltd. Serves as an independent director in Israel Petrochemical Enterprises Ltd. Served as an independent director in Greenergy Renewable Energy Ltd. (formerly Intercolony Investments Ltd.).
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

17. Directors of the corporation as of December 31, 2016 (Cont.)

Name: **Avraham Knobel**	ID number 012594156
Year of birth:	1949
Address for service of process:	6 Wallach St., Kiryat Ono.
Citizenship:	Israeli
Membership in board of directors committees:	Risk management and information technology committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Bachelor's degree in Economics and Sociology from Tel Aviv University, Master's degree in Economics from Tel Aviv University, Doctorate in Economics from Tel Aviv University.
Activity in the last five years and corporations in which serves as a director:	Serves as an economic and financial consultant. Chairman of the board and investment committee member of the Managing Company of the Biochemical & Microbiological Association Study Fund Ltd., and director in Idud Ltd. Served as an outside director, investment committee chairman, and audit committee member in Ayalon Insurance Company Ltd., and in Ayalon Provident Fund Management Company Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

Name: **Yaacov Dior**	ID number 004090940
Year of birth:	1944
Address for service of process:	36 Aharon Katzin St., Ra'anana 43214
Citizenship:	Israeli
Membership in board of directors committees:	Audit committee, balance sheet committee, compensation committee, risk management and information technology committee, and class actions committee
Outside director:	Yes
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2009
Education:	Bachelor's degree in Economics and Political Science, The Hebrew University. M.B.A., Tel Aviv University.
Activity in the last five years and corporations in which serves as a director:	Outside director, finance and audit committee chairman, compensation committee chairman and director in subsidiaries of Israel Chemicals Ltd. Member of the board of trustees and audit committee chairman of Bar Ilan University; Served as a director in Aura Investments Ltd. Served as CEO and Chairman of the Board of IDT Carmel Inc., and as Chairman of the Board of Cellarix Mobile Payments Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

17. Directors of the corporation as of December 31, 2016 (Cont.)

Name: **Yosef Yagil**	ID number 042419911
Year of birth:	1947
Address for service of process:	14 Greenberg St., Haifa
Citizenship:	Israeli, Canadian
Membership in board of directors committees:	Audit committee, balance sheet committee, risk management and information technology committee, compensation committee
Outside director:	Yes
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2012
Education:	B.A. in Economics and M.B.A. with a specialization in Finance from The Hebrew University of Jerusalem; Ph.D. in Finance from Toronto University; Professor of Finance at University of Haifa.
Activity in the last five years and corporations in which serves as a director:	Dean of the Faculty of Management, Chair of the Finance Department and Chair of the English MBA Program at University of Haifa and President of Carmel Academic Center.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise.

Name: **Sami Moualem**	ID number 047443072
Year of birth:	1947
Address for service of process:	10 Boaz St., Ramat HaSharon.
Citizenship:	Israeli
Membership in board of directors committees:	Audit committee, compensation committee
Outside director:	Yes
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Certified Public Accountant, Member of the Institute of Certified Public Accountants in Israel
Activity in the last five years and corporations in which serves as a director:	Independent economic consultant. Served as a director representing the public in Psagot Provident and Pension Funds Ltd.; as Chairman of U-Bank Mutual Fund Management Ltd.; and as a director representing the public, investment committee member, credit committee member and audit committee member of Psagot Pension (H.A.L.) Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

18. Corporate officers of the corporation[36] as of December 31, 2016 (Regulation 26A)

Name: **Izzy Cohen**	ID number 012306320
Year of birth:	1951
Position in the corporation:	CEO
Position in a subsidiary, related company or interested party of the corporation:	CEO of Clal Insurance. Currently serves as Chairman of the Board and/or as a director in member companies of Clal Group, including as Chairman of the Board of Clal Pension and Provident Funds Ltd.
Interested party in the corporation:	Yes
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Statistics from The Hebrew University.
Business experience in the last five years:	CEO of the company and of Clal Insurance. CEO of Africa Israel Investments Ltd.
First year of tenure:	2012

Name: **Moshe Ernst**	ID number 24416604
Year of birth:	1969
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Headquarters Division, served as Chairman of the Board and as a director in subsidiaries of the Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	LL.B. from Bar Ilan University, M.B.A. with a specialization in Finance from Bar Ilan University.
Business experience in the last five years:	Head of the Headquarters Division in Clal Insurance, Legal Advisor and Corporate Secretary in member companies of Clal Holdings Group. Serves as Chairman of the Board and as a director in subsidiaries of Clal Holdings Group.
First year of tenure:	2013

Name: **Eran Shahaf**	ID number 027985894
Year of birth:	1971
Position in the corporation:	Internal auditor
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Internal Auditor in Clal Insurance and in additional institutional entities of Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Attorney, LL.B., B.A. in Logistics and Economics and M.B.A. from Bar Ilan University, LL.M. from Tel Aviv University.
Business experience in the last five years:	Internal auditor of the company and of member companies in Clal Holdings Group; Board member of the Institute of Internal Auditors in Israel (IIA Israel) and Chairman of the Internal Auditors Committee of the institutional entities in the Institute; Deputy internal auditor of the company and of member companies in Clal Holdings Group; Senior attorney and Corporate Secretary of Clal Insurance;
First year of tenure:	2014

[36] Corporate officers in the company, and, in accordance with the company's decision from 2013 regarding the classification of the company's corporate officers, members of management of Clal Insurance, a subsidiary of the company.

18. Corporate officers of the corporation as of December 31, 2016 (Regulation 26A) (Cont.)

ID number 27788421	Name: **Hadar Brin Weiss**
1970	Year of birth:
General Counsel of the company	Position in the corporation:
Executive VP, General Counsel and Head of the Legal Consulting and Regulation Division in Clal Insurance and in other member companies of Clal Holdings Group.	Position in a subsidiary, related company or interested party of the corporation:
No	Interested party in the corporation:
No	Family member of another corporate officer or of another interested party in the corporation:
LL.B. and LL.M. from Tel Aviv University	Education:
General Counsel and Head of the Legal Consulting and Regulation Division in Clal Group, Deputy Counsel and Counsel of the Long-Term Savings Division	Business experience in the last five years:
2013	First year of tenure:

Name: **Hila Conforti**	ID number 058368408
Year of birth:	1963
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor’s degree in Economics and International Relations from The Hebrew University of Jerusalem, M.A. in Economics from Bar Ilan University
Business experience in the last five years:	Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group
First year of tenure:	2007

Name: **Tal Cohen**	ID number 027427681
Year of birth:	1974
Position in the corporation:	Chief Accountant
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Manager of the Comptrollership Division in Clal Insurance, CFO and director in Clalbit Finance Ltd., and director in member companies of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	C.P.A., Bachelor’s degree in Accounting from Tel Aviv University, Bachelor’s degree in Economics and M.B.A from The Hebrew University
Business experience in the last five years:	Comptroller and Manager of the Comptrollership Division in the company and in Clal Insurance, CFO and director in Clalbit Finance Ltd.; Comptroller in the company, in Clal Insurance and in Clalbit Finance; Head of the Professional Department and Audit Department, KPMG Somekh Chaikin
First year of tenure:	2013

18. Corporate officers of the corporation as of December 31, 2016 (Regulation 26A) (Cont.)

Name: **Elite Caspi**	ID number 59169730
Year of birth:	1964
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Non-Life Insurance Division in Clal Insurance; Serves as Chairman of the Board of Betach-Thorne and as a director in subsidiaries of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor’s degree in Industrial Engineering and Management from Ben Gurion University; M.S.M. in Business Administration from Boston University in England.
Business experience in the last five years:	Head of the Non-Life Insurance Division in Clal Insurance, Head of the Non-Life Insurance Unit in the Customers Division, and Head of the Large Businesses Unit in Migdal Insurance Company Ltd.
First year of tenure:	2013

Name: **Anath Levin**	ID number 069420867
Year of birth:	1963
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Finance, Investments and Credit Division in Clal Insurance, and CEO of Canaf - Clal Financial Management Ltd.; Serves as Chairman of the Board of Clal Credit Insurance and as a director and CEO of Clalbit Finance Ltd., and as a director in subsidiaries of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor’s degree in Economics and Business Administration from The Hebrew University, M.B.A. with a specialization in Marketing and Performance Research from The Hebrew University
Business experience in the last five years:	Investments, Finance, and Financial Services Division Manager in Clal Insurance and CEO of Canaf - Clal Financial Management Ltd.; CEO of Migdal Insurance Holdings and Finance Ltd., and Chairman of the Board of Directors of Migdal Insurance Company Ltd.; Executive VP and Head of the Financial Markets Division in Bank Hapoalim Ltd.; Chairman of Poalim Capital Markets; Executive VP and Head of the Investments and Credit Department at Migdal Insurance Company Ltd.
First year of tenure:	2015

18. Corporate officers of the corporation as of December 31, 2016 (Regulation 26A) (Cont.)

Name: **Daniel Cohen**	ID number 029589751
Year of birth:	1972
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Heath Division in Clal Insurance; Serves as Chairman of the Board of HaClal HaRishon Ltd.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Behavioral Science, Management and Economics from Ben Gurion University, and M.B.A. from Ben Gurion University.
Business experience in the last five years:	Head of the Health Division of Clal Insurance, CEO of Clal Health Insurance Company Ltd., VP Service of Clal Health
First year of tenure:	2013

Name: **Yaakov (Chiko) Zecharya**	ID number 053323564
Year of birth:	1955
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Business Unit in Clal Insurance and director in member companies of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	M.Sc. in Engineering from Haifa Technion; M.B.A. from Tel Aviv University.
Business experience in the last five years:	Head of the Business Unit in Clal Insurance and director in member companies in Clal Holdings Group, Executive VP and Deputy Manager of the Customers Division in Migdal Insurance Company Ltd.; VP and Central Region Manager in Migdal Insurance Company Ltd.
First year of tenure:	2013

Name: **Ofer Brandt**	ID number 57342206
Year of birth:	1962
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Chief Actuary and Head of the Actuarial Division in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	B.Sc. in Science from Tel Aviv University, Diploma in Actuarial Sciences (DipAct) from City University London, full member of the Institute and Faculty of Actuaries in the UK (FIA), full member of the Israel Association of Actuaries (F.IL.A.A), Kellogg-Recanati M.B.A from Tel Aviv University and Northwestern University Chicago, Chartered Enterprise Risk Analyst (CERA) certified by the Society of Actuaries in the United States.
Business experience in the last five years:	Chief Actuary and Head of the Actuarial Division in Clal Insurance, Head of the Actuarial Department - Life Insurance and Pension, Head of the Actuarial Department - Life Insurance, Health Insurance and Pension, served as member of the nostro investment committee in Clal Insurance and as a director in Clal Health.
First year of tenure:	2013

18. Corporate officers of the corporation as of December 31, 2016 (Regulation 26A)

Name: **Binyamin Gurevitz**	ID number 056231384
Year of birth:	1960
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	CEO of Clalbit Systems Ltd., Information Systems Manager in Clal Insurance and in Clal Pension and Provident Funds
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	B.Sc. in Mathematics and Computer Science from Tel Aviv University, M.Sc. in Management Science from Tel Aviv University.
Business experience in the last five years:	CEO of Clalbit Systems Ltd., Information Systems Manager in Clal Insurance and in Clal Pension and Provident Funds, Information Systems Department Manager in Union Bank of Israel Ltd.
First year of tenure:	2015

Name: **Galli Schved**	ID number 22387260
Year of birth:	1967
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Head of the Marketing, Strategy and Spokesmanship Division in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor’s degree in Food Sciences from The Hebrew University of Jerusalem, M.B.A. from UK Heriot Watt University
Business experience in the last five years:	Head of the Marketing, Strategy and Spokesmanship Division in Clal Insurance, VP Marketing and Strategy in Clal Insurance, Marketing Division Manager in Bank Leumi, Strategy and Marketing Communication Division Manager in Partner Communications Company.
First year of tenure:	2013

Name: **Yoram Naveh**	ID number 028865301
Year of birth:	1971
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP and Head of Resources Division in Clal Insurance, CEO and director in Clal Finance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor’s degree in Law and Economics from University of Haifa, Master’s degree in Law and Economics from Erasmus University of Rotterdam
Business experience in the last five years:	Head of Resources Division in Clal Insurance, CEO and director in Clal Finance Served as the CEO of Clal Finance Batucha.
First year of tenure:	2014

18. Corporate officers of the corporation as of December 31, 2016 (Regulation 26A)

Name: **Dror Sessler**	ID number 054307145
Year of birth:	1956
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Claims Unit Manager in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Political Science from University of Haifa, Master's degree in Public Policy from University of Haifa
Business experience in the last five years:	Claims Unit Manager in Clal Insurance, Deputy Claims Unit Manager in Clal Insurance, Chairman of the Board in subsidiaries on behalf of the Migdal Group, Executive VP of Migdal Insurance Agencies Holdings and Management Ltd., VP and Regional Director in Migdal Insurance Company Ltd.
First year of tenure:	2015

Name: **Avi Rozenbaum**	ID number 033769001
Year of birth:	1978
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Pension, Provident and Financial Products Division Manager and CEO of Clal Pension and Provident Funds. Serves as Chairman of the Board of Tmura and director in Atudot Pension Fund for Workers & Independent Workers and in member companies of Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's in Economics and Business Administration from Bar Ilan University
Business experience in the last five years:	Manager of the Pension, Provident and Financial Products Division, Joint Manager of the Long Term Savings Division in Clal Insurance, CEO of Clal Pension and Provident Funds, Head of the Headquarters Department of the Long Term Savings Division in Clal Insurance, Professional Headquarters Manager in the insurance company Simon Insurance Agency Ltd.
First year of tenure:	2015

Name: **Yaron Shamay**	ID number 033638693
Year of birth:	1977
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Manager of the Long-Term Savings Division and director in Atudot Pension Fund for Workers & Independent Workers Ltd.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's in Business Administration with a major in Information Systems from Ruppin Academic Center, Master's in Business Administration with a major in Marketing, from Ruppin Academic Center
Business experience in the last five years:	Life Insurance Division Manager, Joint Head of Long-Term Savings Division in Clal Insurance, National Operations Manager in Clal Insurance, CEO of Tmura Insurance Agency (1987) Ltd., VP Customer Relations and Business in Tmura Insurance Agency (1987) Ltd.
First year of tenure:	2015

18. Corporate officers of the corporation as of December 31, 2016 (Regulation 26A) (Cont.)

Name: **Shlomi Tamman**	ID number 54141767
Year of birth:	1957
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Central Region Manager and Business Unit Deputy Manager in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Multidisciplinary Bachelor's from University of Haifa, Master's in Law from Bar Ilan University.
Business experience in the last five years:	Central Region Manager and Business Unit Deputy Manager in Clal Insurance in Clal Insurance, Central Region Manager in Clal Insurance and Tel Aviv Region Manager in Clal Insurance.
First year of tenure:	2015

Name: **Shimon Kalman**	ID number 53592424
Year of birth:	1955
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Personal Assistant to the CEO Regarding Special Affairs
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Certified Public Accountant, BA in Economics with a major in Accounting from Bar Ilan University, MBA from Business Administration.
Business experience in the last five years:	Personal Assistant to the CEO Regarding Special Affairs; Executive VP and Manager of the Headquarters and Finance Division in Phoenix Holdings Ltd. and Phoenix Insurance Company Ltd., and director in Excellence Investments and various member companies of Phoenix Group. .
First year of tenure:	2016

19. Authorized signatories of the corporation

(Regulation 26B)

The company has no independent authorized signatories.

