Clal Insurance Enterprises Holdings Ltd.

Financial Statements

As of March 31, 2016

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

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

Board of Directors' Report

Clal Insurance Enterprises Holdings Ltd.

Table of Contents

The board of directors' report regarding the state of the corporation's affairs for the period ended March 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**") in the first quarter of 2016 (hereinafter: the "**Reporting Period**" and/or the "**Interim Reports**").

The board of directors' report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and is based on the assumption that the reader is also in possession of the company's complete periodic report for the year ended December 31, 2015 (hereinafter: the "**Periodic Report**"). The board of directors' report, with respect to insurance business operations, was prepared in accordance with the Control of Insurance Business Regulations (Particulars of Report), 5758-1998, and in accordance with the circular issued by the Commissioner of Capital Markets, Insurance and Savings (hereinafter: the "**Commissioner**") dated January 20, 2014, on the subject of "Updates to the provisions of an insurance company's periodic report".

1. Description of the Company

1.1. Organizational structure

Presented below are details regarding the main shareholders in the company, whose shares are traded on the stock exchange, and regarding their approximate rates of holding:

	As of March 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)]	54.9	53.3
Bank Hapoalim	9.5	9.2

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 publication date of the report - 50,000 warrants) into an identical number of company shares, and according to a maximum theoretical assumption of the exercise of all warrants which were allocated on behalf of employees according to the 2013 plan, including warrants from the CEO's 2013 plan (as of the publication date of the report, 2,949,667 warrants), all warrants allocated on behalf of employees according to the 2015 plan (as of the publication date of the report - 470,000 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 43(a) to the annual financial statements.

1. Description of the Company (Cont.)

1.1. Organizational structure (Cont.)

2) It is noted that IDB Development Ltd. pledged approximately 4% (approximately 3.88% at full dilution) of the company's shares to a financial entity. 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 and Mr. Terry.

For additional details regarding IDB Development's holdings in the company, and IDB Development's obligation to sell the company's shares, see Note 1 to the consolidated periodic reports.

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.

During the reporting period, a negative trend was recorded in the local stock market. In foreign capital markets in which the company invests, a mixed trend was recorded: increases in stock markets in the United States and in emerging markets, as compared with a decrease in the stock markets of Europe, Japan and China.

During the reporting period, the bond market in Israel was characterized by increases, with decreased volatility. In exchange rates, the NIS gained strength against the USD and the GBP, and weakened against the EUR. Long term bond yields decreased in the first quarter in most developed markets around the world. The total impact of market developments on the group's results during the reporting period was reflected in the decrease in the value of financial assets held against capital and insurance liabilities, primarily due to the decrease in stock markets. For details regarding developments in the capital market in Israel, see section 2.1.1.3 below

2. Description of the Business Environment (Cont.)

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

Additionally, as stated in Note 3(n)(3)(a) to the annual statements, in months with negative real returns, the variable management fees which were cumulatively collected since the beginning of the year are decreased. Negative returns for which no reduction of management fees was implemented during the current year ("holes") will be deducted, for the purpose of calculating management fees, from positive returns in subsequent periods. As of March 31, 2016, Clal Insurance has a "hole" of approximately NIS 37 million (according to the estimated income from management fees subsequent to the reporting period, As of May 25, 2016, the deficit was offset in its entirety).

2.1.1. Economic developments in Israel

2.1.1.1 Developments in the Israeli economy and employment rate

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

Growth

The updated growth forecast of the Bank of Israel for 2016 amounts to approximately 2.8%, representing a slight decrease relative to the previous forecast of 3.1%. Although the forecast regarding private consumption and export was updated downwards, the forecast regarding the growth rate of public consumption was updated upwards.

The current data indicate that the economy grew in the first quarter at a lower rate than in the fourth quarter of 2015, primarily due to weak exports.

Employment data

According to the human resources survey data for the first quarter, the unemployment rate for ages 25-64 remained 4.5%; the employment rate fell to 76.0%; and the workforce participation rate for persons aged 15 and over remained at 64.2%. The average salary continued to increase, although at a lower rate than in the previous quarters, in which the rate of increase was due to the update to the minimum wage in the economy.

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

Inflation

The inflation rate in Israel (index in lieu) decreased in the first quarter of 2016 by approximately 1%, as compared with a decrease of approximately 1.3% in the corresponding quarter last year. The CPI also decreased by approximately 0.7% in the last 12 months.

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, interest rates and rates of return in Israel (Cont.)

Presented below are data regarding changes in the consumer price index in the first quarter of 2016 and 2015, and in the entire year 2015:

	For the period of three months ended As of March 31		For the year ended December 31
In percent	2016	2015	2015
Index in lieu	(1.0)	(1.3)	(1.0)
Known index	(0.9)	(1.6)	(0.9)

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.

Development of interest rate and returns

The Bank of Israel left the interest rate unchanged at 0.1%. The NIS risk free rate yield curve showed decreased returns in the first quarter, mainly in the long term. Returns in the CPI-linked channel also decreased.

From the beginning of the year, the inflation forecast as derived from the capital market increased, with high volatility, in light of the volatility in oil prices.

The Bank of Israel continued its involvement in the foreign currency market, in addition to the purchases which were intended to neutralize the impact of the extraction of natural gas in Israel, although at a lower degree of intensity than in the fourth quarter.

Presented below are data regarding the linked risk-free interest rate in Israel (in accordance with CPI-linked government bonds) for various ranges:

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, interest rates and rates of return in Israel (Cont.)

	Risk-free interest rate		
In percent	**As of March 31 2016**	**As of March 31 2015**	**As of December 31 2015**
Period to maturity			
5 years	(0.1)	(0.5)	0.2
10 years	0.4	0.1	0.6
20 years	0.9	0.5	1.2

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 long term care insurance. On the other hand, a decrease of this kind may result in capital gains on the assets side, against an increase in the interest curve and changes in its steepness, which could result in an opposite phenomenon. 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 the returns which were 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 45(n) to the annual statements. See also Note 41(c)(2) to the annual statements regarding sensitivity tests to changes in interest. For details regarding the effect of the low interest rate environment in the reporting period, see Note 8(a) to the financial statements.

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.

In the first quarter of 2016, declines were recorded in the local stock market. The local bond market saw increased prices in the NIS and CPI-linked channel.

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

Stock indices

In percent	For the period of three months ended March 31 2016	For the period of three months ended March 31 2015	For the year ended December 31 2015
Tel Aviv 25	(5.1)	11.0	4.4
Tel Aviv 100	(4.9)	10.0	2.0
Yeter	1.9	10.0	26.3
General stocks	(8.7)	10.4	6.8

Bond indices

In percent	For the period of three months ended March 31 2016	For the period of three months ended March 31 2015	For the year ended December 31 2015
General	1.3	3.5	1.8
Telbond CPI-linked	0.9	1.7	0.0
Telbond NIS-linked	0.6	2.9	4.7
Government, CPI-linked	1.8	5.1	(0.2)
Government, NIS-linked	1.2	3.5	2.8

2. Description of the Business Environment (Cont.)

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

2.1.1. Economic developments in Israel (Cont.)

2.1.1.3 Developments in the Israeli capital market (Cont.)

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

NIS in billions	For the period of three months ended March 31 2016	For the period of three months ended March 31 2015	For the year ended December 31 2015
Scope of raising by public companies for the period	19.9	18.1	57.1

2.1.2. Global economic developments

The estimated GDP growth rate in the United States in the first quarter of 2016, relative to the corresponding quarter last year, was approximately 2.1%. The unemployment rate fell from 5% to 4.9%. An average of 209 thousand new employees per month were added to the workforce over the last three months. The Governor of the Bank of Israel emphasized the bank's focus on global events, while adopting a more cautious approach with respect to decisions regarding interest rates in the future. The rate of interest rate increases was updated from 4 increases this year to only 2 increases.