20. Accountants of the company **(Regulation 27)**

Kost Forer Gabbay and Kasierer: 3 Aminadav St., Tel Aviv.
Somekh Chaikin: 17 Ha'arbaa St., Tel Aviv.

21. Changes to bylaws or articles of association Regulation 28)

No changes were made during the reporting year to the company's bylaws or articles of association.

22. Resolutions and recommendations of the board of directors (Regulation 29)

(A) Recommendations of the board of directors to the general meeting and resolutions of the board of directors which do not require approval from the general meeting regarding:

1. **Dividend payment or performance of a distribution by other means, or distribution of bonus shares:**

   No dividends were distributed during the reporting year.

2. **Changes to the company's registered or issued capital**: None.
3. **Changes to the corporation's bylaws or articles of association**: None.
4. **Redemption of shares**: None.
5. **Early redemption of bonds**: None.
6. **Transactions in non-market conditions between the corporation and an interested party**: None.

(B) Resolutions of the general meeting which were passed without the recommendations of the managers: None.

(C) Resolutions of special general meetings:

1. In the company's special general meeting which was held on May 26, 2016, a resolution was passed to approve the terms of tenure and employment of Mr. Danny Naveh, the company's Chairman of the Board, who also serves as the Chairman of the Board of Clal Insurance, in accordance with the company's compensation policy and the provisions of the law.
2. In a special general meeting of the company which was held on October 6, 2016, a decision was reached to appoint Mr. Sami Moualem as an outside director in the company, for a 3 year term, effective beginning on October 23, 2016.
3. In the company's special general meeting which was convened on December 18, 2016, the following resolutions were passed:

   3.1 Approval of an update to the company's compensation policy for corporate officers, in accordance with section 267A of the Companies Law.

   3.2 Approval of an update to the conditions for release of the variable component which is paid in cash, with respect to parts of the variable bonus which were distributed in the past, but which have not yet been paid, to the corporate officers, including the company's CEO (excluding the Chairman of the Board), as specified in the compensation policy.

   3.3 Approval of the provision of letters of exemption to directors and corporate officers who currently serve in the company and/or who may serve in the company from time to time, and who are not the controlling shareholders, including the company's CEO (see section 23D below).

   3.4 Approval of an adjustment to the compensation restriction of Mr. Naveh, and the update restriction of the terms of tenure of the Chairman of the Board, which were approved on May 26, 2016 in the general meeting of the company's shareholders (see section 1 above)

23. Resolutions of the company(Regulation 29A)

(A) Approval of actions in accordance with section 255 of the Companies Law, 1999 (hereinafter: the "Companies Law"): None.

(B) Actions in accordance with section 254(a) of the Companies Law, which were not approved: None.

(C) Transactions which require special approvals in accordance with section 270(1) of the Companies Law, provided that they constitute extraordinary transactions: None.

(D) Exemption, insurance or indemnity undertaking towards corporate officers which are in effect as of the reporting date:

1. **Presented below is a description of the arrangements which apply with respect to insurance for directors and corporate officers in the company:**

For a description of the arrangement which applies with respect to liability insurance for the company's directors and corporate officers during the years preceding the reporting year, see Note 42(b)6(a) to the financial statements, and section 13c(4) above[35].

On December 18, 2016, the general meeting of the company's shareholders approved the compensation policy, which includes a clause regarding exemption, indemnification and insurance for corporate officers (hereinafter: the "**Arrangements**"). In the compensation policy, it was determined that the company will be entitled to acquire, for the corporate officers in the group, corporate officers' liability insurance, in insurance amounts which will not exceed USD 400 million, and in consideration of an annual premium which will not exceed USD 1 million, and that the company will be entitled to acquire runoff insurance for corporate officers, in case of the transfer of the control of the company and/or of a subsidiary.

In accordance with the aforementioned resolution, the company engaged in an insurance policy which was issued by an insurer which is a non-related party, for the period from December 1, 2016 to November 30, 2017 (the "**Policy for 2017**"), in which the company acquired insurance coverage for the company and its investee companies, including Clal Finance Ltd. and its investee companies. The overall liability limit of the insurance policy for 2017 is up to USD 200 million with respect to a single claim or cumulatively.
In accordance with the aforementioned compensation policy, the total annual premium which was paid for corporate officers' liability insurance does not exceed USD 1 million.

2. **Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the company:**

2.1 On October 10, 2002, the general meeting of the company's shareholders approved, after receiving approval for this purpose from the company's audit committee and board of directors, its undertaking to indemnify directors and corporate officers in the company, as specified below:

2.1.1 The company undertook, insofar as is permitted by law, to indemnify its corporate officers and/or those of companies under the company's control, as specified in section 2.9 below, with respect to any debt or expense, as specified below, which may be imposed on them due to actions which they performed (including actions before the date of the letter of indemnity) and/or which may be performed by virtue of their status as corporate officers in the company, which are related, directly or indirectly, to one or more of the types of events specified in the letter of indemnity, or any part thereof, or any matter related thereto, directly or indirectly, provided that the maximum indemnification amount does not exceed the amount specified in section 2.1.3. below.

[35] For additional details regarding the company's directors and corporate officers insurance policy, which was in effect until July 31, 2016, and regarding a claim which was filed in accordance therewith, see Note 42(b)(6)(a) and Note 44 to the financial statements.

23. Resolutions of the company (Regulation 29A) (Cont.)

2. Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the company: (Cont.)

2.1 On October 10, 2002, the general meeting of the company’s shareholders approved, after receiving approval for this purpose from the company’s audit committee and board of directors, its undertaking to indemnify directors and corporate officers in the company, as specified below: (Cont.)

2.1.2 The undertaking to indemnify specified in section 2.1.1 above will apply with respect to any debt or expense which is indemnifiable by law, as follows:

A. Any monetary debt which may be imposed on them towards another person, in accordance with a court ruling, including a court ruling issued in a settlement or a court-approved arbitration award;

B. Reasonable litigation expenses, including legal fees, which they may spend or be ordered to pay by the court, in proceedings which were filed against them by the company or in its name or by another person, or with respect to a criminal indictment of which they are acquitted, or with respect to a criminal indictment of which they are convicted, in case of a crime which does not require proof of criminal intent;

2.1.3 The indemnification amount which the company will pay (in addition to the amounts which will be received from the insurance company, if any, within the framework of insurance which the company acquired and/or amounts which will be received, if any, as part of the indemnification of any party other than the company) to all of the company’s corporate officers, cumulatively, in accordance with all of the letters of indemnity which will be issued for them by the company in accordance with the indemnification resolution, with respect to one or more of the types of events specified in the letter of indemnity, will not exceed 25% (twenty five percent) of the company’s equity in accordance with its last financial statements which were published proximate to the actual date of indemnification (hereinafter: the **Maximum Indemnification Amount**”).

2.1.4 if and insofar as the total indemnification amounts which the company will be required to pay will exceed the maximum indemnification amount or the balance of the maximum indemnification amount (as calculated at the time), as stated above, the maximum indemnification amount, or the balance thereof, as applicable, will be divided between the corporate officers who will be entitled to indemnification, in a manner whereby the indemnification amount which each of the corporate officers will receive will be calculated according to the ratio between the indemnification amount owed to each of the aforementioned corporate officers, cumulatively, with respect to that event.

2.1.5 Upon the occurrence of an event for which the corporate officers may be entitled to receive indemnification in accordance with the foregoing, the company will provide to him, from time to time, the funds which are required to cover the various expenses and other payments which are associated with the handling of those legal proceedings, including investigation proceedings, in a manner whereby they will not be required to pay or finance them independently, subject to the terms and provisions set forth in the letters of indemnity.

2.1.6 The undertaking to indemnify is subject to the terms which were specified in the letter of indemnity, with respect to the handling of legal proceedings, collaboration on the part of the indemnification recipient, reimbursement of excess amounts which were paid, etc.

2.1.7 the company’s undertakings will be available to the corporate officer also after the end of his tenure as a corporate officer in the company, provided that the actions for which the exemption from liability or undertaking to indemnify were given were performed and/or will be performed in his period of tenure as a corporate officer in the company.

23. Resolutions of the company (Regulation 29A) (Cont.)

2. Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the company: (Cont.)

2.1 On October 10, 2002, the general meeting of the company's shareholders approved, after receiving approval for this purpose from the company's audit committee and board of directors, its undertaking to indemnify directors and corporate officers in the company, as specified below: (Cont.)

2.1.8 The company's undertakings in accordance with the letter of indemnity will be interpreted extensively and in a manner which is aimed towards the fulfillment, insofar as is permitted by law, of their intended purpose. In case of any discrepancy between any provisions of the letter of indemnity and the provisions of the law which cannot be made conditional, amended or added upon, the aforementioned provision of the law will take precedence, but without derogating from the validity of the other provisions of the letter of indemnity.

2.2 On April 16, 2008, the company's board of directors approved, after approval was received for this purpose from the company's audit committee, to amend, inter alia, the list of companies whose corporate officers (who do not serve as directors in the company and who are not the company's controlling shareholders or their relatives) are entitled to indemnification, and to clarify that the undertaking to indemnify will also apply with respect to the actions of the aforementioned corporate officers, within the framework of their status as corporate officers in subsidiaries and/or related companies of the aforementioned companies, and to update the types of events for which the letter of indemnity will be given (hereinafter: the "**Additional Letter of Indemnity**").

2.3 The additional letter of indemnity which was given will not prejudice or derogate from the company's undertakings in accordance with previous letters of indemnity which were given, if any, before the date of the additional letter of indemnity, insofar as such undertakings are legally valid, and provided that the company will not be obligated to indemnify the corporate officers with respect to that event, both in accordance with a previous letter of indemnity and in accordance with the additional letter of indemnity.

2.4 On May 3, 2012, the general meeting of the company's shareholders approved the provision of new and amended letters of indemnity to the corporate officers of the company and/or of additional member companies in the group (hereinafter: the "New Letter of Indemnity"), in light of Amendment 16 to the Companies Law, and in accordance with the provisions of the Efficiency of Enforcement Procedures Law (Legislative Amendments), 2011, and the Law to Increase Enforcement in the Capital Market (Legislative Amendments), 2011 - on this matter, see the immediate report dated March 22, 2012 (reference number 2012-01-077232).

2.5 On July 28, 2013, the general meeting of the company's shareholders approved the implementation of a correction to omissions in the definitions of "administrative procedure" and "payment to injured party due to breach" in the letters of indemnity, which were approved in the company's general meeting on May 3, 2012. For additional details, see the immediate report regarding the convention of a general meeting of the company dated July 22, 2013 (reference number 2013-01-098091).

2.6 The provisions of the new letter of indemnity take precedence over any previous agreement or understanding (prior to the signing of the new letter of indemnity), whether verbal or in writing, between the company and a corporate officer on the subjects specified in the new letter of indemnity, including with regard to events which took place prior to the signing of the new letter of indemnity. The foregoing is subject to the condition that a previous letter of indemnity which has been provided to a corporate officer, if any, will continue to apply and will continue to be valid with regard to any events which occurred prior to the signing of the new letter of indemnity (including in the event that legal proceedings with respect to the above have been filed against a corporate officer after the signing of the new letter of indemnity), in the event that the terms of the new letter of indemnity worsen the reimbursement terms for the corporate officer with respect to the above event, subject to all laws.

2.7 The company provides, from time to time, letters of indemnity to directors and/or corporate officers in the company and/or in subsidiaries, as stated above, in accordance with the aforementioned resolutions.

2.8 In some of the group's subsidiaries, letters of indemnity were provided to their corporate officers in a manner whereby the indemnification amount therein does not exceed 25% of the equity of those companies, or NIS 1 million.

23. Resolutions of the company (Regulation 29A) (Cont.)

2. Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the company: (Cont.)

2.9 On December 18, 2016, the general meeting of the company's shareholders approved the compensation policy, which includes a clause regarding exemption, indemnification and insurance for corporate officers. Within the framework of the compensation policy, it was determined that the company will be entitled to grant letters of indemnity, according to a wording which will be decided by the company, and which has been approved and/or will be approved by the general meeting of the company's shareholders. Insofar as the company wishes to make changes to the letters of indemnity, for any reason whatsoever, the company will present the amended letters of indemnity to the competent organs for approval, in accordance with the provisions of the law.

3. **Presented below is a description of the arrangements which apply with respect to the exemption for directors and senior officers in the company:**

3.1 On October 9, 2016, the company's compensation committee and board of directors approved the provision of an exemption from liability to the company's corporate officers due to a breach of duty of care towards it, subject to the receipt of the authorizations which are required by law in order to grant the exemption. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.

3.2 On December 18, 2016, the general meeting of the company's shareholders approved the compensation policy, in which it was determined that the company will be entitled to grant an exemption from liability to the company's corporate officers. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.

3.3 In accordance with the aforementioned decision, the company granted letters of exemption to directors and corporate officers in the company.

Clal Insurance Enterprises Holdings Ltd.

Danny Naveh	**Izzy Cohen**
Chairman of the Board of Directors	**Chief Executive Officer**

Date: March 21, 2017

Annex A

Compensation Policy

Clal Insurance Enterprises Holdings Ltd.

Table of Contents

1. **Definitions**

The terms used in this compensation policy will have the meanings specified alongside them below:

"**Financial Statements**" - The consolidated and audited financial statements of the company, published to the company's shareholders.

"**Company**" - Clal Holdings, unless noted otherwise.

"**Transfer of Control**" - A transaction in which the trustee and/or any other party which holds the company's control shares transfers the control of the company, and/or the company transfers the control of Clal Insurance, to a third party. The foregoing will include any transfer of control, as defined below, including a transfer by a trustee and an action which causes the status of the company to change from a company without a controlling shareholder to a company with a controlling shareholder, excluding a transfer of control which leads to a situation wherein the company is a company without a controlling shareholder.

"**Control**", for this purpose, is as defined in the Securities Law, 5728-1968.

"**Linkage to the CPI**" - Linkage to increases in the consumer price index, relative to the base index or to another relevant index, as applicable. In the event that, during a certain period, the consumer price index has decreased, the rate of the aforementioned decrease will be subtracted from the future rate of increase, if any increase occurs, as stated above.

"**Base Index**" - The known index with respect to October 2016, unless expressly noted otherwise.

"**Compensation Circular**" - Institutional entities circular no. 2014-9-2, "Compensation policy of institutional entities", dated April 10, 2014, as amended on October 7, 2015, within the framework of institutional entities circular 2015-9-31 (the "**Amendment To The Compensation Circular**").

"**Companies Law**" - The Companies Law, 5759-1999.

"**Executive Compensation Law**" - The Compensation to Corporate officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes Due to Exceptional Compensation), 5776-2016.

"**Solvency Ratio**" - The ratio between the recognized capital and the required capital of Clal Insurance , in accordance with the applicable provisions of the law. It is hereby clarified that upon the adoption of the Solvency II regime, insofar as it will be adopted, the board of directors will be entitled to determine, for a determined period, that the aforementioned ratio will continue to be based on the current capital regime upon the adoption of this policy.

"**Minimum Solvency Ratio**" - A solvency ratio of 112% according to the current capital regime, or another minimum solvency ratio, as defined by the company's board of directors from time to time, for the purpose of this compensation policy.

"**Application Date**" - The approval date of this policy by the competent organs.

"Clal Insurance" - Clal Insurance Company Ltd., a subsidiary of the company.

"**Compensation Policy**" - As defined in the compensation circular, including a compensation policy in accordance with section 267a(a) of the Companies Law.

"**Severance package**" - Any compensation which is paid to a corporate officer upon the conclusion of their period of employment, beyond the compensation with respect to the termination of employment, as determined for all employees who are employed in the group's institutional entities.

"**Trustee**" - The trustee for the company's control shares, who was appointed by Commissioner of Insurance in August 2013.

"**Corporate Officer**" - As defined in the compensation circular, excluding directors.[1][2]

[1] With respect to the definition of a corporate officer in accordance with the provisions of the Companies Law, it is noted that the company considers as corporate officers, managers who are directly subordinate to the CEO, or managers (even if they are not directly subordinate to the CEO) regarding whom the board of directors has determined that their position is of a type which is conventionally (according to the conventional practice in companies of a similar type as the company) performed by individuals subordinate to the CEO.

[2] For the sake of caution, an equivalence has been created between the corporate officers of Clal Insurance and the corporate officers of the company.It is hereby clarified that the compensation policy of the group's institutional entities, including Clal Insurance, will also apply to the company's corporate officers. The compensation policy of the institutional entities in the company will not adversely affect this policy. Additional issues may be included in the compensation policies of the institutional entities, inter alia, in accordance with the compensation circular, which will not be included in this policy. Changes to the compensation policy of the group's institutional entities, as stated above, with respect to the aforementioned issues, do not involve changes to this compensation policy.

"**Employee**" - Including corporate officers.

"**Employment Cost**" - Any payment with respect to employment, including employer's provisions, retirement payment, vehicle and expenses associated with its use, and any other benefit or payment.

"**Clal Group**" or the "**Group**" - The member companies of Clal Holdings Group.

"**Income**" - The company's comprehensive income (after tax), as presented in the company's consolidated financial statements as of the end of the relevant year (including non-recurring income/loss, and including the financial performance of companies which will be acquired in the future by the company).

"**Fixed component**" or "**variable component**" - As defined in the compensation circular.

"**Base monthly salary**" - The monthly salary (gross), not including variable salary components (if any are paid) and associated salary components, such as various bonuses, vehicle, telephone, reimbursement of expenses, etc., as well as social benefits and fringe benefits (including provisions for managers' insurance and/or pension funds, study funds, vacation days, convalescence pay, sick days, etc.).

"**Terms of Tenure and Employment**" - As defined in the Companies Law.

"**Return on Capital**" - (Comprehensive) income during the bonus year, divided by equity as of December 31, according to the annual financial statements for the year preceding the year of the bonus.

"**Contract employees working at the company**" - Employees of a manpower contractor, of which the company is the effective employer, and employees of a service contractor who are employed in the provision of service at the company; For this purpose,

"**Manpower Contractor**", "**Service Contractor**", "**Actual Employer**" - as defined in the Employment of Employees by Manpower Contractors Law, 5756 - 1996.

2. General

2.1 This document is intended to define, describe and outline the compensation policy for corporate officers and directors, as approved by the company's board of directors, following the recommendation of the company's compensation committee.

2.2 The compensation policy was determined in accordance with the provisions of amendment 20 to the Companies Law, and in consideration of the compensation circular.[3]

2.3 The compensation policy establishes rules, criteria and benchmarks which will be used to determine the terms of tenure and employment of the company's corporate officers, senior position holders and other employees in the company, with respect to the considerations underlying the determination thereof, in accordance with the specific characteristics of the operation for which the relevant employee is responsible, and in accordance with their experience, qualifications and performance in the position.

2.4 The compensation policy has been prepared in consideration of the characteristics of the group's institutional entities which manage public funds, and in consideration of the company's size, which is included on the Tel Aviv 100 Index.

2.5 This compensation policy is worded in the masculine gender for convenience purposes only, and refers to men and women alike.

3. Objectives and considerations in the determination of the compensation policy

The compensation policy is intended to assist in achieving the company's objectives and work plans over the long term, while taking into account its risk management policy, including, inter alia, the following considerations:

[3] See footnote 2 above.

3.1 The scope of the group's assets and of the savings assets managed by the group's institutional entities, as well as the characteristics and complexity of its activity.

3.2 The financial position of the group in general and of the company in particular, including its liquidity and solvency ratio, and including those of the institutional entities in the group.

3.3 Guaranteeing the correspondence of incentives for wise management of savers' funds, through the institutional entities in the group, to returns and risk over the long term.

3.4 Cross-organizational considerations, such as desired differences in compensation between different ranks.

3.5 The ability to recruit and maintain high-quality managers and employees, with specific professional knowledge and areas of specialization, who are capable of leading the company to business success and dealing with the challenges which it faces.

3.6 The ability to incentivize managers and employees towards achieving a high level of business performance, while taking informed and reasonable risks, with reference to the company, institutional entities in the group, and of savers' funds.

3.7 The creation of an appropriate balance between various components of compensation, e.g., fixed vs. variable components, short term vs. long term and compensation in cash (including fringe benefits) vs. compensation with capital instruments.

3.8 The correspondence between the compensation terms and the size of the company, the group's institutional entities, and the characteristics of their activities.

3.9 The provisions of the Executive Compensation Law.

The formulation of the compensation policy included taking into account, inter alia, the salary levels and employment terms which are customarily practiced in the company and in similar companies, with an emphasis on increasing the company's competitiveness in recruiting and maintaining high-quality staff for senior management positions in the group, while also taking into account cross-organizational considerations such as differences in desirable compensation between various ranks, and the provisions of the Executive Compensation Law were applied.

4. **Provisions of the law and expected regulations**

The company operates in accordance with the provisions of the Executive Compensation Law and position papers of the Commissioner of Capital Markets which are relevant to the compensation of senior position holders in institutional entities, and will take into account, in its determination of the maximum compensation to corporate officers and directors, expected regulations which may have a significant effect on the compensation policy, drafts of which have been published, including law memoranda.

5. **Compensation components**

A. Directors

5.1 Compensation of directors (excluding the Chairman of the Board) and investment committee members

The fees paid to outside directors, other directors in the company (excluding the Chairman of the Board) and members of the group's investment committees who are not employees of the group, who will hold office from time to time, will be the maximum compensation determined in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 5760-2000 (hereinafter: the "**Compensation Regulations**"), as updated from time to time, and in accordance with the provisions of institutional entities circular 2009-9-4 (hereinafter: the "**Compensation Circular Regarding Outside Directors**").For this purpose, any particular skills of any particular director will not be taken into account. Additionally, the aforementioned directors will be entitled to receive reimbursement of expenses, in accordance with the Compensation Regulations. Directors and investment committee members, as stated above, will not be entitled to a variable salary component due to their service in the company.[4]

In case of directors whose fees are paid by the company's controlling shareholder, and in the absence of any legal restriction preventing the matter, the settling of accounts with respect to their fees will be performed in accordance with the aforementioned principles, and within the framework of a manager agreement between the company and the controlling shareholder, which will be approved from time to time by the shareholders' meeting of the company.

The company may bear additional expenses with respect to directors and investment committee members who serve in the company during their periods of tenure, such as with respect to continuing education, participation in company participations, parking, benefits in individual products of the company to which company employees are entitled, holiday gifts, etc.

5.2 <u>Chairman of the board of directors</u>[5]

The Chairman of the Board of an institutional entity in the group will not be entitled to a variable salary component with respect to his service as Chairman[6].

The compensation of the Chairman of the Board of an institutional entity in the group will be determined relative to the compensation of outside directors, as defined below, and as specified in this section below, and in accordance with the provisions of the Compensation

[4] It is hereby clarified that the foregoing will not apply with respect to corporate officers in the company who also hold serve as directors in member companies in the group, with respect to the compensation which is paid to them by the entity in which they serve as directors. Additionally, and insofar as their position as directors is secondary to their position as corporate officers, their tenure as directors, as stated above, will not affect the variable compensation which will be paid to them by the company.

[5] With respect to the employment terms of the company's Chairman of the Board, who serves as of the approval date of this compensation policy, which was approved in the shareholders' meeting on May 26, 2016, including regarding current rights which accrued in accordance with a previous agreement dated June 5, 2013 (the "**Current Agreement**"), see the meeting convention report regarding the general meeting of the company's shareholders which was held on April 21, 2016 (reference 2016-01-054490).

[6] Except as regards previously accrued rights, see footnote 5 above.

Regulations and the circular regarding the compensation of outside directors (hereinafter: the "**Multiplication Ratio**"), in a manner whereby the maximum compensation which will be paid to the Chairman of the Board will not exceed the result of the multiplication of the outside director compensation by the multiplication ratio.

As part of its considerations regarding the determination of the multiplication ratio, the compensation committee will address the considerations specified in section 3 above. The multiplication ratio, for a full time position, will not exceed 13 times the compensation of an outside director, which is calculated for this purpose according to the minimum number of meetings of the board of directors and its committees which is required in Clal Insurance each year ("**Outside Director Compensation**"). As part of the above, weight will also be given to the tenure of the Chairman of the Board in additional entities in the group, and particularly, on all matters associated with tenure in public companies or in institutional entities in the group.

B. Corporate officers

5.3 The total compensation of a corporate officer may be comprise of (all or some of) the following primary components:

5.3.1 **Base salary (fixed component)** - This compensation component is intended to compensate the corporate officer for the performance of their role in the company, and for the time invested by them in the performance of the routine tasks involved with their role, on a daily basis. The salary reflects the corporate officer's qualifications (such as their experience, the knowledge which they bring to the position, expertise in the field, education, professional authority, etc.), while taking into account the level of authority conferred upon them, and the requirements of the position, as derived therefrom.

5.3.2 **Fringe benefits** - This compensation component includes social benefits as required by law, and additional fringe benefits, such as pension funds, managers' insurance policies, provisions for severance pay, loss of working capacity insurance, convalescence days, vacation days, sick days, travel expenses, study fund, provision of a vehicle, subsidization of meal expenses, etc.

5.3.3 **Variable compensation paid in cash (bonus)** - This compensation component is determined according to the performance of the corporate officer and the company's results, as specified extensively below.

5.3.4 **Variable capital compensation** - This compensation component is intended to create an equivalence of interests between all of the company's shareholders and the corporate officer, through the share price. This component is also intended to encourage and boost the identification of the recipients of such compensation with the company in general, and over the long term approach in particular. Additionally, the fact that the capital compensation plan is by nature a long term plan also constitutes a positive incentive for its recipients to continue working in the company over time, and to assist in realizing the company's objectives, work plan and policy. Additionally, the fact that the plan is long term strengthens the correspondence between this incentive component and the company's risk management policy.

5.4 It is hereby clarified that the compensation components specified in this compensation policy constitute an upper threshold against which the personal compensation plans for corporate officers will be determined. It is emphasized that the company is not obligated to provide all of the components specified above (except as required by law), and is not obligated to provide the maximum rate which was determined in each of the components. Insofar as compensation will be granted in an amount lower than the compensation specified in this compensation policy, including relative to the holder of similar position to a position in the group, the foregoing will not constitute a deviation from this compensation policy.

5.5 The payment to a corporate officer who provides services to the company as an independent contractor or through a management company (insofar as the foregoing is permitted in accordance with the compensation circular) will reflect the cost of the compensation components (plus duly calculated taxes) in accordance with the compensation policy.

6. **Method used to determine the compensation, principles and rules**

6.1 The evaluation and approval of the corporate officer’s terms of tenure and employment will include reference, inter alia, to the following subjects, insofar as they are relevant to them:

6.1.1 Their education, qualifications, expertise, professional experience and achievements[7].

6.1.2 The corporate officer’s position, areas of responsibility and expected contribution to meeting the company’s objectives.

6.1.3 Previous salary agreements of the corporate officer.

6.1.4 The ratio between the employment cost of the corporate officer and the employment cost of the other employees of the group and of the contract workers who are employed in the company, and particularly, the ratio relative to the average employment cost and the median employment cost of the aforementioned other employees, and the impact of

7 It is noted, with respect to some of the corporate officers to whom this compensation policy applies, who serve as corporate officers in Clal Insurance, that Clal Insurance is subject to specific regulatory provisions which make the employment of the corporate officers conditional on the receipt of approval from the regulator (such as the CEO, Chairman of the Board, director, legal advisor, CFO, actuary, Chief Risk Officer, information systems administrator and internal auditor), and establishes the required qualifications for certain senior position holders, and therefore, with respect to those corporate officers, the company will also address the approvals and criteria which were determined in those provisions.

those differences on the working relationships in the group.[8]

6.1.5 The economic value of the overall compensation, including all of its components, including reference to the company's business results, and insofar as the compensation includes targets and metrics, an evaluation of the targets and metrics, inter alia, in light of the company's risk management policy, and in order to verify that the compensation policy does not create incentives for excessive risk taking.

6.1.6 A balance between the variable component, insofar as any will be paid, and the fixed component, in a manner whereby, in general, the rate of the corporate officer's annual variable component, with respect to a certain year, will not exceed 100% of the annual fixed component, subject to section 8.5.2 below.

In accordance with the provisions of the compensation circular, the fixed component will constitute a significant part of the senior position holder's total compensation. The determination of the appropriate balance between the fixed component and the variable component should include taking into account the senior position holder's experience, expertise, qualifications, seniority, responsibility and

8 As of the approval date of the policy, and in accordance with the provisions of the policy with respect to the employment cost of the CEO and Chairman, the ratio is as follows: CEO relative to employees in the group other than the CEO the - approximately 18.48 median and 13.44 average; Chairman relative to employees other than the CEO (normalized to a 100% position) - approximately 11.97 median and 16.48 average; corporate officers (average cost, including CEO and Chairman) relative to employees who are not corporate officers - 10.32 median and 13.59 average. These figures were calculated based on the actual compensation cost for the months October 2015 - September 2016, in accordance with the scope of position of employees in the group's member companies (excluding employees of the group's agencies, hourly employees and contract employees).
The compensation committee and board of directors have evaluated the aforementioned ratio between the terms of tenure and employment of the corporate officers, and the salary of the other employees in the group and of the contract employees who work in the group, and particularly, the ratio relative to the average salary and the median salary of the aforementioned employees, and believe that these differences are not expected to have a significant impact on the working relationships in the company.

performance, and the need to encourage conduct which supports the company's risk management framework, long term financial stability and cautious management of savers' funds.