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.)

The estimated GDP growth rate in the Euro Bloc in the first quarter of 2016, relative to the corresponding quarter last year, was approximately 1.5%. The relatively disappointing data in recent months, along with the near-zero inflation and the expectations of decreased inflation, supported the decision of the Central European Bank to launch an additional quantitative easing plan. The new set of tools announced by the bank is highly significant, due to the fact that, until now, the main restriction on quantitative easing was defective transmission of the monetary policy to the business segment, although from now on, the acquisition of corporate bonds by the central bank may support the profitability of which was recognized companies, and may therefore also benefit stock markets in Europe.

In Japan, a significant decline in economic data is apparent, and for the first time in history, the central bank decided to use a negative interest rate on the deposits of commercial banks in the central bank. The Governor of the Central Bank of Japan, Kuroda, announced that there is no limited to the scope of monetary incentives.

In China, 2016 began with a relative storm, in light of the fact that the central bank changed its exchange rate policy for the second time since August 2015, and sent shock waves down the market due to the concern that the central bank may be starting to lose control, and that the downturn in China may be much worse than the government intended.
The rating companies S&P and Moody's reduced the rating outlook for China from "stable" to "negative", but left the country's rating unchanged.

In the first quarter of 2016, oil prices slightly rose, after falling in the previous two quarters.

2.1.2.1. Exchange rates

During the reporting period, the NIS gained strength vs. the USD and the GBP, and weakened vs. the EUR. The changes in exchange rates are affected, inter alia, by the "currency wars" which are currently being waged by central banks around the world to weaken local currencies in an attempt to support economic growth.

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

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.)

Rate of change in percent	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
For the period of three months ended:			
March 31, 2016	**0.9**	**(3.5)**	**(6.2)**
March 31, 2015	(9.5)	2.3	(3.0)
For the year ended December 31, 2015	(10.1)	0.3	(4.6)

	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
As of March 31, 2016	**4.286**	**3.766**	**5.427**
As of March 31, 2015	4.274	3.980	5.881
As of December 31, 2015	4.247	3.902	5.784

2.1.2.2. Global growth

Presented below are details regarding global growth rates according to the International Monetary Fund [1)] for 2016, as compared with 2015:

In percent	**2016 - Forecast**	**2015 Actual**
Global	3.2	3.1
United States	2.4	2.4
Euro Bloc	1.5	1.6
Asia (excluding Japan)	6.4	6.6
Japan	0.5	0.5
China	6.5	6.9
Commonwealth of Independent States	(1.1)	(2.8)

1) As of March 31, 2016.

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.)

2.1.2.3. Global stock markets

Presented below are the nominal returns in global stock indices:

	In local currency			In NIS		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
In percent	2016	2015	2015	2016	2015	2015
Dow Jones	1.5	(0.3)	(2.2)	(2.0)	2.1	(1.9)
NASDAQ	(2.7)	(3.5)	5.7	(6.1)	5.9	6.1
Nikkei Tokyo	(12.0)	10.1	9.1	(8.9)	12.2	8.6
CAC - Paris	(5.4)	17.8	8.5	(4.6)	6.6	(2.4)
FTSE - London	(1.1)	3.2	(4.9)	(7.2)	0.1	(9.3)
DAX - Frankfurt	(7.2)	22.0	9.6	((6.4	10.4	(1.5)
MSCI WORLD	(0.9)	1.8	(2.7)	(4.3)	4.2	(2.4)

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 year ended December 31 2015 Company	Market	Company % of the market	For the year ended December 31 2014 Company	Market	Company % of the market
Life insurance	4,861	25,369	19.2%	4,722	23,199	20.4%
Non-life insurance	2,522	19,511	12.9%	2,696	18,925	14.2%
Health insurance	1,674	9,316	18.0%	1,616	8,515	19.0%
Total gross premiums earned on the insurance market in Israel *)	9,057	54,196	16.7%	9,034	50,639	17.8%

*) After adjustments and offsets

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:

NIS in millions	For the period of three months ended March 31 2016 Company	Market	Company % of the market	2015 Company	Market	Company % of the market	For the year ended December 31 2015 Company	Market	Company % of the market
New pension funds	**1,246**	**7,272**	**17.1%**	1,112	6,436	17.3%	4,872	28,366	17.2%
Benefits and personal severance pay funds	**105**	**1,904**	**5.5%**	88	1,176	7.5%	391	6,455	6.0%
Study funds	**239**	**4,759**	**5.0%**	257	4,586	5.6%	1,090	20,086	5.4%
Total provident funds *	**344**	**6,663**	**5.2%**	345	5,762	6.0%	1,481	26,541	5.6%
Total contributions	**1,590**	**13,935**	**11.4%**	1,457	12,198	11.9%	6,352	54,907	11.6%

*) 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 March 31, 2016			As of March 31, 2015			As of December 31, 2015		
NIS in millions	Company	Market	Company % of the market	Company	Market	Company % of the market	Company	Market	Company % of the market
Life insurance market									
Profit sharing life insurance - policies until December 31, 2003	34,155	148,859	22.9%	34,699	149,575	23.2%	34,523	149,392	23.1%
Profit sharing life insurance - policies beginning from January 1, 2004	17,378	93,909	18.5%	16,469	84,157	19.6%	17,176	92,100	18.6%
Total profit sharing life insurance assets	**51,533**	**242,769**	**21.2%**	**51,168**	**233,733**	**21.9%**	**51,699**	**241,492**	**21.4%**
New pension assets	**39,473**	**223,169**	**17.7%**	**36,510**	**203,404**	**17.9%**	**39,147**	**219,770**	**17.8%**
Benefits and personal severance pay funds	23,822	191,903	12.4%	25,894	194,822	13.3%	24,345	193,294	12.6%
Study funds	6,822	169,966	4.0%	6,729	165,379	4.1%	6,863	169,409	4.1%
Total central severance pay funds	3,496	17,645	19.8%	4,183	21,288	19.6%	3,638	18,108	20.1%
Total provident fund assets *	**34,140**	**379,514**	**9.0%**	**36,806**	**381,489**	**9.6%**	**34,846**	**380,812**	**9.2%**
Total profit sharing life insurance, new pension, provident* and life insurance assets	**125,146**	**845,452**	**14.8%**	**124,484**	**818,626**	**15.2%**	**125,696**	**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 operating segments which are not included in the operating segments. For details regarding the group's operating segments, see Note 4 to the interim reports.