6.1.7 The provisions of the Executive Compensation Law, in a manner whereby the projected expense with respect to it (fixed and variable compensation), according to the total employment cost per year (fixed and variable salary), calculated as of the approval date, in accordance with generally accepted accounting principles, will be in accordance with section 2 of the Executive Compensation Law, [9] and will not exceed the higher of either (1) two million and a half New Israeli Shekels (NIS 2.5 million) per year[10] (the "**Amount Limit**"), (2) a multiple of the expense due to the lowest compensation, according to the cost of a full time position (100%), which was paid by the company to an employee, directly or indirectly (including to a contract employee who is employed directly by the company, or to an employee who is employed by a service provider who is employed by the company), times 35[11](hereinafter, respectively: the "**Minimum Salary**" and the "**Minimum Salary Limit**") (the minimum salary and the amount limit shall hereinafter be referred to jointly as: the "**Compensation Limit**".)[12] It is hereby clarified that subject to the compensation limit, the board of directors is entitled to approve the compensation for a corporate officer

[9] It is hereby clarified that the calculation of the compensation limit, as stated above, will not include taking into account compensation regarding which the expense is not expected in accordance with generally accepted accounting principles.

[10] The calculation of the compensation limit, as stated above, will not include taking into account the provision for compensation, including loss of working capacity, and the provision for severance pay pursuant to the law.

[11] During the year preceding the date of the engagement, in accordance with the mechanism which will be determined by the compensation committee and the board of directors.

[12] The expense will be calculated in accordance with generally accepted accounting principles, as specified in the Executive Compensation Law, as these will be in effect from time to time, and as approved by the compensation committee and the board of directors.

even if, with respect to such compensation, the company will bear the additional tax cost with respect to the “excess expense cost”, i.e., due to the fact that such expense will not be deductible for tax purposes for the company, in accordance with the mechanism set forth in the Executive Compensation Law.

6.1.8 It is hereby clarified that the minimum salary limit may change, and will be linked to changes in the minimum salary, as stated in the Executive Compensation Law, and in the event that it is found that additional components (beyond the provision for compensation[13] and the provision for severance pay, in accordance with the law) are not included in the amount limit or the minimum salary limit which was determined in the Executive Compensation Law (including compensation for overtime), the compensation will be updated, after approval has been received from the compensation committee and the board of directors, according to the appropriate rate, as stated above.

6.1.9 Notwithstanding all of the foregoing, it is hereby clarified that the total compensation, as defined in the Executive Compensation Law, will not exceed, in any case, a total of three million and a half New Israeli Shekels (NIS 3.5 million) per year.

7. **Base salary**

7.1 Base salary for corporate officers -

The maximum base monthly salary of corporate officers in the company is as follows:

7.1.1 **Chairman of the Board** - A total which will not exceed that stated in section 5.2 above.

[13] Including loss of working capacity.

7.1.2 **CEO** - A total which will not exceed that stated in section 6.1.7 and 6.1.8 above. As of the present date, the base monthly salary of the company's CEO will not exceed a total of NIS 195,000[14].

7.1.3 **Other corporate officers** - The fixed components of compensation will include a significant difference from the CEO's fixed compensation.

7.2 The maximum base monthly salary specified above is with respect to a 100% position.

7.3 The maximum base monthly salary does not include additional components associated with the base salary, which are grossed-up in the salary. Components of compensation may be converted into a base monthly salary, provided that such conversion will not increase the employment cost.

7.4 The maximum base monthly salary will be CPI-linked.

7.5 The determined salary level will reflect the qualifications of the corporate officer (including their experience, knowledge brought to the position, expertise in the relevant field, education, etc.), while taking into account their level of responsibility and the requirements of the position which apply to them, and may be CPI-linked.

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[14] With respect to the company's CEO who is currently serving as of the approval date of this compensation policy, it is noted that the company engaged him in an employment agreement for a set period of 5 years, which was approved by the company's competent organs (see the company's immediate report dated November 5, 2012, reference number 2012-01-271455), for details regarding the application of the policy on the existing agreements, see section 17 (transitional provisions) of this compensation policy. In accordance with the letter which was sent by the company to the CEO on October 9, 2016, the company's board of directors announced to the CEO that by the end of the set period of the agreement with him, his compensation terms will be adjusted in accordance with the provisions of the Executive Compensation Law, in a manner whereby, beginning on October 12, 2016, fixed compensation only will be paid to him, which will be restricted in a manner whereby he will not be entitled to compensation for which the annual projected expense, in accordance with generally accepted accounting principles, exceeds NIS 2.5 million, with the addition of the provision for severance pay and compensation, including loss of working capacity, in accordance with the law. For the avoidance of doubt, any change to the aforementioned conditions shall not derogate from any rights which accrued prior to that date. On November 7, 2016, the company's CEO notified the Chairman of the Board that the accepts the company's letter, while reserving his rights in accordance with the law and the agreement.

7.6 The company will be entitled to determine, in light of the corporate officers' status as holding positions of management or positions which require a special degree of personal trust, as defined in the Hours of Work and Rest Law, 5711 - 1951, this Law will not apply to the corporate officers, and they will not be entitled to compensation for overtime work or work during the weekly rest periods.

7.7 In addition to the base salary, it will be possible to determine, with respect to a corporate officer who serves as a control entity[15], entitlement to an additional annual fixed component, which will not exceed two salaries, to be paid in addition to the base monthly salary (the "**Additional Component**"). Entitlement to social benefits will not arise with respect to the additional component. The additional component will not be included in the salary limits specified above. In the event that the aforementioned corporate officer is employed in part of a calendar year, they will be entitled to a proportional part of the additional component only.

8. **Variable compensation - bonuses**

8.1 General

The company's compensation policy is based, inter alia, on the assumption that the total compensation of some of the company's employees and corporate officers should be influenced by the company's business results, as reflected, inter alia, in the company's profitability, and the personal contribution of each employee towards achieving it, in consideration of the restrictions specified in the Executive Compensation Law.

8.2 For the avoidance of doubt, it is hereby clarified that subject to the provisions of the law, the variable compensation which will be paid to the corporate officer in accordance with the compensation policy, insofar as any will be paid, does not and will not be considered as part of the corporate officer's salary, and will not constitute any basis for the calculation and/or eligibility and/or accrual of any associated right,

[15] Control entity - as defined in the compensation circular.

including and without derogating from the generality of the above, it will not be considered as a component which is included in vacation pay, severance pay, pension provisions, etc.

8.3 <u>Outline for the determination of a corporate officer's personal variable component</u>

8.3.1 For the purpose of paying a personal variable component which is paid in cash and in accordance with the principles specified below, each year, a program of personal targets and metrics will be established for all eligible corporate officers, which will be based on a series of targets and metrics on the level of the company, on the level of the organizational unit, and on the personal level, and which are derived, inter alia, from the company's work plan, up to a limit which will be determined in the aforementioned annual personal plan (hereinafter: "**Personal Compensation Plan**" and "**Targets of the Personal Compensation Plan**").

8.3.2 The metrics and targets upon which the variable component for a certain year will be based will be determined in a which is intended to based variable component in the business processes and in the company's business conduct, with the aim of encouraging profitability over time, and while taking into account risk management.

8.3.3 A personal compensation plan which includes reference to a personal annual variable component for corporate officers in the company will be prepared based on the outline specified below, and subject to the principles set forth therein, and will be brought to the attention of each eligible corporate officer, as stated above. The personal compensation plan may be adjusted in accordance with updates to the company's work plan, or under other relevant circumstances, including in case of a change or promotion in the position.

8.4 Restrictions and preconditions for the variable component

8.4.1 The preconditions for the granting of the variable component to corporate officers with respect to a certain year, at the end of the year for which variable compensation is given, are as follows:

A. A solvency ratio which is no less than the minimum solvency ratio.

B. The company's achievement of a return on capital rate of at least 4% per year during the calendar year (the "**Returns Threshold**"). The compensation committee and the board of directors are entitled to determine, with respect to a calendar year, a higher threshold limit in connection with the company's work plan for that year.

C. With respect to a variable capital component only - the board of directors is entitled to determine an additional condition regarding the non-fulfillment of suspending circumstances in connection with the liability certificates which were issued by Clalbit Finance Ltd. ("**Suspending Circumstances**") (hereinafter: "**Preconditions**").

All of the foregoing applies except for the part of the annual variable component which is paid in cash, and which is discretionary, as specified in section 8.5.6 (C) below, and a special bonus, if and insofar as any will be distributed, as specified in section 10 below, which is not conditional upon the fulfillment of preconditions, and subject to the approval of the compensation committee and the board of directors.

Any reference in this policy document to return on capital or to income means return on capital or income which was recorded in the company's financial statements, with respect to that year, based on generally accepted accounting principles, the calculation of which took into account the amounts of the variable component which will be calculated with respect to that year, in accordance with this compensation policy. In other words, the company's fulfillment of a return on capital rate and income rate will be entitled following subtraction, from comprehensive income, of the expense, net of tax, which will be recorded in the financial statements with respect to the amount of the annual variable component which will be calculated with respect to that year (the "**Expense Subtraction**").However, insofar as, with respect to the expense subtraction, the company has not met the relevant preconditions for the payment of the variable bonus for that year, the variable compensation will be subtracted, to the required extent, in a manner which results in the company's fulfillment of the preconditions.

8.5 <u>Criteria for the determination of the variable component for corporate officers</u>

8.5.1 The amount of the variable component which will be distributable to corporate officers will be determined in advance, and will be made conditional upon performance, as specified below, excluding fixed, monthly or annual payment, which is limited to the first work year of the corporate officer, restricted to a total equaling six salaries.

8.5.2 The cost of the annual variable component for a corporate officer will not exceed the cost of the fixed compensation components of that corporate officer with respect to that year. Notwithstanding the foregoing, the compensation committee and the board of directors are authorized to determine that the rate of the annual variable component of a corporate officer (excluding the CEO) will exceed 100% of the annual fixed component, provided that it does not exceed 200% of the annual fixed component - in the event that the compensation committee and the board of directors have determined that extraordinary conditions have arisen which justify it, which pertain to special, one-time circumstances, which are not repeated each year, and which do not apply to a broad group of corporate officers, and that special reasons have been recorded on the matter.

(Hereinafter: the "**Maximum Annual Variable Component**".)

8.5.3 Insofar as the cost of the annual variable component exceeds the maximum annual variable component, or the total employment cost exceeds the compensation limit, and also includes payment which was credited with respect to the severance package, the crediting of the severance package, or a part thereof, may be deferred, and in the foregoing case, in the event that a corporate officer has concluded their employment in the company, before crediting the entire severance package, the severance package and/or a part thereof will be subtracted accordingly.

8.5.4 The employee will be entitled to waive the capital or cash variable component, and/or a part thereof, in a manner whereby that component, or a part thereof, will not be considered as part of their salary, for all intents and purposes, and particularly with respect to the restrictions on their salary, by virtue of the provisions of the law.

8.5.5 For the purpose of determining the targets of the personal compensation plan, a target value will be determined for each corporate officer, in terms of a certain percentage of the income target, of the actual income, or in salary terms, in consideration of the corporate officer's seniority, and the extent of their impact on the company's financial results, in the event that the corporate officer has fulfilled 100% of the targets of the personal compensation plan, and subject to the maximum annual variable component and the preconditions specified above (the "**Target Value**"). It is hereby clarified that the target value, with respect to corporate officers in the company, will be determined by the competent organs in accordance with the law.

Subject to the restrictions and conditions specified in section 8.4 above, for each corporate officer, with respect to each component of the categories of the personal targets, as specified in section 8.5.6 below, a factor will be determined which will reflect the method for achievement of each target in the personal plan which was determined for them. The aforementioned factor, with respect to each of the components, may be lower than 1 (if the corporate officer has achieved only some of the targets in their personal plan), and may be greater than 1 (if the performance of the corporate officer effectively exceeded the targets), provided that the value of the factor does not exceed 1.5.

The value of each of the factors, for each component of the personal plan, will be calculated in the following manner: in cases where the target fulfillment rate is lower than 70%, the value of the factor will be 0; in case the target fulfillment rate is in the range between 70.01% and 100%, the factor will range between 0.7 (for 70.01%) and 1 (for 100%), with the factor being calculated within the above range in a linear fashion; in case the target fulfillment rate is in the range between 100.01% and 130%, the factor will be calculated according to the target fulfillment rate (in percent) divided by 100, with this sum being multiplied by 150 and divided by 130 (for example, in case of a target fulfillment rate of 120%, the factor will equal 1.38). It is hereby clarified that a factor lower than 0.7, with respect to a certain component among the components of the personal targets categories, will be considered non-fulfillment of that target, and will not confer upon the corporate officer a variable bonus with respect to that component.

The annual variable component which is paid in cash will be calculated for each component separately, and the total sum of the metrics of the annual variable component which is paid in cash, which will be calculated with respect to all of the components, in accordance with the relative weight which will be determined for each component, will constitute the annual variable component which is paid in cash and which is calculated for the corporate officer as a multiple of the target value.

The total variable component which is paid in cash will not exceed NIS 1 million. The compensation committee and the board of directors will be entitled to determine lower maximum limits for the variable component which is paid in cash, in accordance with the extent of the corporate officer's fulfillment of the personal plan which was determined for them, within the framework of the foregoing.

8.5.6 The targets of the personal compensation plan which will be determined for each corporate officer, for the purpose of payment the bonus which is paid in cash, will be based on quantitative and/or qualitative targets (measurable and non-measurable), and will be derived, inter alia, from the group's strategic work plan and from the work plans of the organizational unit to which the corporate officer belongs and/or for which they are responsible, and will be divided into measurement categories, as specified below, whereby each will be given a certain relative weight, as specified below:

(a) Targets on the level of the entire company:

The personal compensation plan will include, inter alia, the following targets:

- A target with respect to the return on members' assets, which will reflect the group's achievements with respect to the management of members' funds (in managers insurance, pension and provident funds), measured over a period of no less than three year, relative to the 4 other large insurance groups (and with respect to provident funds, relative to the 4 largest provident fund groups, at least) (the "**Members' Returns Metric**").
- Target in the field of risk management.

(b) Targets associated with the performance of the business unit / personal targets ("Personal Targets")

Business, professional and other targets, on the level of the organizational unit, including financial and accounting metrics, such as, inter alia: profitability metrics such as LR and VNB; Embedded value; Metrics with respect to members' returns and nostro returns; Growth index; Operational and service metrics; Metrics with respect to the achievement of milestones in significant projects; Targets in the field of risk management, including compliance with internal policies, handling of internal audit recommendations and SOX deficiencies, and compliance with the provisions of the law; And a metric regarding increased efficiency in costs and expenses, as well as targets derived from the work plan which was approved by the board of directors.

The weight given to targets in categories (a) and (b) together will be at least 80%.

It is noted that it can be determined that, in the appropriate cases, in accordance with the nature of the position, only targets from category (A) will be included.

Additionally, it is hereby clarified that targets which were listed as personal targets can also as company-wide targets.

(c) Discretionary targets:

Assessment of performance by the company's CEO or by the direct manager. The assessment will be based on the structured performance assessment process in the group, and will address, inter alia, non-financial criteria. The assessment by the company's CEO or by the direct manager will address, inter alia, the long term contribution of the corporate officer and their long term performance, and in any case, this component will be subject to the approval of the company's compensation committee and board of directors. With respect to the internal auditor, the performance assessment will be conducted by the board of directors after receiving the recommendation of the audit committee and the Chairman of the Board. The maximum weight given to this category will be to 20%.

It is hereby clarified that the weight given to all three aforementioned categories will be 100%.

Details of the targets in each measurement category, and the relative weight of each of the measurement categories, will be adjusted for each corporate officer, in accordance with their level of seniority, and according to the organizational unit to which they are associated and/or which they supervise, and will be approved by the compensation committee and the board of directors.

8.5.7 With respect to a corporate officer who is included among the groups specified in section 8.5.13 below, the relevant targets specified in section 8.5.13 below will also be included.

8.5.8 The weight of quantifiable, financial targets, market variables or accounting variables (whether they are group-wide, company-wide, unit-wide, or personal), will be higher than 50%. Subject to the provisions of the law, the foregoing will not apply with respect to control entities and units supportive of business units.

8.5.9 The targets will also include target/s whose measurement period will be longer than one year (with various weights being given to each of the years), target/s which include comparison to other relevant companies in the branch, and targets which take into account risk management criteria.

8.5.10 The measurement period of a target which is associated with the results of the company's investment management, or of the funds of those saving through it, will be no less than three years.

8.5.11 With respect to long term targets - when determining the compensation of a corporate officer who is employed for a period shorter than the measurement period which was determined for a certain target, the measurement period for that corporate officer may be shorter than the measurement period which was determined for the other corporate officers.

8.5.12 The compensation committee and the board of directors will be entitled to determine the conditions of the variable component which is paid in cash with respect to each year, including with respect to 2016, in accordance with the provisions of this compensation policy.

8.5.13 **Outline for the determination of a personal annual bonus for special groups (who are corporate officers)**

8.5.13.1 **Corporate officers employed in actual investment management** - Upon the determination of compensation for corporate officers in the investment management segment, parameters will be taken into account such as the fulfillment of investment targets, return vs. risk and relevant attribution metrics, and with respect to the management of savers' funds - also the returns of savers' funds, in consideration of the level of risk and the measurement period.

The measurement period of a variable component which is dependent on investment results will be no less than three years. However, it is hereby clarified, with respect to corporate officers who are employed for a period shorter than the measurement period which was determined, that the foregoing may be measured over a shorter period.

8.5.13.2 **Corporate officers in the fields of marketing, sales and agency vis-à-vis customers** - The determination of compensation will include reference to the company's risk management policy, in a manner whereby the compensation mechanism will not encourage unfair practices towards the company's customers.

8.5.13.3 **Corporate officers in the field of oversight and control -**

As part of the approval of the evaluated targets, for the purpose of determining the annual bonus for corporate officers in the field of oversight and control - the organ approving the targets will provide their opinion that the ratio between the variable compensation and the fixed compensation of corporate officers in the field of control tends in favor of fixed compensation, relative to this ratio for other corporate officers in the company, and that the rate of fixed compensation is at a minimum rate of 55%.

8.5.14 **Eligibility for the variable component with respect to partial period of employment**

In the event that a corporate officer works in the company during only a party of a calendar year which is relevant to the calculation of entitlement to the variable component, due to termination of the employment agreement, or dismissal, the corporate officer will be entitled a proportional part of the variable component with respect to that year, in accordance with their period of employment in the company during the foregoing year, out of the relevant calendar year in its entirety (based on a daily calculation, and including the advance notice period). In the event that the corporate officer works only during part of the calendar year which is relevant to the calculation of entitlement to the variable component, due to the commencement of their employment in the company, the company will be entitled to pay to them full variable compensation, with respect to that year, provided that they worked at least six (6) months during that year.

The company's CEO will be entitled to approve, for a corporate officer, entitlement to the variable component with respect to a partial period of employment, also in case of resignation, and the CEO's recommendation will be presented to the compensation committee and the board of directors for approval.

The foregoing will not derogate from the other arrangements which apply to the variable component in accordance with this compensation policy.

9. **<u>Variable component - capital compensation</u>**

9.1 The provision of capital compensation to corporate officers in the company is intended to involve them in the company's results of operations, and to constitute a positive incentive for the continued provision of their services to the company, with dedication and professionalism, over the long term.

Subject to the approval of the company's compensation committee and board of directors, the company may offer the corporate officers to participate in the plan for the allocation of restricted shares and/or share-based instrument and/or options exercisable into Company shares (hereinafter: "**Capital Instrument**"). In case of the provision of a variable component through options, the compensation committee will specify, in its recommendation, the priority of that capital instrument over shares. The board of directors will be entitled to allow a corporate officer to choose between a variable compensation which is paid in cash and variable capital compensation, or a combination of the two, as will be determined in accordance with the law.

9.2 Upon the provision of a capital instrument, the minimum holding and vesting period will be determined, which cumulatively will be no less than two years.

9.3 In case of the provision of a variable component through a capital instrument to corporate officers, the entitlement to the variable capital compensation for the corporate officers will be determined based on any of the compensation targets specified in section 8.5.6(a) above, and according to a framework which will be adjusted to that instrument, and additional conditions may be added ("**Performance Targets**").[16]

9.4 The plan will include, inter alia, the following details:

9.4.1 **Exercise price** - Insofar as options will be allocated, their exercise price on the allocation date, for each warrant which will be allocated, will be no less than the average closing price of the company's share during the last 30 trading days on the Tel Aviv Stock Exchange Ltd., prior to the date of approval of the allocation by the compensation committee, and in any case, will be no less than the closing price of the company's share on the last trading day on the Tel Aviv Stock Exchange Ltd., prior to the above date.

9.4.2 **Maximum bonus on the exercise date** - The bonus will be limited to a maximum limit which will not exceed 300% of the share price, in a manner whereby the method for exercise of the corporate officer's rights, with respect to the capital instruments, will be restricted to a rate which will not exceed 300% of the share price, relative to its price on the allocation date of the capital instrument (in restricted shares, the fulfillment of the maximum limit for the bonus will be evaluated on the date of evaluation of the fulfillment of the performance targets).

9.4.3 **Expiration date of the warrants** - This date will be no later than four years after the vesting date of the last capital tranche which was provided to the offeree.

9.4.4 **The terms of exercise, expiration and acceleration** of the warrants, or of restricted shares, in case of departure from

[16] It is hereby clarified, with respect to capital compensation which was provided prior to the approval of this compensation policy, that the performance conditions will continue to apply which are set forth in the compensation plan for 2015, as specified in the company's immediate report dated June 22, 2015 (reference number 2015-01-054096).

the company (due to dismissal, resignation or in case of death or disability, Heaven forfend), if any.

9.4.5 **Materialization of entitlement to the capital component** - The entitlement to capital compensation, and the scope thereof, will be determined shortly after the publication of the company's financial statements for the relevant year. Such entitlement will be determined in accordance with the fulfillment of the performance targets which were determined, as stated above.

9.4.6 **Distribution of the allocation into tranches** - The allocation capital compensation may be performed by way of annual allocations, or advance allocation for several years, where the value of the capital compensation will be determined on the allocation date. For the purpose of determining a variable fixed ratio, as specified in section 6.1.6 above, the calculation of the capital compensation per year will be performed in a manner whereby the value of the capital compensation which was provided with respect to a certain year, as of the allocation date, will be attributed, in its entirety, to the year for which it was given, in accordance with the average value of the capital compensation which was given with respect to that year; however, in the event that the allocation in advance is performed in advance for several years, with respect to those years, the company will be entitled, subject to the provisions of any applicable law, to divide the total value as of the allocation date identically for each of the years.

9.5 In case of fulfillment of the performance targets which conferred entitlement to receive the capital component, the possibility to exercise the capital instrument will be made contingent upon the fulfillment of the preconditions for the release of the deferred part, which will be determined in advance, in accordance with section 11 of this compensation policy.

10. **Special bonus**

10.1 The board of directors and the compensation committee will be entitled to decide, from time to time, to provide a one-time bonus, inter alia, with respect to significant efforts on the part of the corporate officer, including within the framework of the performance of a transaction which is not in the company's ordinary course of business. A special bonus of the aforementioned kind will be given in special circumstances (hereinafter: "**Special Bonus**").

10.2 A special bonus of this kind will not exceed 3 base salaries per bonus, and in exceptional cases, will not exceed 6 base salaries per bonus. It is hereby clarified that, insofar as may be required by law, in the event that such bonus is given retroactively, without predetermined targets, said bonus will replace (all or some) of the discretionary annual variable component which is paid in cash, as specified in section 8.5.6(c) above.

10.3 Insofar as a special bonus will be paid to the corporate officer, it will be separate, and unrelated to the outline for the determination of a personal variable component. The bonus will be paid in cash; however, it will be subject to the provisions with respect to the ratio between the variable component and the fixed component, and to the payment arrangements which were determined for it, including distribution, which apply to corporate officers in accordance with this compensation policy.

11. **Distribution of annual variable component**

11.1. In order to substantiate the variable component which is paid in cash from a long term perspective, the variable component which is paid in cash will be distributed in a manner whereby the part which constitutes at least 50% of the total variable compensation of the corporate officer will be deferred for payment in future years, and will be paid only in the event that the company has fulfilled the conditions for its release which will be determined, subject to the provisions of the compensation circular and the compensation policy of the group's institutional entities, according to its effective version from time to time. In any case, with respect to each calendar year, compensation will not be paid in an amount exceeding the compensation limit.

11.2. It is hereby clarified that, as specified in decision 2 on the agenda of the general meeting for the approval of this compensation policy, the compensation committee and the board of directors are entitled to impose the aforementioned rules regarding release also to parts of the variable bonus which were distributed in the past, and which have not yet been paid, in a manner whereby, with respect to those years, the deferred variable compensation component will be paid to the corporate officer only in the event that, during the relevant release year, all of the following conditions have been met: A. The solvency ratio will be no less than the minimum solvency ratio as of the first payment date of the variable component (hereinafter in this section: the "**Minimum Capital Condition**"); B. The company will record income (hereinafter in this section: the "**Income Condition**") (jointly: the "**Preconditions for Release**").

In the event that one of the preconditions for release has not been met during a certain year, the variable compensation component which was not released will be deferred, and will be paid in the subsequent year (the "**Subsequent Year**"), subject to the fulfillment of all of the relevant preconditions for release in the subsequent year. If the preconditions for the release are not met in the subsequent year as well, the corporate officer will lose their entitlement to that component.

11.3. It is hereby clarified that the distribution rate of the variable compensation may change insofar as the compensation circular allows it, and in accordance with the compensation policy of the group's institutional entities.

11.4. Insofar as the variable component for a senior position holder does not exceed 1/6 of the fixed component which was paid in that year, the mechanism for distribution and deferral specified in this section will not apply.

11.5. The evaluation regarding the distribution of the variable component will apply to the variable component as a unit, in a manner whereby the distribution of a certain component of the variable component may come against the non-distribution of another component of the variable compensation, provided that the total variable compensation will be distributed as stated above.

11.6. The deferred payments in cash will be CPI-linked. For the purpose of this section, the "**base index**" means the known index on the first payment date of the annual variable component. The deferred payments may bear interest at a rate of which will be determined by the board of directors.

12. Repayment of amounts based on data which were later found to be incorrect

12.1. A corporate officer will repay to the company amounts which were paid to them as a variable component, within the framework of their terms of tenure and employment (hereinafter: "**Repayment**"), under conditions which will be determined, and upon the fulfillment of particularly extraordinary circumstances.

12.2. Without derogating from any remedy which is available to the company by law, the compensation committee and the board of directors will determine conditions and circumstances for repayment, including the amounts of repayment, or the rates of repayment which are appropriate for different types of circumstances, in accordance with and subject to the provisions of the compensation circular, according to its applicable version from time to time, and as will be determined by the compensation policy of institutional entities in the group, as applicable from time to time.

12.3. Amounts which have been paid to a corporate officer will be repayable for a period of five years after the allocation date of the variable component, including regarding deferred components (hereinafter: the "**Repayment Period**"). However, the repayment period with respect to a variable component which has been paid to a corporate officer will be extended by an additional two years if, during the repayment period, the compensation committee and board of directors have determined that circumstances which require repayment have been met, as specified below:

12.3.1. The company has initiated internal investigation proceedings with respect to a material failure;

12.3.2. The company has become aware that a competent authority, including a competent authority outside of Israel, has initiated administrative investigation proceedings against the company, or against its corporate officers;

12.3.3. A competent authority has initiated investigation proceedings, as stated above, in connection with fraud or a breach of fiduciary duty by corporate officers in the company.

12.4. It is hereby clarified that a corporate officer will not be required to repay to the company amounts which exceed the payment which they actually received (net of tax).

13. <u>Fringe benefits and additional benefits</u>

13.1. Beyond the provisions of this policy, the compensation to corporate officers in the company may include additional components which the company sometimes grants to all or some of its employees, such as reimbursement of expenses, parking, holiday gifts, continuing education, discounts on the acquisition of Company products, vacations, etc.

13.2. The company will be entitled - and, in cases required by law, obligated - to approve for the corporate officers, as applicable, fringe benefits in addition to the base salary, inter alia, as specified below:

13.2.1. <u>Pension provisions and loss of working capacity insurance</u> - The company will be entitled to set aside, for a corporate officer, with respect to his entire salary, provisions for a pension product which will be chosen by the corporate officer in accordance with the provisions of the law. The performance of provisions by the company to pension insurance will be made conditional upon an appropriate deduction of the corporate officer's share in the provisions, out of the salary of the corporate officer, and may apply to all or some of the compensation components, including additional components associated with the base salary, which are included in the salary and/or grossed-up therein. Additionally, the company is entitled to over the corporate officer through loss of working capacity insurance. The company is entitled to allow the corporate officer to convert the amount of provisions with respect to compensation beyond the maximum salary limit which is recognized for tax purposes in accordance with the law, for the payment of salary, in a manner whereby their employment cost to the company will not increase.

13.2.2. Severance pay - The company will be entitled to pay to the corporate officer full severance pay, both upon dismissal and upon resignation.

13.2.3. Study fund - The company is entitled to provide amounts to a study fund, in accordance with the rates recognized in law, and will transfer these amounts to the study fund which as chosen by the corporate officer, based on their full base salary. The corporate officer will be entitled to convert the provision amounts beyond the maximum salary limit which is recognized for tax purposes by law, to the payment of salary, in a manner whereby their employment cost to the company will increase.

13.2.4. Vehicle - The company will be entitled to provide to its corporate officers, and for their use, a vehicle in accordance with the company's conventional practice, which will serve, inter alia, for the purpose of fulfilling their position, and possibly also with the addition of full grossing-up. The company will be entitled to bear the expenses associated with the use and maintenance of the vehicle, in accordance with the conventional policies of the company. The company will be entitled to provide to the corporate officer equivalent payment in place of the foregoing.