Description of the development of comprehensive income:

The reporting period

Gross premiums earned in the reporting period amounted to a total of approximately NIS 2,228 million, as compared with a total of approximately NIS 2,237 million in the corresponding period last year. The change was mostly due to a decrease in non-life insurance premiums in the amount of approximately NIS 53 million, primarily due to the continued optimization of the portfolios, by way of the non-renewal of losing business operations, including collective motor business operations. On the other hand, premiums in life insurance increased by approximately NIS 25 million, primarily due to the increase in current premiums in individual and managers' products, and also due to an increase of approximately NIS 20 million in premiums in health insurance, primarily due to increased individual product sales.

Comprehensive loss after tax attributable to the company's shareholders in the reporting period amounted to a total of approximately NIS 250 million, as compared with income of approximately NIS 62 million last year.

Comprehensive loss from insurance branches before tax in the reporting period amounted to a total of approximately NIS 361 million, as compared with comprehensive loss of approximately NIS 4 million last year.

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

A. Strengthening of insurance reserves due to the low interest rate environment, and its effect on discount rates in life insurance, long term care insurance, the health segment and non-life insurance

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 non-investment-linked insurance contracts increased by a total of NIS 251 million during the reporting period, as compared with the overall impact in the amount of approximately NIS 384 million in the corresponding period last year. For additional details, see Note 8(a) to the interim reports.

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

3.1. Financial information by operating segments (Cont.)

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 increased by approximately NIS 97 million in the reporting period with respect to investment-linked contracts, as compared with an increase in the reserve in the amount of approximately NIS 265 million in the corresponding period last year (with respect to non-investment-linked contracts in the amount of approximately NIS 168 million and with respect to investment-linked contracts in the amount of approximately NIS 97 million). For additional details, see Note 8(a) to the interim reports.

Non-life insurance

During the reporting period, an increase was recorded in the reserve in the amount of approximately NIS 2 million, as part of the liability adequacy test ("**Best Practice**"). In the corresponding period last year, the discount rates used to calculate insurance liabilities in the compulsory motor, liabilities and personal accidents branches were updated, and accordingly, the reserve increased in the amount of approximately NIS 37 million during that period. For additional details, see Note 8(a) to the interim reports.

The total impact of that stated in section A amounted to approximately NIS 350 million during the reporting period, as compared with a total of approximately NIS 686 million in the corresponding period last year.

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 a correction to the life expectancy tables and the interest rate which is used to discount annuities in accordance with the National Insurance Regulations (Discounting), 5738-1978 (the "**Discounting Regulations**" and the "**Committee**"). In March 2016, the committee's recommendations were published on the National Insurance website, including a statement that the Ministry of Welfare is working to draft regulations on the subject. As of the present date, an Amendment to the Discounting Regulations (hereinafter: "**Amendment to the Discounting Regulations**") has not yet been published. The Amendment to the Discounting Regulations will result in an increase in the subrogation claims which will be paid by the insurance companies to National Insurance, which will be offset by the insurance benefits which are paid to policyholders.

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

3.1. Financial information by operating segments (Cont.)

B. Recommendations of the Winograd committee (Cont.)

According to the company's estimate, the Amendment to the Discounting Regulations, insofar as it will be published, in accordance with the committee's recommendations, may affect the interest rates which are used to discount the insurance benefits that are paid by the insurance companies, in a one-time amount with respect to claims of the compulsory and liabilities types, and as a result, may lead to increased claim settlement costs.

The company estimated the effect of the foregoing, and accordingly, increased the insurance liabilities as of March 31, 2016 in the compulsory motor and liabilities branches by approximately NIS 118 million, on retention and before tax, and by a total of approximately NIS 76 million after tax.

It is emphasized that, at this preliminary stage, before the publication of the Discounting Regulations, and so long as it is not yet known if and when a binding directive will be formulated regarding the method used to determine the discount interest rate for non-subrogation claims of National Insurance, there is uncertainty in connection with the impact of the committee's recommendations, if any, on the company's liabilities. Accordingly, the future development of claims may differ significantly from the company's estimates as of the publication date of the report, and as a result, the company may be required to update its estimates in the future.

For additional details, see Note 8(a) to the interim report.

The total impact of that stated in sections A and B above is an increase in the insurance liabilities and a decrease in comprehensive income before tax, respectively, in the amount of approximately NIS 468 million during the reporting period, as compared with a total of approximately NIS 686 million in the corresponding period last year (a total of approximately NIS 300 million after tax in the reporting period, as compared with a total of approximately NIS 427 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 50 million, as compared with income in the amount of approximately NIS 489 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.)

The decrease in income was primarily due to investment losses, as compared with significant investment income in the corresponding period last year. During the reporting period, gross real returns in profit sharing policies amounted to a negative rate of (0.69%), primarily due to the decrease in the value of stocks in capital markets in Israel and around the world, as compared with a positive rate of 6.75% in the corresponding period last year. Due to the foregoing, during the reporting period, variable management fees were not collected in life insurance, and a "hole" in the amount of approximately NIS 37 million was created, which will be offset against future management fees, as compared with collection of variable management fees in the amount of approximately NIS 281 million in the corresponding quarter last year.

The total financial margin in life insurance1 (including variable management fees, as specified above) amounted to a total of approximately NIS 180 million, as compared with a total of approximately NIS 532 million in the corresponding period last year. Additionally, investment income from items which are not included in the insurance branches amounted to approximately NIS 3 million during the reporting period, as compared with a total of approximately NIS 144 million in the corresponding period last year, and a decrease in real investment income in the non-life insurance segment and in the health segment.

Subsequent to the reporting period

Subsequent to the reporting date, the risk-free interest rate curve decreased further. Further to that stated in Note 41(e)(e1) to the annual statements and in Note 8(a) to the interim reports, a decrease in interest rates may lead to an increase in insurance liabilities in non-life insurance, in the compulsory, liabilities and personal accidents branches, in the liability to supplement annuity reserves, in paid pension liabilities in life insurance, and also as part of the liability adequacy test (LAT).

[1] The financial margin includes profit (loss) from investments charged to other comprehensive income, and does not include the company's additional income charged as a percentage of the premium, and is calculated before the 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. In investment-linked contracts, the financial margin is the sum of fixed and variable management fees based on a reduction of crediting 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.)

The foregoing may have a significant negative impact on comprehensive income in the second quarter of 2016. However, at this stage, it is not possible to estimate the entire implications of the decline in the risk-free interest rate curve during this period on the results for the second quarter of 2016, inter alia, due to the uncertainty regarding the effect that the aforementioned developments will have on the estimated insurance liabilities of Clal Insurance, regarding the impact of the decreased interest rate curve on the fair value of debt assets, and regarding the continuing developments in financial markets until the end of the second quarter of 2016, and the above does not constitute any estimate regarding the company's expected financial results for the second quarter of 2016.

For details regarding sensitivity tests to market risks, see Note 41(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	For the period of three months ended March 31 2016	2015	Rate of change in percent	For the year ended December 31 2015
	Unaudited			Audited
Long term savings				
Gross earned life insurance premiums	**1,217**	1,192	2	4,861
Income from life insurance management fees	**93**	372	(75)	537
Impact of the decrease of interest rate on reserves in life insurance	**(251)**	(384)	(35)	(265)
Financial margin including management fees	**180**	532	(67)	783
Income (loss) before tax in life insurance	**(219)**	44	#	60
Total comprehensive income (loss) before tax in life insurance	**(237)**	9	#	(65)
Income from pension management fees	**67**	63	6	270
Income before tax in pension operations	**7**	8	(13)	39
Total comprehensive income before tax in pension operations	**7**	11	(36)	39
Income from provident fund management fees	**53**	57	(7)	232
Income before tax in provident fund operations	**14**	16	(13)	71
Total comprehensive income before tax in provident fund operations	**14**	16	(13)	71
Total income (loss) before tax in the long term savings division	**(198)**	68	#	170
Total comprehensive income (loss) before tax in the long term savings division	**(216)**	36	#	44
Non-life insurance segments				
Gross premiums earned	**593**	646	(8)	2,522
Premiums earned on retention	**422**	471	(10)	1,815
Impact of the decrease of interest rate on reserves in non-life insurance	**(2)**	(37)	(95)	-
Income before tax in the non-life insurance division	**(92)**	45	#	334
Comprehensive income before tax in the non-life insurance division	**(83)**	101	#	268
Health insurance				
Gross premiums earned	**419**	399	5	1,674
Premiums earned on retention	**371**	352	5	1,487
Impact of the decrease of interest rate on reserves in health insurance	**(97)**	(265)	(63)	-
Income (loss) before tax in the health insurance division	**(63)**	(187)	(66)	198
Comprehensive income (loss) before tax in the health insurance division	**(62)**	(141)	(56)	178
Total income (loss) before tax from insurance branches	**(353)**	(74)	377	702
Total comprehensive income (loss) before tax from insurance branches	**(361)**	(4)	8,925	490
Financing expenses	**24**	19	26	132
Total other income (loss) before tax and items which are not included in the insurance branches	**(10)**	126	#	87
Total income (loss) before tax	**(373)**	(36)	936	756
Total comprehensive income (loss) before tax	**(395)**	103	#	445
Taxes on comprehensive income	**(146)**	41	#	157
Total comprehensive income (loss) for the period, net of tax	**(249)**	63	#	288
Total comprehensive income (loss) for the year attributable to company shareholders	**(250)**	62	#	285
Comprehensive income for the year attributable to non-controlling interests	**1**	1	-	2
Return on equity in annual terms (in percent) *)	**(22.0)**	5.8	#	6.7

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

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

3.1 Financial information by operating segments (Cont.)

3.1.1. Long term savings

Publication of the embedded value report as of December 31, 2015

The embedded value report of Clal Insurance as of December 31, 2015 is attached to the quarterly reports, regarding the long term life insurance policies and the long term health insurance policies of Clal Insurance and of managing companies of pension funds, according to the rate of holding therein (hereinafter, jointly: the "**Embedded Value Report**"). The embedded value report was prepared in accordance with the rules and principles which were determined in the committee report regarding the publication of embedded value.

The embedded value of Clal Insurance as of December 31, 2015 amounted to a total of approximately NIS 12,497 million, as compared with NIS 11,969 million last year, representing an increase of approximately 4.4%. Out of the embedded value, a total of approximately NIS 3,417 million constitutes adjusted net worth, as compared with NIS 3,234 million last year, and a total of NIS 9,080 million constitutes the present value of future profits, net of tax (hereinafter: "**Value in Force**"), as compared with approximately NIS 8,735 million last year. The data are after the deduction of required cost of capital.

The increase in equity was primarily due to investment gains and underwriting margins of business operations which are included and business operations which are not included in embedded value, while the increase in value in force was primarily due to the addition of value of new business sold in 2015.

The value of new business (new policies sold during 2015) amounted to a total of approximately NIS 651 million, as compared with approximately NIS 545 million last year, an increase of approximately 19.4%.

The embedded value report includes details regarding the changes in embedded value relative to the embedded value as of December 31, 2014.

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

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

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

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

3.1 Financial information by operating segments (Cont.)

3.1.1.1. Life insurance operations

Gross premiums earned during the reporting period amounted to a total of approximately NIS 1,217 million, as compared with a total of approximately NIS 1,192 million last year. The increase in premiums was primarily due to the increase in current premiums in individual and managers' products.

Comprehensive loss in the reporting period amounted to a total of approximately NIS 237 million, as compared with comprehensive income of approximately NIS 9 million in the corresponding quarter last year.

The decrease in income and the transition to loss during the reporting period was primarily due to the significant decrease in the value of financial investments and in negative returns in capital markets in Israel and around the world, which resulted both in reduced investment income in the nostro portfolio and in the "hole" in variable management fees which were recorded since the beginning of 2016 in the portfolio of profit-sharing policies in life insurance, in the amount of approximately NIS 37 million. As specified in section 3.1.1.2 below, the total financial margin in life insurance amounted to a total of approximately NIS 180 million, as compared with a total of approximately NIS 532 million in the corresponding period last year. For additional details, see also section 3.1(a) above.

On the other hand, the insurance reserves increased and income before tax on income decreased, in the amount of approximately NIS 251 million in life insurance, due to the decrease in the risk-free interest rate curve, the estimated rate of return in the portfolio of assets held against insurance liabilities, and the update to the interest rate used in the liability adequacy test (LAT), as compared with a total of approximately NIS 384 million in the corresponding period last year. For additional details, see Note 8(a) to the interim reports.

Additionally, during the reporting period, the liability to supplement reserves for deferred annuity and paid pension liabilities increased by a total of approximately NIS 3 million, as compared with approximately NIS 16 million in the corresponding period last year, primarily due to the increase in the estimated annuity realization rate.

During the reporting period, redemption rates of life insurance policies from the average reserve for the period, in annual terms, amounted to approximately 2.7% (approximately 2.6% in the corresponding period last year).

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

3.1 Financial information by operating segments (Cont.)

3.1.1. Long term savings (Cont.)

3.1.1.2 Composition of management fees and financial margin:

NIS in millions	For the period of three months ended March 31					For the year ended December 31	
	2016	**% of total**	**2015**	**% of total**	**% Change**	**2015**	**% of total**
Variable management fees	-*)	-	281	76	(100)	168	31
Fixed management fees	**93**	**100**	91	24	1	369	69
Total management fees	**93**	**100**	372	100	(75)	537	100
Total financial margin and management fees	**180**		532		(67)	783	

*) For details regarding the "hole" in management fees as of March 31, 2016, see section 2.1 above.