13.2.5. Communication - The company is entitled to provide to the corporate officer a mobile telephone for their personal use, as chosen by the company, in accordance with the company's conventional practice, (with respect to the company's CEO and the Chairman of the Board, the company will bear the foregoing with the addition of full grossing-up). Additionally, the company will be entitled to provide to the corporate officer IT tools (laptop computer, etc.) for the purpose of their work, in accordance with Company policies.

13.2.6. Food and lodging expenses - The company will be entitled to allow the corporate officer to make use of a payment arrangement for food and lodging expenses during work hours, and will be entitled to allow the reimbursement of expenses, as determined in the company's policies, from time to time.

13.2.7. Annual vacation - The company will be entitled to provide an annual vacation to the corporate officer, at a scope which will not exceed 25 days per year, and in any case, no less than the amount prescribed in law. The company will be entitled to allow the corporate officer to accrue and redeem annual vacation days, as will be determined in the company's policies, from time to time.[17]

[17] In October 2016, the company updated the policy, in a manner which allows, in special cases, an extension to the current period regarding deviation from the accrual (accrual of one annual quota for an employee, and two quotas for a corporate officer), with respect to employees and corporate officers, during one half year. If the deviation period exceeds two years, it will be implemented with respect to employees with the approval of the company's CEO, and with respect to corporate officers - with the approval of the board of directors, and in parallel, an extension has been approved for the CEO regarding the usage of his accrued vacation days, for which a routine accounting provision was performed, as of September 2016, until the end of the aforementioned agreement period.

13.2.8. Sick pay - The corporate officer will be entitled to be absent from work due to illness, provisions of the law the Sick Pay Law. The company will be entitled to pay to the corporate officer full payment for days during which they were absent for work due to an illness, beginning on the first date of absence, as determined in the company's policies, from time to time. Corporate officers will be entitled to accrue sick days as determined in the company's policies; however, they will not be entitled to redeem sick days.

13.2.9. Convalescence pay - The company will be entitled to pay to the corporate officer convalescence pay according to the conventional amount in the company; however, no less than that prescribed in law.

13.2.10. The company will be entitled to pay for corporate officers membership fees for professional associations.

13.2.11. The company will be entitled to pay for corporate officers subscription fees for newspapers and professional literature.

13.2.12. The company will be entitled to pay corporate officers with respect to continuing education, joining incentive trips for agents, screening tests and welfare activities.

13.2.13. Exemption, indemnification and insurance for corporate officers

13.2.13.1. The company will be entitled to provide indemnification letters, according to the wording which was decided upon and approved, and/or which will be approved, by the general meeting of the company's shareholders. Insofar as the company desires to implement changes to the indemnification letters, for any reason whatsoever, the company will present the amended indemnification letters to the competent organs, in accordance with the provisions of the law.

13.2.13.2. Without derogating from the foregoing, the company will be entitled to acquire, for the corporate officers in the group, corporate officers' liability insurance, in insurance amounts which will not exceed USD 400 million, and in consideration of an annual premium which will not exceed USD 1 million.

13.2.13.3. The company will be entitled to acquire runoff insurance for corporate officers in case of a transfer of the control of the company and/or a subsidiary.

13.2.13.4. The company will be entitled to provide an exemption from liability to the company's corporate officers, subject to the receipt of the authorizations which are required to provide said exemption by law. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder or any corporate officer in the company (including a different corporate officer than the one to whom the letter of exemption is given) has a personal interest.

14. Retirement arrangements

Retirement bonus

14.1. Beyond the payment of severance pay, and subject to the entitlement conditions specified in section 14.5 below, the company will be entitled to provide to a corporate officer a one-time severance package equivalent to up to 4 base salaries. A base salary for the severance package will also include associated salary components such as vehicle, telephone, reimbursement of expenses, social benefits and fringe benefits (including provisions for managers' insurance policies and/or pension funds, study funds, vacation days, convalescence pay, sick days, etc.) (hereinafter: "**Base Salary For The Severance**

Package”). The amount of the aforementioned severance package will be determined on the signing date of the employment agreement with the corporate officer, or thereafter, provided that it will not be determined proximate to the date of their departure. Additionally, upon the termination of employer - employee relationship, the company will be entitled, subject to the decision of the competent organs, to increase the severance package for the corporate officer, in the amount of up to additional 2 base salaries for the severance package. Additionally, the company reserves the right to exercise special discretion with respect to an increase to the severance package, in the event that the corporate officer has worked in the company (including in related companies) for a period exceeding 15 years, in the amount of up to additional 2 base salaries, for the severance package. Alternatively, instead of the severance package, as specified above, in exceptional and extraordinary cases, the company is entitled to determine that, in case the corporate officer has worked in the company (including in related companies) for a period exceeding 15 years, the corporate officer will be entitled to increased statutory severance pay in the amount of up to 200%, subject to the terms which will be determined, instead of any bonus (adjustment or retirement) as specified in this section above.

14.2. The considerations and criteria taken into account by the company in connection with the determination and increase of the severance package, as stated above, will include taking into account, inter alia, the circumstances of retirement, the tenure period, roles, qualifications, the performance of the company during the period of their tenure, and the contribution of the corporate officer towards achieving the company’s objectives, increasing its income, and managing savers’ funds through it, the annual compensation which they received during their tenure period, and the recommendation of the company’s CEO.

14.3. The severance package will be made conditional upon actual performance, will be considered as a variable component for all intents and purposes, and will be distributed in accordance with the provisions of this compensation policy, for the purpose of a severance package, as specified below. For the avoidance of doubt, it is hereby clarified that any adjustments which will be performed to the provisions for the severance package during the years of employment will not be evaluated for the purpose of determining a variable fixed ratio, as specified in section 6.1.6 above.

14.4. The determination of the retirement terms of corporate officers will be subject to the approval of the board of directors, after having received the approval of the compensation committee.

14.5. The payment of variables retirement terms, as stated above, in an amount exceeding two base salaries per bonus, will be subject to payment deferral arrangements beyond the date of the corporate officer’s departure, and to the application of retroactive adjustment mechanisms for performance, as specified in the compensation policies of the group’s institutional entities, as will be determined by from time to time, and as required in accordance with the compensation circular.

14.6. The provisions of this section shall not derogate from any current or accrued rights.

14.7. A corporate officer will not be entitled to a severance package in the event that the termination of the working relationship was due to their resignation within two years after the commencement of their employment (except if the resignation took place within 12 months after the date of a transfer of the control of the company).

14.8. A corporate officer will not be entitled to a severance package in the event that their departure involves circumstances which justify the revocation of severance pay by law.

14.9. The scope of the bonus, as specified above, is the maximum scope which the compensation committee and the board of directors are authorized to determine in accordance with the principles specified above.

15. Post-employment arrangements

15.1. Non-competition

15.1.1. The corporate officers will undertake, in writing, on the signing date of their employment agreement in the company, to refrain from competing with the company, in its business areas, for a period of several months (3 to 9 months from the date of the advance notice), as determined in the employment agreement.

15.1.2. Subject to the provisions of the legislative arrangement, payment with respect to a non-competition undertaking period will not be considered a severance package, insofar as the corporate officer has refrained from working during this period in competing companies in the company's segment.

15.2. Advance notice

15.2.1. The corporate officer will be entitled to receive an advance notice which will not exceed 6 months (in special and extraordinary cases, as specified, not exceeding 9 months). The advance notice period for each corporate officer will be determined by the board of directors, with the recommendation of the compensation committee, prior to the signing of the employment agreement with the corporate officer.

15.2.2. During the advance notice period, the corporate officer will be required to continue fulfilling their position, unless the board of directors has decided, with the recommendation of the compensation committee, to release them from this commitment, in full or in part, and they will be entitled to the continuation of all of their terms of tenure and employment, with no changes.

16. General provisions, discretion, validity and liability

16.1. The compensation policy will be in effect for 3 years after its date of approval[18] by the company's competent organs, and once every three years at least, will be presented for re-approval to the company's competent organs. Upon approval of the authorization, the employment terms will be evaluated against the conventional practice in the relevant comparison groups at that time.

16.2. Without derogating from the provisions of section 16.1 above, the compensation committee and the board of directors will evaluate, from time to time, and at least once per year, the method for implementation of the compensation policy, and the need to adjust and update it, in the event that a significant change has occurred in the circumstances which existed at the time of its determination, or for other reasons. Changes to the compensation policy, if any, will be approved in accordance with the provisions of the law.

16.3. With respect to each calendar year, the relevant organs of the company will be entitled to deviate from or change the current version of the compensation policy, in their discretion, in a manner which is not preferential relative to the total compensation terms of the corporate officers. Notwithstanding the foregoing, it is hereby clarified that the compensation committee and the board of directors will be entitled to changes the compensation policy for corporate officers, provided that the total annual scope of the compensation components does not exceed 10% with respect to each corporate officer.

16.4. It is noted that, in accordance with the provisions of the law, including the Executive Compensation Law, the company may bear additional costs with respect to the employment of its corporate officers, in accordance with the terms of this policy.

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[18] It is hereby clarified that the provisions of the policy as arising from the Executive Compensation Law will be in effect beginning on October 12, 2016.

16.5. It is emphasized that this document constitutes a policy and guidelines document, and therefore, it does not give rise to any right for the corporate officers and/or for any third party whatsoever, and as part of the above, none of the above will have any right to claim, towards the company, that It is obligated to act in accordance with the compensation policy. Subject to the law, the provisions of set forth in the employment agreements, and in the collective agreements (insofar as these are relevant) and the personal compensation plans which have been duly approved take precedence over the provisions of the compensation policy.

16.6. It is hereby clarified that the implementation of this compensation policy will be done provided that it does not constitute any breach of the provisions of the law, including labor laws, with an emphasis on protection of salary laws, including determinations or approvals which have given by the courts in specific cases.

16.7. This compensation policy will be backed by policies which will include a description of the entities which are involved in the process of planning, approval and monitoring the policy and the compensation agreements.

17. <u>Transitional provisions</u>

17.1. The provisions of this compensation policy will apply to compensation agreements which were approved from the application date and thereafter, unless stated otherwise.

17.2. Previous employment agreements between the company and its corporate officer will not be canceled upon the entry into effect of this compensation policy, and have been adjusted and will be adjusted accordingly and on the required date, in accordance with the relevant provisions of the law.[19]

[19] In accordance with the letter which the company sent to the company's corporate officers in October 2016, in which it notified them that their compensation terms will be adjusted in accordance with the provisions of the Executive Compensation Law. For the avoidance of doubt,

17.3. Subject to the foregoing, for the avoidance of doubt, the compensation policy will not prejudice any rights of the corporate officers in connection with their tenure and employment in the company, which apply as of the application date, nor any rights which have accrued and/or which have materialized and/or which will be accrued with respect to previous periods, until the date of their adjustment to the policy, or until the date required for their adjustment, in accordance with the relevant provisions of the law, as stated above (hereinafter: "**Accrued Rights**")[20].

17.4. It is hereby clarified that any rights which have accrued will not be taken into account for the purpose of calculating the maximum limits specified in this policy with respect to the compensation, even if their actual date of payment is later than the application date or than the application date of the provisions of the law, including options which were provided, as stated above, and for which payment has been provided.

17.5. It is hereby clarified that if and when, in accordance with the Executive Compensation Law, the projected annual expense with respect to the compensation of a corporate officer exceeds the compensation limit, the compensation of the corporate officer will be increased accordingly, in any of their compensation components.

It is hereby clarified that, with respect to 2016, the maximum compensation limit will be evaluated on a proportional basis, relative to the period beginning from the application date of the Executive Compensation Law, and the variable components of compensation which will be paid with respect to that year will be attributed accordingly.

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any change to the aforementioned conditions will not prejudice any rights which accrued prior to this date. For details regarding the provision of notice to the CEO, see footnote 14 above.

[20] It is hereby clarified that the provisions of the compensation policy will be no more stringent than the transitional provisions set forth in the compensation circular and i the amendment to the circular and to the Executive Compensation Law, and shall not prejudice any rights which the transitional provisions are intended to protect.

17.6. Insofar as the provisions of the compensation circular will be updated in the future, the compensation terms may be adjusted accordingly, with the approval of the compensation committee and the board of directors.

17.7. Without derogating from that stated in section 16.6 above, it is hereby clarified that a corporate officer who announced their resignation by January 1, 2017, will not lose their entitlement to receive all of the rights which would have been due to them with respect to the termination of the employer - employee relationship, or the conclusion of tenure, had said relationship concluded before the entry into effect of the Executive Compensation Law (October 12, 2016).

* * *

Chapter A - Actuarial Certification Regarding Non-Life Insurance Branches

Identity of Actuary

I have been requested by Clal Insurance Company Ltd. to evaluate the provisions specified in Chapter B below in the non-life insurance branches (herein: the Provisions) in the financial statements of the insurer Clal Insurance Company Ltd. as of December 31, 2016, as specified below.

I am a salaried employee of Clal Insurance Company Ltd. (hereinafter: the "**Insurer**").
I was appointed to the position on September 9, 2013

Scope of the Actuarial Opinion

1. Scope of the Actuarial Opinion

A. For the purpose of calculating the insurer's provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements.

   I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.

B. Where necessary, I relied in my evaluation on data obtained from other reliable sources. I evaluated the extent of the data's adequacy and relevance.

C. The actuarial assumptions which were used by me in my work, as well as the methods for evaluating the provisions, as specified in Section 2 below, were determined by me, to the best of my professional judgment, subject to the instructions, directives and rules specified in Section 1 in Chapter C below.

D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer's reinsurance arrangements, the ability of collection of claims and problems in the payment policy of the reinsurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.

E. The following matters were also taken into account in rendering my opinion:

1) The provision that was calculated with respect to the residual insurance arrangement ("Pool") was based on a calculation carried out by the Pool.

2) The provision that was calculated for coinsurances in which the insurer is not the lead insurer is based on a calculation which I implemented.

3) The reserve was not reduced for lack of correlation between the various branches for the purpose of reducing the total amount of provisions for all the branches included in my evaluation.

2. Data Attached to the Paragraph Regarding the Scope of the Actuarial Opinion

Presented below is the estimate of the reserves amount:

		As of December 31, 2016 (NIS in thousands)	
		Gross	Retention
	Outstanding claims[1]		
1)a)	Non-grouped branches:		
	Compulsory motor	2,163,434	2,043,775
	Third party liability	828,719	628,476
	Professional liability	618,351	271,225
	Employers liability	430,709	410,914
	Motor property	186,013	185,458
	Product liability	74,453	60,377
	Comprehensive apartments	54,555	31,021
	Mortgages	11,746	1,714
	Total non-grouped branches	4,367,980	3,632,960
1)b)	Total non-grouped and grouped branches[2]	4,948,002	3,688,955
2)	Indirect expenses	77,745	77,745
3)	Premium deficiency		
	Compulsory motor	No reporting requirement	No premium deficiency
	Motor property	No reporting requirement	21,449
	Comprehensive apartments	No reporting requirement	No premium deficiency
	Total insurance liabilities with respect to insurance contracts included in the non-life insurance branch are calculated according to actuarial valuation.	5,047,196	3,788,149

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[1] In insurance branches evaluated based on the underwriting year: outstanding claims and provision for deficient premiums.