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

NIS in millions	For the period of three months ended March 31					For the year ended December 31	
	2016	**% of total**	**2015**	**% of total**	**% Change**	**2015**	**% of total**
Current premiums	**1,188**	**98**	1,167	98	2	4,740	98
Non-recurring premiums	**30**	**2**	25	2	20	120	2
Total gross premiums earned	**1,218**	**100**	1,192	100	2	4,861	100

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

NIS in millions	For the period of three months ended March 31					For the year ended December 31	
	2016	**% of total**	**2015**	**% of total**	**% Change**	**2015**	**% of total**
Current premiums	**27**	**19**	37	19	(27)	132	17
Non-recurring premiums	**112**	**81**	154	81	(27)	668	83
Total gross premiums earned	**139**	**100**	191	100	(27)	800	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 gross earned premiums in the long term savings segment (life insurance including investment contracts)

	For the period of three months ended March 31					For the year ended December 31	
NIS in millions	**2016**	**% of total**	**2015**	**% of total**	**% Change**	**2015**	**% of total**
Current premiums	**1,216**	**90**	1,204	87	2	4,872	86
Non-recurring premiums	**142**	**10**	179	13	90	789	14
Total gross premiums earned	**1,358**	**100**	1,383	100	**9**	5,661	100

3.1.1.6. Additional data regarding life insurance operations

Details regarding the rates of return in profit-sharing policies

	Policies issued during the years 1992 to 2003 (Fund J)		
	For the period of three months ended As of March 31		For the year ended December 31
	2016	**2015**	**2015**
Real return before payment of management fees	**(0.66)**	6.54	4.33
Real return after payment of management fees	**(0.80)**	5.54	3.19
Nominal return before payment of management fees	**(1.56)**	4.94	3.40
Nominal return after payment of management fees	**(1.70)**	3.85	2.26

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.)

	Policies issued beginning in 2004 (New Fund J)		
	For the period of three months ended As of March 31		For the year ended December 31
	2016	2015	2015
Real return before payment of management fees *)	**(0.69)**	6.75	3.49
Real return after payment of management fees *)	**(0.97)**	6.57	2.45
Nominal return before payment of management fees	**(1.59)**	5.05	2.56
Nominal return after payment of management fees	**(1.87)**	4.87	1.53

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

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

	For the period of three months ended As of March 31		For the year ended December 31
	2016	2015	2015
Nominal investment income (loss) attributed to policyholders after management fees	**(651)**	1,732	787
Management fees	**93**	372	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.)

3.1.1.7 Provident fund operations

Comprehensive income in the reporting period amounted to a total of approximately NIS 14 million, as compared with a total of approximately NIS 16 million last year. The decrease in income in the reporting period was primarily due to a decrease in income from management fees, as a result of the competitive conditions in the segment.

3.1.1.8 Pension operations

Comprehensive income in the reporting period amounted to a total of approximately NIS 7 million, as compared with a total of approximately NIS 11 million last year. The decrease in income was primarily due to the increase in automation expenses and depreciation, in light of the significant investments in upgrading the pension automation systems during the last two years.

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

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance

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

	For the period of three months ended March 31				For the year ended December 31	
	2016	% of total	2015	% of total	2015	% of total
NIS in millions	Unaudited				Audited	
Motor property insurance						
Gross premiums	**194**	**29**	206	29	639	27
Premiums on retention	**194**	**40**	206	39	635	37
Loss before tax	**(9)**	**#**	(14)	#	(32)	#
Comprehensive loss before tax	**(9)**	**#**	(10)	#	(36)	#
Loss ratio, gross [1)]	**79%**		83%		80%	
Loss ratio, on retention [1)]	**80%**		83%		79%	
Combined ratio, gross [1)]	**106%**		111%		108%	
Combined ratio, on retention [1)]	**107%**		110%		108%	
Compulsory motor insurance						
Gross premiums	**130**	**19**	150	21	455	19
Premiums on retention	**126**	**26**	146	27	437	25
Income before tax before the estimated impact of the Winograd committee's recommendations	**26**	**104**	40	89	263	79
Comprehensive income before tax before the estimated impact of the Winograd committee's recommendations	**30**	**86**	66	65	231	86
The Pool's effect on results of operations	**(16)**		(18)		(22)	
Loss ratio, gross [2)]	**59%**		66%		47%	
Loss ratio, on retention [2)]	**59%**		62%		48%	
Combined ratio, gross [2)]	**77%**		80%		64%	
Combined ratio, on retention [2)]	**77%**		77%		66%	
Provision in the compulsory motor branch, including estimated effects of the Winograd committee	**(71)**					
Income before tax including the estimated impact of the Winograd committee's recommendations	**(45)**					
Comprehensive income before tax including the estimated impact of the Winograd committee's recommendations	**(42)**					
Property branches						
Gross premiums	**226**	**34**	227	32	873	36
Premiums on retention	**91**	**19**	98	18	378	22
Income before tax	**3**	**12**	5	11	17	5
Comprehensive income before tax	**4**	**11**	10	10	11	4
Loss ratio, gross [3)]	**30%**		63%		57%	
Loss ratio, on retention [3)]	**54%**		55%		57%	
Combined ratio, gross [3)]	**60%**		94%		88%	
Combined ratio, on retention [3)]	**99%**		95%		101%	
Credit insurance						
Gross premiums	**27**	**4**	24	3	103	4
Premiums on retention	**13**	**3**	13	2	54	3
Income before tax	**7**	**28**	3	7	25	7
Comprehensive income before tax	**8**	**23**	7	7	21	8
Loss ratio, gross [4)]	**44%**		87%		118%	
Loss ratio, on retention [4)]	**29%**		56%		48%	
Combined ratio, gross [4)]	**65%**		111%		141%	
Combined ratio, on retention [4)]	**40%**		73%		61%	

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.)

NIS in millions	For the period of three months ended March 31				For the year ended December 31	
	2016	% of total	2015	% of total	2015	% of total
	Unaudited				Audited	
Liability branches						
Gross premiums	**92**	**14**	95	14	325	14
Premiums on retention	**65**	**13**	72	13	227	13
Income before tax before the estimated impact of the Winograd committee's recommendations	**(1)**	**#**	12	27	61	18
Comprehensive income before tax before the estimated impact of the Winograd committee's recommendations	**2**	**6**	28	28	42	16
Loss ratio, gross 5)	**114%**		41%		48%	
Loss ratio on retention 5)	**63%**		53%		59%	
Combined ratio, gross 5)	**145%**		70%		79%	
Combined ratio, on retention 5)	**104%**		90%		99%	
Provision in the liabilities branches, including the estimated impact of the Winograd committee	**(46)**					
Income before tax including the estimated impact of the Winograd committee's recommendations	**(47)**					
Comprehensive income before tax including the estimated impact of the Winograd committee's recommendations	**(45)**					
Total for non-life insurance segments						
Gross premiums	**669**	**100**	703	100	2,395	100
Premiums on retention	**488**	**100**	534	100	1,730	100
Income before tax	**25**	**100**	45	100	334	100
Comprehensive income before tax	**35**	**100**	101	100	268	100
Loss ratio, gross	**61%**		67%		63%	
Loss ratio, on retention	**65%**		67%		63%	
Combined ratio, gross	**87%**		93%		90%	
Combined ratio, on retention	**95%**		94%		93%	
Total for non-life insurance segments, including the impact of the Winograd committee's recommendations						
Income before tax	**(92)**	**100**	45	100	334	100
Comprehensive income before tax	**(83)**	**100**	101	100	268	100
Loss ratio, gross	**85%**		67%		63%	
Loss ratio, on retention	**93%**		67%		63%	
Combined ratio, gross	**112%**		93%		90%	
Combined ratio, on retention	**123%**		94%		93%	

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.)

1) Motor property - the loss during the reporting period was primarily due to the continued deterioration in the development of claims, which was moderate relative to the corresponding period last year. On the other hand, this effect was mostly offset by the decrease in investment income in the reporting period as compared with the corresponding period last year.
2) Compulsory motor - The deterioration in comprehensive income was primarily due to the provision in light of 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 71 million, as specified in section 3.1(c) above.
3) Property branches - The improvement in gross underwriting profitability in this quarter relative to last year was primarily due to natural disasters in the corresponding period last year, with no significant impact on retention.
4) Credit insurance - The improvement in underwriting profitability was due to claims with respect to a single factor, in gross terms, with a smaller impacted on retention in the corresponding period last year.
5) Liabilities branches - The deterioration in comprehensive income was primarily due to the provision in light of the possible implications of the Amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 46 million, as specified in section 3.1(c) above The deterioration in underwriting profitability was primarily due to the higher positive development in claims in the corresponding period relative to the reporting period.

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

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

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

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

Gross premiums in the reporting period amounted to a total of approximately NIS 669 million, as compared with a total of approximately NIS 703 million in the corresponding period last year. The decrease in gross premiums in the reporting period, in the amount of approximately NIS 34 million, was primarily due to the non-renewal of losing business operations, including collective business operations, in the compulsory motor and property branches.

Comprehensive loss before tax in the reporting period amounted to approximately NIS 83 million, as compared with income of approximately NIS 101 million in the corresponding period last year. The decrease in income and the transition to loss during the reporting period was primarily due to the possible implications of the amendment to the discounting regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 118 million, as specified in section 1.3(c) above[2]; on the other hand, in the corresponding period last year, the discount rates used to calculate insurance liabilities in the compulsory motor, liabilities and personal accidents branches were updated, and accordingly, the reserve increased by approximately NIS 37 million, with no significant impact during the reporting period. After neutralization of the provisions, income for the quarter in the reporting period amounted to a total of approximately NIS 35 million, as compared with income of approximately NIS 138 million in the corresponding period last year.

The decrease in income during the reporting period was primarily due to the decrease in investment income beyond the rate required to cover the insurance liabilities. Additionally, in the corresponding period last year, a higher positive development was recorded in claims relative to the current period, in the liabilities branches.

After neutralization of the aforementioned provisions, the loss ratio on retention decreased in the reporting period to 65%, from 67% in the corresponding period last year. The combined ratio on retention increased in the reporting period to 95%, from 94%.

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

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

Gross premiums in the reporting period amounted to a total of approximately NIS 194 million, as compared with a total of approximately NIS 206 million in the corresponding period last year. The decrease in gross premiums in the reporting period, in the amount of approximately NIS 12 million, was primarily due to the continued optimization of the portfolio by way of non-renewal of losing business operations, including collective business operations.

Comprehensive loss in the reporting period amounted to a total of approximately NIS 9 million, as compared with loss in the amount of approximately NIS 10 million in the corresponding period last year.

The loss in the reporting period was primarily due to the continued deterioration in the development of claims, which was moderate relative to the corresponding period last year. On the other hand, this effect was mostly offset by the decrease in investment income in the reporting period as compared with the corresponding period last year.

The loss ratio on retention decreased in the reporting period to 80%, from 83% in the corresponding period last year (the combined ratio on retention decreased during the reporting period to 107%, from 110%).

3.1.2.2 Compulsory motor

Gross premiums in the reporting period amounted to a total of approximately NIS 130 million, as compared with a total of approximately NIS 150 million in the corresponding period last year. The decrease in gross premiums was primarily due to the continued optimization of the portfolio, by way of the non-renewal of losing business operations, including collective business operations.

Comprehensive loss in the reporting period amounted to a total of approximately NIS 42 million, as compared with income in the amount of approximately NIS 66 million in the corresponding period last year. The decrease in income and the transition to loss was primarily due to the provision in light of the possible implications of the Amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 71 million, as stated in section 3.1(c) above.. On the other hand, in the corresponding period, the discount rate used to calculate insurance liabilities in the compulsory motor branch decreased in the amount of approximately NIS 15 million, with no similar impact during the reporting period. After neutralization of the provisions, income during the reporting period amounted to a total of approximately NIS 29 million, as compared with income in the amount of approximately NIS 81 million in the corresponding period last year. The decrease in income, after neutralization of the provisions, was primarily due to the decrease in investment income in the period, as compared with the corresponding period last year.

After neutralization of the aforementioned provisions, the loss ratio on retention decreased in the reporting period to 59%, from 62% in the corresponding period last year (the combined ratio on retention remained the same as the rate in the corresponding period last year: 77%).

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.)

3.1.2.3 Property and others branches

Gross premiums in the reporting period amounted to a total of approximately NIS 226 million, as compared with a total of approximately NIS 227 million in the corresponding period last year.

Comprehensive income in the reporting period amounted to approximately NIS 4 million, as compared with comprehensive income of approximately NIS 10 million in the corresponding period last year. The decrease in income in the reporting period, as compared with the corresponding period last year, was primarily due to the increase in loss in the fire and property branches, as a result of a certain deterioration in results, due to the winter damages.

The loss ratio on retention decreased in the reporting period to 54%, from 55% in the corresponding period last year (the combined ratio on retention increased during the reporting period to 99%, from 95%).

3.1.2.4 Credit insurance

Gross premiums in the reporting period amounted to approximately NIS 27 million, as compared with approximately NIS 24 million in the corresponding period last year.

Comprehensive income in the reporting period amounted to approximately NIS 8 million, as compared with approximately NIS 7 million in the corresponding period last year. The increase in income during the reporting period was primarily due to large single claims, with a smaller impact on retention in the corresponding period last year.

As a result, the loss ratio on retention decreased in the reporting period to 29%, from 56% in the corresponding period last year (the combined ratio on retention decreased during the reporting period to 40%, from 73%).

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

3.1 Financial information by operating segments (Cont.)

3.1.2. Non-life insurance (Cont.)

3.1.2.5 Other liability branches

Gross premiums in the reporting period amounted to a total of approximately NIS 92 million, as compared with a total of approximately NIS 95 million in the corresponding period last year.

Comprehensive loss in the reporting period amounted to a total of approximately NIS 45 million, as compared with income in the amount of approximately NIS 28 million in the corresponding period last year. The decrease in income and the transition to loss in the reporting period was primarily due to the provision in light of the possible implications of the Amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 46 million, as stated in section 3.1(c) above. On the other hand, in the corresponding period, the discount rate used to calculate the insurance liabilities in the liabilities branches decreased in the amount of approximately NIS 18 million, with no similar impact in the reporting period. After neutralization of the provisions, income in the reporting period amounted to a total of approximately NIS 2 million, as compared with income in the amount of approximately NIS 46 million in the corresponding period last year. The decrease in income, after neutralization of the provisions, was primarily due to the decrease in investment income beyond the rate required to cover the insurance liabilities. Additionally, in the corresponding period last year, a higher positive development was recorded in claims relative to the current period.

After neutralization of the provisions, as stated above, the loss ratio on retention increased during the reporting period to a rate of approximately 63%, from a rate of approximately 53% in the corresponding period last year (the combined ratio on retention increased during the reporting period to a rate of 104%, from a rate of 90%).

3.1.3 Health insurance

Gross premiums earned in the reporting period amounted to a total of approximately NIS 419 million, as compared with a total of approximately NIS 399 million in the corresponding period last year. The increase in premiums was primarily due to the increase in the company's individual business operations.