[2] Property loss (including business, agriculture, diamonds, and terrorism insurance), engineering insurance, all risks, sick pay, professional liability and others, and managerial liability.

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מען למשלוח דואר: ת.ד. 37070 תל אביב 6136902 | www.clal.co.il

Opinion

I hereby certify and affirm that in the following branches, as defined in the Notice Regarding Control of Insurance Business Operations (Insurance Branches), 5745-1985:

A. Employers liability insurance – Section 1(a)(7)

B. Insurance pursuant to the requirements of the Motor Vehicle Insurance Ordinance (New Version), 5730-1970 – Section 1(a)(8)

C. Motor vehicle insurance – property (self and third party) – Section 1(a)(9)

D. Comprehensive insurance for residential apartments and businesses – Section 1(a)(12)

E. Third party liability insurance – Section 1(a)(14)

F. Property loss insurance – Section 1(a)(15)

G. Agricultural insurance, excluding insurance for natural damages to agriculture – Section 1(a)(17)

H. Engineering insurance – Section 1(a)(18)

I. Defective products liability insurance – Section 1(a)(22)

J. Other risks insurance – Section 1(a)(25)

1. I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, guidelines, and rules specified below, effective as of the date of the financial report:

   A. Provisions of the Control of Insurance Law, 5741-1981, and regulations enacted pursuant thereto;

   B. The Insurance Commissioner's instructions and directives;

   C. The Commissioner's position regarding the calculation of reserves in non-life insurance;

   D. Generally accepted actuarial principles.

2. Having evaluated the data mentioned in Chapter A, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.

3. The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.

מרחב מרכז
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4 . The provisions specified in Chapter A, Section 1.2)a), with respect to the non-grouped branches: compulsory motor insurance, third party liability (excluding managers liability), employers liability, professional liability, motor property, product liability, residential apartments and bank mortgages, constitute, to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations with respect to outstanding claims, as defined above, for each separately specified branch, effective as of the reporting date.

5 . The total amount of provisions specified in Chapter A, Section 1.2)b), constitutes, to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations with respect to outstanding claims in the grouped and non-grouped branches together, effective as of the reporting date.

6 . The provisions specified in Chapter A, Section 2.2) constitute to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations with respect to indirect claim settlement expenses, effective as of the reporting date.

7 . To the best of my knowledge and judgment, the provisions specified in Chapter A, Section 3.2) constitute an adequate reserve to cover the insurer's liabilities with respect to the difference between risks which have not yet materialized and unearned premiums on retention (if any) in the specified branches, effective as of the reporting date.

<u>Notes and Clarifications</u>

1 . The stated reserve is derived from claims data and an actuarial estimate, in which the statistical uncertainty constitutes an inseparable part of the estimated total cost of claims. Additionally, changes are possible in the risks, in environmental factors, court rulings, and precedents that cannot be forecast in advance. The actual cost of claims could be higher or lower. Therefore, this estimate could increase or decrease over time.

2 . In a number of large claims of a non-statistical nature, the reserve was determined (gross and on retention) based on professional opinions of the company's experts, as well as according to the recommendations of their legal advisers. Any change or development in the estimates of the company's experts may affect the cost of claims.

3 . The reserve in the compulsory motor branch (excluding outstanding claims reported by the Pool), and the liabilities and contractors branches was discounted at a rate of 1.3%, CPI-linked.

4 . The estimate of the liabilities in the compulsory motor branch and in the liabilities branches includes the additional safety margin which is calculated based on the standard deviation in the actuarial model.

5 . For grouped branches, due to the high level of uncertainty, an actuarial opinion is given for the total provisions with respect to all branches (non-grouped and grouped) together, in accordance with the provisions of the Commissioner's circular (circular 2015-1-1).

6 . In the following branches: cargo in transit insurance, aircraft insurance, including third party liability, sailing vessels insurance including third party liability, granting of guarantees and incoming business, no actuarial estimation has been carried out due to the nature of the coverage and insufficient data. Likewise, the reserve for special transactions in the area of medical malpractice, which are classified under professional liability branch, is calculated, in accordance with the insurance policy, for the amount of claims above the medical institution's payment liability. For these institutions, a reserve was not taken for the amount of claims below this amount, with respect to which the medical institution is obligated to bear the cost of the claims.

7 . Beginning in December 2015, the company has applied the Commissioner's position in connection with best practices in the calculation of the reserves, which serves as the basis for determining a minimum amount for the required reserves. According to the position, with respect to the reserve which was calculated by an actuary, the meaning of an "adequate reserve to cover the insurer's liabilities" is that it is fairly likely that the determined insurance liability will suffice to cover the insurer's liabilities. The actuary is required to take into account random risks (risk of random deviation from the results of the model), as well as systemic risks (risks which are not included in the model, for example, risk of suing an inappropriate model). This evaluation includes taking into account the revaluation method used in the financial statements for assets held against liabilities.

The Commissioner stated that if restrictions apply to the statistical analysis of the risk factors and the required margin, the actuary wil exercise judgment, and conventional actuarial methods may be used. The Commissioner also stated that as of the publication date of the position paper there is a restriction regarding the statistical analysis of systemic risk.

In the absence of appropriate statistical models, the calculation of systemic risks requires a high level of judgment with reference to the potential level of impact of various factors which may take place and affect the amount of the liability in the future. The estimation of these effects involves significant subjectivity, and therefore, different actuaries, working under the same circumstances, may reach different estimates.

It is noted that the company will continue evaluating ways to improve the estimates of the model components, with reference, inter alia, to practices which will be formulated in the market, and to the experience and knowledge which will be accrued in the coming years.

8. In June 2014, an inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd was appointed in order to evaluate of the correction of life expectancy tables and the interest rate which is used discount annuities in accordance with the National Insurance Regulations (Discounting), 5738-1978 (the "Discounting Regulations"). In June 2016, an amendment was published to the Regulations (hereinafter: the "Amendment"), which includes, inter alia, an update to the mortality tables and discount rates which are used to calculate the aforementioned annuities.

The Discounting Regulations formalize, inter alia, the discount rate which is used to calculate subrogation claims filed by the National Institute Insurance towards third parties, in accordance with the right which is conferred upon it pursuant to the National Insurance Law (Consolidated Version), 5755-1955, in cases where the event serves as grounds for charging the third party, pursuant to the Civil Wrongs Ordinance or the RAVC law.

In accordance with the amendment, the interest rate used to discount the annual annuity will be 2%, instead of 3%, as specified in the Discounting Regulations prior to their amendment. The amendment also determines that the mortality tables and discount rates used for annuities will be updated again on January 1, 2020, and once every four years thereafter.

The company estimated the overall possible impact of the foregoing, including amounts which the insurance companies may be required to pay in other disability and death claims, while giving weight to the uncertainty regarding the actual impact and the manner of its occurrence. The estimated impact of the liabilities, weighing the scenario involving the full effect of the recommendations of the Winograd committee on the discount rates, and a scenario according to which the discount rates which will be determined will reflect returns of relevant low-risk investment instruments, based on a legal opinion.

Accordingly, the company increased the insurance liabilities for 2016, in the compulsory motor and liabilities branches, in the amount of approximately NIS 141 million on retention.

March 21, 2017

Date

Yaakov Mauser, F.I.A., F.IL.A.A.
Chief Actuary in Non-Life Insurance

Chapter A - Actuarial Certification Regarding Health Insurance

Identity of Actuary

I have been requested by Clal Insurance Company Ltd. to evaluate the provisions specified in Chapter B below in the non-life insurance branches for the financial statements (herein: the "Provisions") of the insurer Clal Insurance Company Ltd. as of December 31, 2016, as specified below.

I am a salaried employee of Clal Insurance Company Ltd. (hereinafter: the "**Insurer**").
I was appointed to the position on September 9, 2013.

Scope of the Actuarial Opinion

1. The Actuarial Opinion

A. For the purpose of calculating the insurer's provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements.

I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.

B. Where necessary, I relied in my evaluation on data obtained from other reliable sources. I evaluated the extent of the data's adequacy and relevance.

C. The actuarial assumptions that were used by me in my work, as well as the methods for evaluating the provisions were determined by me, to the best of my professional judgment, subject to the instructions, guidelines and rules specified in Section 1 in Chapter C below.

D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer's reinsurance arrangements, the ability of collection of claims and problems in the payment policy of the reinsurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.

E. The following matters were also taken into account in rendering my opinion:

1) Provision calculated for incoming business – there is no incoming business.

2) The provision that was calculated for coinsurances in which the insurer is not the lead insurer is based on a calculation which I implemented.

2. Data Attached to the Paragraph Regarding the Scope of the Actuarial Opinion

Presented below is the estimate of the reserves amount:

		As of December 31, 2016 (NIS in thousands)	
		Gross	Retention
	Outstanding claims		
1)a)	Non-grouped branches:		
	Personal accidents[1]	307,341	306,362
	Total non-grouped branches	307,341	306,362
1)b)	Total non-grouped and grouped branches	307,341	306,362
2)	Indirect expenses	8,212	8,212
3)	Provision deriving from the terms of the insurance contract	None	
4)	Provision for participation in profits.	None	
	Total insurance liabilities with respect to insurance contracts included in the non-life insurance branch are calculated according to actuarial valuation.	315,553	314,574

[1] Over 90% of personal accident branches and students personal accident insurance branches are included in collective-type policies

A. Effect of changes in the provision

Presented below is the effect of the changes at the gross and retention level:

1. For policies which came into effect after the end of the period of the last annual report, an adjustment for the provisions was not required due to differences between the premium basis assumptions and the provision basis assumptions.
2. For policies that came into effect prior to the period of the last annual report – the amount of the adjustment of the provision, arising from changes in assumptions, methods, or the amount of the premium expected to be collected and other amendments – see subsection 4 in the notes and clarifications presented below.

Opinion

I hereby certify and affirm that in the following health insurance sub-branches, as defined in the Notice Regarding Control of Insurance Business Operations (Insurance Branches), 5745-1985:

a) Personal accident insurance - Section 1(a)(5)

1. I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, guidelines, and rules specified below, effective as of the date of the financial report:
   A. Provisions of the Control of Financial Services (Insurance) Law, 5741-1981 and regulations enacted pursuant thereto;
   B. The Insurance Commissioner's instructions and directives;
   C. Generally accepted actuarial principles.
2. Having evaluated the data mentioned in Chapter B, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.
3. The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.

   The provisions specified in Chapter B constitute, to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations arising from

מרחב מרכז
ת.ד. 37070, תל אביב 6136902
טל. 03-7912200 | פקס. 03-7912285

מרחב ירושלים והדרום
יפו 97, ירושלים 9434001
טל. 02-6209111 | פקס. 02-6209155

מרחב חיפה והצפון
שד' פל-ים 2, בניין ברוש
ת.ד. 33599 חיפה 3313402
טל. 04-8608888 | פקס. 04-8668333

סניף באר שבע
בן ציון 10, באר שבע 8489328
טל. 08-6293888 | פקס. 08-6270136

health insurance contracts belonging to the Health Insurance sub-branches, as detailed above, as of the reporting date.

Notes and Clarifications

1. The stated reserve is derived from claims data and an actuarial estimate, where there is inbuilt statistical uncertainty as to the total cost of claims. Additionally, changes are possible in the risks, in environmental factors, court rulings, and precedents that cannot be forecast in advance. The actual cost of claims could be higher or lower. Therefore, this estimate could increase or decrease over time.
2. The reserve for the students personal accident insurance sub-branch was discounted at a rate of 1.3%, CPI-linked.
3. The estimated liabilities in the students personal accident insurance sub-branch includes an additional safety margin which is calculated based on the standard deviation in the actuarial model.
4. During the reporting year, there was a development (increase) in outstanding claims in the amount of approximately NIS 44 million gross and approximately NIS 44 million on retention, which was primarily due to an increase in the provision for outstanding claims in the students personal accident insurance branch.

March 21, 2017
Date

Yaakov Mauser, F.I.A, F.IL.A.A.
Chief Actuary in Non-Life Insurance

Actuarial Certification Regarding Health-Life Insurance Branches
Clal Insurance Company Ltd.

Chapter A – Identity of Actuary

I have been requested by Clal Insurance Company Ltd. to evaluate the provisions specified in Chapter B below in health insurance business reported in life insurance (hereinafter: the "Provisions"), for the financial statements of the insurer Clal Insurance Company Ltd. as of December 31, 2016, as specified below.

I am a salaried employee of Clal Insurance Company Ltd. I was appointed to the position in November 2000. I am not an interested party or a relative of another interested party in the insurer.

Chapter B – Scope of the Actuarial Opinion

1 . The Actuarial Opinion

A. For the purpose of calculating the insurer's provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements. I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.

B. Where necessary, I relied in my evaluation on data received from other reliable sources. I evaluated the degree of suitability and relevance of the data.

C. The actuarial assumptions that were used by me in my work, as well as the methods for evaluating the provisions were determined by me, to the best of my professional judgment, subject to the instructions, guidelines and rules specified in Section 1 in Chapter C below.

D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer's reinsurance arrangements, the ability of collection of claims, and problems in the payment policy of the re-insurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.

E. The following matters were also taken into account in rendering my opinion:

1) The provision calculated for incoming business. On this matter, with respect to "**incoming business**", as defined in the Control of Insurance Business Regulations (Methods for Calculation of Provisions for Future Claims in Non-Life Insurance), 5745 - 1984 - the company has no business operations of this kind.

2) The provisions calculated for coinsurances in which the company is not the insurer – the company has no business of this type.

2 . Valuation Data for Amount of Reserves

A. Details of Reserve Amounts

Presented below are details regarding the reported reserves in the life insurance report, at the gross level and at the retention level.

Description (NIS in thousands)	Health – Life Insurance Individual Business Operations
Gross	
Outstanding claims	1,264
IBNR	9,936
Insurance contract terms	0
Total – Gross	**11,200**
Retention	
Outstanding claims	692
IBNR	9,936
Insurance contract terms	0
Total – On retention	**10,627**

B. **Effect of changes on the provisions**

Presented below is the effect of changes at the gross and net level for:

1. For policies which came into effect after the end of the period of the last annual report – the amount of the adjustment for the provisions, arising from differences between the premium basis assumptions and the provision basis assumptions – no adjustment of this type was required during the reporting period.
2. For policies which came into effect prior to the period of the last annual report – the amount of adjustment of the provisions, due to changes in assumptions, methods or the amount of the premium expected to be collected and other amendments – no adjustment of this type was required in the reporting period.

<u>Chapter C – The Opinion</u>

I hereby certify and affirm that in the following health insurance critical illnesses sub-branch:

1 . I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, guidelines, and rules specified below, effective as of the date of the financial report:

   A. Provisions of the Control of Insurance Law, 5741-1981, and regulations enacted pursuant thereto;

   B. The Insurance Commissioner’s instructions and directives;

   C. Generally accepted actuarial principles.

2 . Having evaluated the data mentioned in Chapter B, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.