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.)

Comprehensive loss in the reporting period amounted to a total of approximately NIS 62 million, as compared with loss in the amount of approximately NIS 141 million in the corresponding period last year. The loss in the reporting period and in the corresponding period last year was primarily due to the liability adequacy test (LAT) which resulted in an increase in the reserve with respect to investment-linked contracts in the amount of approximately NIS 97 million in the reporting period, and approximately NIS 265 million in the corresponding period last year (last year with respect to non-investment-linked contracts in the amount of approximately NIS 168 million, and with respect to investment-linked contracts in the amount of approximately NIS 97 million).

After neutralization of this provision for the reporting period and for the corresponding period last year, income for the quarter during the reporting period amounted to a total of approximately NIS 35 million, as compared with income in the amount of approximately NIS 124 million in the corresponding period last year. The decrease in income, after neutralization of the provision for the liability adequacy test, was primarily due to the decrease in investment income above the level required to cover the insurance liabilities.

Details regarding investment gains which were applied to policyholders in life insurance policies of the profit sharing long term care type:

	Profit sharing long term care policies of the individual and collective types		
	For the period of three months ended March 31		**For the year ended December 31**
NIS in millions	**2016**	**2015**	**2015**
Investment gains (losses) which were applied to policyholders	(57)	145	57

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

3.1 Financial information by operating segments (Cont.)

3.1.4. Other and items not included in the insurance branches

NIS in millions	For the period of three months ended March 31 2016	2015	Rate of change in percent	For the year ended December 31 2015
	Unaudited			Audited
Income from investments, net, and financing income	**17**	75	(77)	241
General and administrative expenses	**15**	16	(6)	67
Other expenses (income), net	**1**	2	(50)	11
Income (loss) before tax from adjustments and offset operations	**-**	(5)	#	-
Income before tax from other segments	**3**	5	(40)	23
Total other income before tax and items not included in the insurance branches	**4**	57	(93)	186
Total other income (loss) before tax and items which are not included in the insurance branches	**(10)**	126	#	87

Comprehensive loss from items not included in the insurance branches amounted to a total of approximately NIS 10 million in the reporting period, as compared with comprehensive income of approximately NIS 126 million in the corresponding period last year. The decrease in income and the transition to loss were primarily due to investment income in the amount of approximately NIS 3 million in the reporting period, as compared with investment income in the amount of approximately NIS 144 million in the corresponding period last year.

3.1.5. General and administrative expenses

Other general and administrative expenses during the reporting period amounted to a total of approximately NIS 188 million, as compared with a total of approximately NIS 184 million last year. The increase in the reporting period was primarily due to the increase in automation expenses, inter alia, due to the expenses involved in the launch of the new pension automation system.

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

3.1 Financial information by operating segments (Cont.)

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 debt raisings in Clal Holdings and in Clal Insurance, and by early repayments and payments in accordance with the original loan terms.

For details regarding the change in the known index, see section 2.1.1.2 above.

Operations which are not allocated to segments

Financing expenses in the reporting period amounted to a total of approximately NIS 24 million, as compared with a total of approximately NIS 19 million last year. The increase in financing expenses was due to a more moderate decrease in the known consumer price index during the reporting period, as compared with the corresponding period last year, and the increase in liability certificates as a result of the issuance of liability certificates in 2015, in the amount of approximately NIS 558 million. for additional details, see Note 25(a)(6) to the annual statements.

3.2 Additional financial data

	Primary movements in equity		
	For the period of three months ended March 31		For the year ended December 31
NIS in millions	**2016**	**2015**	**2015**
Income (loss) for the period [1)]	**(232)**	(25)	480
Other comprehensive income (loss) for the period [2)]	**(16)**	87	(193)
Comprehensive income (loss)	**(249)**	63	288
Comprehensive income (loss) to shareholders in the company	**(250)**	62	285
Comprehensive income attributable to non-controlling interests	**1**	1	2
Comprehensive income (loss)	**(249)**	63	288

1) During the reporting period, comprehensive income (loss) was primarily impacted by negative returns in the capital markets, which resulted in reduced investment income, and due to the liability adequacy test (LAT). For additional details, see Note 8(a) to the financial statements, and 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 financial assets and non-marketable capital assets) that are not included in the investment portfolios, against profit-sharing policies, from foreign currency translation differences in respect of foreign operations and from actuarial income (loss) in respect of 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 March 31 2016	As of March 31 2015	Rate of change %	As of December 31 2015	Rate of change since December %
Total assets	**94,786**	93,851	1	95,122	-
From assets:					
Total assets with respect to investment-linked contracts in consolidated insurance companies	**54,789**	54,213	1	54,930	-
Other financial investments [1]	**30,551**	30,392	1	30,529	-
Assets managed for others (non-nostro) in the group (NIS in millions):					
For investment-linked insurance contracts and investment contracts	**54,789**	54,213	1	54,930	-
For provident fund members [1]	**34,140**	36,806	(7)	34,846	(2)
For pension fund members *)	**48,594**	45,141	8	48,160	
Total assets managed for others	**137,523**	136,160	1	137,936	(1)
*) Out of this amount, total assets managed by Atudot Havatika	**9,121**	8,631	6	9,013	1

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

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

3.3 Principal data from the consolidated statements of financial position

3.3.2. Liabilities

NIS in millions	As of March 31 2016	As of March 31 2015	Rate of change %	As of December 31 2015	Rate of change since December %
Total liabilities	**90,449**	89,485	1	90,538	-
From liabilities:					
Liabilities in respect of non-investment-linked insurance contracts and investment contracts	**29,923**	30,039	-	29,794	
Liabilities with respect to investment-linked insurance contracts and investment contracts	**54,252**	53,547	1	54,347	-
Total liabilities with respect to insurance contracts and investment contracts	**84,175**	83,586	1	84,141	
Deferred liability notes [1]	**3,194**	2,704	18	3,220	(1)
Liabilities to banking corporations:					
The company	**70**	130	(46)	70	-
Clal Credit and Finance	**18**	69	(74)	26	(31)
Total loans	**88**	199	(56)	96	(8)
Liabilities with respect to derivative financial instruments and short sales	**254**	144	76	247	3
Total liabilities to banking corporations and others	**342**	343	-	343	-

1) For details regarding the replacement of deferred liability notes subsequent to the reporting period, see Note 6(c)(6) 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 March 31 2016	As of December 31 2015	Rate of change %
The company			
Total capital attributable to shareholders in the company	**4,300**	4,548	(5)
Total capital required of the company 1)	**2,822**	2,851	(1)
Surplus	**1,478**	1,697	(13)
Rate of surplus over required capital	**52.4%**	59.5%	(12)
Clal Insurance 2)			
Total capital and required capital surplus	**4,738**	**4,730**	-
Total Tier 1 capital	**4,151**	**4,402**	(6)
Total Tier 2 and Tier 3 capital 3)	**2,767**	**2,935**	(6)
Total recognized capital	**6,918**	**7,337**	(6)
Surplus	**2,180**	**2,606**	(16)
Rate of surplus over capital and required capital surplus	**46.0%**	**55.0%**	(16)
Rate of Tier 2 and Tier 3 capital out of total recognized capital 4)	**40.0%**	**40.0%**	-

1) For details regarding the capital requirements in accordance with the permit for control of an insurer, and the Commissioner's announcement dated May 8, 2014, regarding the cancellation of the permit, see Note 6(c)(4) to the financial statements.
2) For additional details regarding the capital requirements for the group's member companies, see Note 6 to the financial statements.
As specified in Note 16(e) to the annual statements, regarding dividend distributions, the Commissioner established additional capital requirements, including the effect of the maximum limit on Tier 2 and Tier 3 capital (40%). Therefore, distributable retained earnings in the supervised reporting track are limited to a total of approximately NIS 825 million.
3) For details regarding the replacement of deferred liability notes subsequent to the reporting period, see Note 6(c)(6) 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)3(b) to the annual statements, and accordingly, a total of approximately NIS 202 million was not recognized as capital as of March 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.