3 . The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.

4 . The provisions specified in Chapter B constitute, to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations arising from health insurance contracts belonging to the Health Insurance sub-branches, as detailed above, as of the reporting date.

Chapter D – Notes and Clarifications

1. Details regarding the types of reserves, interest rates etc. are included in Note 37 to the financial statements.

2. **Statistical and Actuarial Uncertainty**

The results presented in this report rely, inter alia, on a calculation of outstanding claims and a calculation of IBNR claims, based on a statistical model for payments of future claims, based on the history of claims actually paid in the past, both in terms of the rate of their payment and in terms of the amounts paid.

These models and the working assumptions were developed according to my understanding of the company's current business environment and according my estimation as to the future development of the company's business environment. Therefore, it must be recognized that there is a high likelihood that the future business results will differ from those forecast according to the actuarial models for calculating reserves.

3. **Exposure to Future Developments and Changes**

The possibility exists of changes and developments in the future in connection with the insurance market conditions in Israel, following regulatory changes, court decisions, technological changes and changes in social and environmental conditions. These future factors cannot be foreseen and could affect the final cost or claims and also the actuarial estimation for reserves.

Chapter E – Material Changes

There were no material changes during the reporting period.

March 21, 2017	Executive VP and Chief Actuary	Ofer Brandt, F.I.A, F.IL.A.A	
Date	Position	Name of Actuary	Signature

Actuarial Certification Regarding Life Insurance Branches as of December 2016

Clal Insurance Company Ltd.

Table of Contents

This certification, including all of its parts, should be read as a single unit. Particular attention is hereby called to Part D of the certification, regarding notes and clarifications.

Chapter A – Identity of Actuary

I have been requested by Clal Insurance Company Ltd. to evaluate the provisions specified in Chapter B below in life insurance (hereinafter: the "Provisions") , for the financial statements of the insurer Clal Insurance Company Ltd. as of December 31, 2016, as specified below.

I am a salaried employee of Clal Insurance Company Ltd. I was appointed to the position, in the specified life insurance branches, in November 2000. I am not an interested party or a relative of another interested party in the insurer.

Chapter B – Scope of the Actuarial Opinion

1. The Actuarial Opinion

A. For the purpose of calculating the insurer's provisions, I have relied on data provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements. I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.

B. Where necessary, I relied in my evaluation on data received from other reliable sources. I evaluated the degree of suitability and relevance of the data.

C. The actuarial assumptions that were used by me in my work, as well as the methods for evaluating the provisions were determined by me, to the best of my professional judgment, subject to the instructions, guidelines and rules specified in Section 1 in Chapter C below.

D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer's reinsurance arrangements, the ability of collection of claims, and problems in the payment policy of the re-insurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.

E. The following matters were also taken into account in rendering my opinion:

The provision that was calculated for joint insurances, in which the company is not the lead insurer, is based on the calculation made by the actuary of the lead insurers of the joint insurances, including the life insurance portfolio of the Sneh Israeli Insurance Company, which was acquired jointly by the insurer and Migdal Insurance Company, with respect to the policies managed by Migdal Insurance Company.

2. Data Attached to the Paragraph Regarding the Scope of the Actuarial Opinion

A. Details of provisions at the gross and net level

Annexes A and B below detail the provisions in NIS thousands, both at the gross level and at the retention level, as follows:

The provision for outstanding claims (claims that have occurred but which have not been paid in full, whether approved or not, with the exception of claims paid as annuities, such as work disability and family income) and the direct and indirect costs arising from them (including a provision for unreported claims) – reserve for unpaid losses (incurred but unpaid claims) and unpaid allocated and unallocated loss adjustment expenses (including IBNR)

1) Provision (reserve) arising from the terms of the life insurance contract separately, including -

    a) Reserve for plan with accrual;

    b) A provision is required when a part of the premium collected for previous years of the contract is designated for providing future coverage at a later date, such as: provision with respect to a fixed premium, insurability, and continuity.

2) Part of the provision for claims in payment, including claims paid as annuities, such as: work disability and family income.

3) Provision for participation in profits.

4) Supplementation due to the liability adequacy test – The liability adequacy test identified the need for any additional Supplementation of the reserve, in the amount of approximately NIS 162 million

5) Other – Additional provisions according to directives of the Insurance Commissioner, such as the provision with respect to a reserve for completion (DAC), completion of reserve for pension policies.

6) The provision for reserve with respect to unusual risks – this provision was canceled and was classified in the first quarter of 2007 as part of the company's equity.

B. Effect of Changes/Adjustments on the Provisions

The effect of the changes detailed below on the provisions, in thousands of NIS, both at the gross level and at the retention level:

1. For policies which came into effect after the end of the period of the last annual report – The amount of the adjustment for the provisions, arising from differences between the premium basis assumptions and the provision basis assumptions – No adjustment of this type was required during the reporting period.

2. For policies that came into effect prior to the period of the last annual report – the amount of the adjustment of the provision, arising from changes in assumptions, methods, or the amount of the premium expected to be collected and other amendments – a total amount was provided in the amount of approximately NIS 51 million gross and NIS 51 million on retention, which is primarily due to adjustments to assumptions regarding deferred annuity policies.

Chapter C – The Opinion

I hereby certify and affirm that in the life insurance branch:

1. I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, directives, and rules detailed below, effective as of the reporting date:

A. Provisions of the Control of Financial Services (Insurance) Law, 5741-1981 and regulations enacted pursuant thereto;

B. The Insurance Commissioner's instructions and directives;

C. Generally accepted actuarial principles.

2. Having evaluated the data mentioned in Chapter B, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.

3. The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.

4. The provisions specified in Chapter B, constitute to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations arising from life insurance contracts in force at the report date.

Chapter D – Notes and Clarifications and Significant Changes

1. Notes and Clarifications

A. **Types of Reserves and Assumptions**

Details regarding the types of reserves, interest rates etc. are included in Note 37 to the financial statements of Clal Insurance.

B. **Statistical and Actuarial Uncertainty**

In some instances, the reserves calculated with respect to the insurance coverages are based on mortality rates, morbidity rates reflecting the company's experience in practice, or based on the experience of the reinsurers The calculations and the models, were developed according to my understanding of the company's current business environment, and according to my estimation as to the development of the company's business environment, and the future policyholder behavior. Therefore, it must be recognized that there is a high likelihood that the future business results will differ from those forecast according to the actuarial models for calculating reserves.

C. **Exposure to Future Developments and Changes**

The possibility exists for changes and developments in the future in connection with life insurance market conditions in Israel, following regulatory changes, court decisions, technological changes, and changes in social and environmental conditions. These future factors cannot be foreseen and could affect the final cost of claims; and therefore, the actuarial estimation for reserves.

D. **Adjustment of data in the annexes to the financial statements**

The following tables and annexes have been prepared in accordance with Insurance Commissioner instructions, and the composition of the data contained in them does not necessarily

match the composition of the data appearing in the company's financial statements and Notes.

2. Material Adjustments and Changes

A. **Liability adequacy test**

During the reporting year, the risk-free interest rate curve decreased, which resulted in an update to the discount rate used to calculate the LAT.The liability adequacy test in life insurance resulted in an increase in provisions in the amount of NIS 162 million. The total provision for the liability adequacy test (LAT) as of the balance sheet date was NIS 306 million (NIS 144 million last year).

B. Adjustments with respect to annuity payment reserves

The company periodically evaluates the working assumptions for calculating the annuities payment reserve in accordance with the provisions of the circular issued by the Control of Insurance Office in March 2013, regarding the calculation of annuity payment reserves in life insurance policies.

From time to time, the company conducts studies in which it evaluates the rate of policyholders who are expected to realize their eligibility to receive annuities, the mix of annuity tracks chosen by retiring policyholders, which were used to determine the annuity payment period and other parameters which affect the amount of the annuity reserve payment liability. The realization rates and annuity tracks are adjusted for the various insurance plans and savings types.

During the reporting period, the company updated the estimates annuity eligibility realization rate, the policyholder redemption rate, the discount rate used for annuity payment reserves, and the K factor, which, as of the reporting date, the company set as a rate of 0.0% for guaranteed return policies (0% last year), while for guaranteed return policies, a rate of 0.96% was applied (0.96% last year). The overall impact of these updates resulted in a decrease in the provision for paid annuities and deferred annuities in the amount of approximately NIS 51 million. for additional details, see Note 40.e.e1 to the financial statements.

With respect to deferred annuities, the amount of the provision which accrued in the books over the years until December 31, 2016, which includes the aforementioned updates, amounted to a total of approximately NIS 2,076 million (as compared with approximately NIS 1,905 million last year). The balance of provisions, according to the estimated amount as of December 31, 2016, in the amount of approximately NIS 1,798 million (as compared with approximately NIS 1,749 million last year) will be applied, throughout the remaining policy period until retirement age, in accordance with a geometric formula which takes into account, inter alia, the discount rate (K) factors specified above.

The total cost (due to the increase in life expectancy) of the annuity payments with respect to deferred annuities which are expected to be paid over the years in the future, with respect to the funds which accrued in the policies as of the end of the reporting period, amount to a total of approximately NIS 3,874 million (as compared with approximately NIS 3,654 million last year).

The total estimated cost of the increase in life expectancy may change due to several factors, including, inter alia, changes in life expectancy and in the rate of policyholders who exercise their eligibility to receive annuities, change in the reasons of policyholders for choosing the annuity tracks upon retirement, increase in the savings funds of policyholders, due to future premium payments and/or an increase in investment income, and due to changes in discount interest rate assumptions, and other assumptions.

March 21, 2017	Executive VP and Chief Actuary	Ofer Brandt, F.I.A, F.IL.A.A	
Date	Position	Name of Actuary	Signature

Attachments

Form 12.a: Outstanding Claims, Reserve and Reserve for Extraordinary Risks – Gross

Form 12.b: Outstanding Claims, Reserve and Reserve for Extraordinary Risks – On Retention

Annex A: – Form 12.a

Form 12.a

Outstanding claims, reserve and reserve for extraordinary risks – **gross**

Name of copmany: Clal Insurance Company Ltd.

Gross data **December 31, 2016, NIS in thousands**

				Savings and risk of death (class, tradiitonal)		Pure sabings or sabings component in policies (preferred, track)		Pure risk of death or risk of death component in the policy		Loss of working capacity	Long-term care		Other covers 1)
				Guaranteed-return	Profit-sharing	Guaranteed-return	Profit-sharing	Guaranteed-return	Profit-sharing		Guaranteed-return	Profit-sharing	
			Total	1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Oustanding claims		137,013	42,025	3,090	18,021	1,136	50,967	13,988	231	0	0	7,554
2	Reserve (total lines 2a1 to 6)		72,712,025	5,334,232	1,160,796	12,135,138	51,754,982	176,548	77,840	1,949,020	0	0	123,469
2a1	Policies including a savings component (including riders) by policy issuance date:	Policies issued until 1990	15,445,096	4,957,074	0	10,197,946	251,740	4,565	0	26,654	0	0	7,117
2a2		Policies issued from 1991-2003	35,142,481	0	1,146,207	0	33,799,985	59,130	0	109,151	0	0	28,008
2a3		Policies issued after 2004	17,406,117	0	0	126,685	17,188,062	9,095	0	80,839	0	0	1,437
2a4		Total (2a1 to 2a3)	67,993,695	4,957,074	1,146,207	10,324,631	51,239,786	72,790	0	216,643	0	0	36,562
2b	Policies not including a savings component		324,972	0	0	0	0	86,832	67,549	83,683	0	0	86,907
3	Share of reserve with respect to paid claims		1,981,477	75,736	1,003	238,221	19,497	0	0	1,647,020	0	0	0
4	Profit participation		28,889	0	0	0	0	16,925	10,291	1,673	0	0	0
5	Supplementation due to liability adequacy test		306,465	32,855	0	273,610	0	0	0	0	0	0	0
6	Other		2,076,528	268,567	13,586	495,699	0	0	0	0	0	0	0
7	Reserve with respect to extraordinary risks		0	0	0	0	0	0	0	0	0	0	0
1) Other covers, including disabilities, double accident, etc.													
8a	Effect of adjustment to provisions with respect to new business		0										
8b1	Im pact of adjustment of provisions with respect to existing business	Changes in assumptions	50,913	10,428	28	30,280	11,123	0	0	-945	0	0	0
8b2		Changes in methods	0										
8b3		Differences on the prmeium level	0										
8b4		Other changes	0										

Annex B: – Form 12.b

Form 12.b

Outstanding claims, reserve and reserve for extraordinary risks – **on retention**

Name of copmany: Clal Insurance Company Ltd.

Gross data **December 31, 2016, NIS in thousands**

				Savings and risk of death (class, tradiitonal)		Pure sabings or sabings component in policies (preferred, track)		Pure risk of death or risk of death component in the policy		Loss of working capacity	Long-term care		Other covers 1)
				Guaranteed-return	Profit-sharing	Guaranteed-return	Profit-sharing	Guaranteed-return	Profit-sharing		Guaranteed-return	Profit-sharing	
			Total	1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Oustanding claims		127,200	41,807	2,792	18,017	1,136	43,715	13,130	231	0	0	6,370
2	Reserve (total lines 2a1 to 6)		72,498,726	5,334,232	1,160,796	12,129,838	51,760,283	165,461	77,579	1,747,067	0	0	123,469
2a1	Policies including a savings component (including riders) by policy issuance date:	Policies issued until 1990	15,438,783	4,957,074	0	10,192,645	257,042	4,565	0	20,340	0	0	7,117
2a2		Policies issued from 1991-2003	35,138,269	0	1,146,207	0	33,799,985	59,130	0	104,939	0	0	28,008
2a3		Policies issued after 2004	17,406,117	0	0	126,685	17,188,062	9,095	0	80,839	0	0	1,437
2a4		Total (2a1 to 2a3)	67,983,170	4,957,074	1,146,207	10,319,331	51,245,088	72,790	0	206,118	0	0	36,562
2b	Policies not including a savings component		310,924	0	0	0	0	75,746	67,288	80,983	0	0	86,907
3	Share of reserve with respect to paid claims		1,792,750	75,736	1,003	238,221	19,497	0	0	1,458,294	0	0	0
4	Profit participation		28,889	0	0	0	0	16,925	10,291	1,673	0	0	0
5	Supplementation due to liability adequacy test		306,465	32,855	0	273,610	0	0	0	0	0	0	0
6	Other		2,076,528	268,567	13,586	1,298,676	495,699	0	0	0	0	0	0
7	Reserve with respect to extraordinary risks		0	0	0	0	0	0	0	0	0	0	0
1) Other covers, including disabilities, double accident, etc.													
8a	Effect of adjustment to provisions with respect to new business		0										
8b1	Impact of adjustment of provisions with respect to existing business	Changes in assumptions	50,913	10,428	28	30,280	11,123	0	0	-945	0	0	0
8b2		Changes in methods	0										
8b3		Differences on the prmeium level	0										
8b4		Other changes	0										