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

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

Guidelines for the performance of the IQIS5 study, as of December 31, 2015

For additional details regarding the regulatory capital requirements of the insurance companies in the group, which will be determined beginning from the date of implementation of the Israeli solvency governance based on the principles of Solvency II, beginning with the annual reports for 2016, and regarding the instruction to perform an IQIS5 study for 2015, see Note 6(c) to the financial statements.

3.4. Cash flows

Primary data from the cash flow report

	For the period of three months ended March 31		For the year ended December 31
NIS in millions	**2016**	**2015**	**2015**
Net cash flows from (used in) operating activities	**134**	1,694	2,168
Net cash flows used in investing activities	**(73)**	(72)	(309)
Net cash flows from (used in) financing activities	**(74)**	(210)	108
Impact of exchange rate fluctuations on cash balances	**(14)**	(10)	(32)
Total increase (decrease) in cash balances	**(26)**	1,401	1,935

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

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 indemnification letters which it provided for the liabilities of wholly owned investee companies (see Note 27(b)(2)), 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 of investments in investee companies, debt raisings from the banking system and/or from the public, and capital raisings.

3.5.1. Liquid resources and credit facilities

The following are data regarding the principal liquid resources and credit facilities of the company and of its subsidiaries:

NIS in millions	Balance as of March 31, 2016	Proximate to the publication date of the report
Liquid resources of the company (solo)	93	94
Unused credit facilities - the company	60	-*)

*) After the balance sheet date, according to the date specified in the agreement, the company's credit facility expired. The company chose not to renew the credit facility.

The use of the aforementioned credit facilities is subject to the fulfillment of financial covenants, as specified in section 3.5.2.(c) below.

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.

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

3.5. Financing sources (Cont.)

3.5.2. Financing characteristics (Cont.)

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 28(b) and (d) to the financial statements for 2015. As of March 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 according to the capital requirements of the consolidated institutional entities and other companies in the group, see section 3.3.3 below.

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

	01.04.2016-30.09.2016			01.10.2016-31.03.2017		
NIS in thousands	Principal	Interest	Total	Principal	Interest	Total
Loans from banks	-	865	865	-	850	850

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 2016-01-038976).

4. Developments subsequent to the publication of the periodic report

4.1 Additional events during the reporting period

4.1.1 Distributable profits - for details regarding distributable profits as of the reporting date, in accordance with the Companies Law and the capital requirements stipulated in the permit for control of institutional entities which is held by the company, see Note 6(c)(3) to the financial statements.

4.1.2 Strengthening of insurance reserves - for details regarding the strengthening of the insurance reserves in light of the low interest rate environment, see Note 8(a)(1) to the financial statements.

4.1.3 Replacement of liability certificates - for details regarding the replacement of liability certificates subsequent to the reporting date, see Note 8(c) to the financial statements.

4.1.4 Extension of the validity of the shelf prospectus in Clalbit Finance - for details regarding the extension of the validity of the shelf prospectus in Clalbit Finance, see Note 8(f) to the financial statements.

4.1.5 New employment agreement of the Chairman of the Board - for details regarding the signing of a new employment agreement with the Chairman of the Board, see Note 8(d).

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

4.1.7 Update to the compensation policy - for details regarding the update to the company's compensation policy, see Note 8(g) to the financial statements.

4.1.8 Non-collection of management fees - for details regarding capital market declines which caused the non-collection of management fees, see Note 8(h) to the financial statements.

4.1.9 Discount rate decrease - for details regarding the decrease of the discount rate subsequent to the reporting period, see Note 8(i) to the financial statements.

4.2 Legal proceedings

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

4.3. Restrictions and supervision of the corporation's business

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

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.1. General

4.3.1.1 The Proposed Establishment of Capital Markets Authority Law

In March 2016, the government approved, within the framework of a proposed decision, to advance the Proposed Control of Financial Services Law (Legislative Amendments), 5776-2016, which involves converting the Division of Capital Markets in the Ministry of Finance the Authority into an independent authority, to be called the "Capital Markets, Insurance and Savings Authority". The Authority would operate as an independent, separate government unit, with its own separate budget, subject to the Minister of Finance. The authority will be led by the Commissioner of Capital Markets, Insurance and Savings, who will be appointed by the Minister of Finance, with the approval of the government, for a 5 year term. According to the proposed law, the authority's functions will include: protesting 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. It was also determined to grant oversight authorities to the authority with respect to institutional holding corporations as well, including any corporation that controls an institutional entity and where over 30% of its total assets constitute means of control in institutional entities (or where more than 30% of the total assets managed by it or by entities under its control are managed by institutional entities). The proposed law transferring a significant part of the authorities which are currently conferred, in accordance with the control law, upon the Minister of Finance, to the Commissioner, who will be entitled to establish them by means of administrative provisions, and not through regulations, as stated in the proposed law, due to the fact that the aforementioned authorities are professional in nature. The material issues which are submitted to the Commissioner for determination include: Determination of the equity of the insurers / provident funds and the composition of equity, determination of investment management methods and restrictions on the management of investments of institutional entities, determination of provisions with respect to the terms and phrasing of insurance contracts, issuance of provisions regarding the corporate governance in institutional entities (composition of board of directors and its committees, terms of qualification for directors and corporate officers, issues to be discussed in the meetings of the board of directors and its committees), and determination of circumstances which constitute a conflict of interests between a pension agent / adviser and a customer, which prevent it from performing the action on behalf of the customer.

The company is unable to estimate, at this stage, the implications of the proposed law, inter alia, in light of the fact that it is currently still in the preliminary stages of legislation, and because a final version of the law has not yet been formulated, and in light of the uncertainty in connection with the possible implications of the expansion of the Commissioner's authorities, the reduction of grounds for appeal, and the conferring of authorities upon the supervisor with respect to the holding companies which hold the institutional entities, and with respect to the expansion of the Commissioner's authorities.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.1 General (Cont.)

4.3.1.2. Compensation to corporate officers in financial corporations

On April 12, 2016, the Compensation for Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Compensation), 5776-2016, was published, which is intended to restrict and reduce the salary of senior corporate officers in financial entities.

The law defines a corporate mechanism for the approval of agreements involving the provision of compensation to an employee of a financial corporation (financial entity or entity controlling or controlled by the financial entity) for which the projected expense, as calculated on the date of approval in accordance with generally accepted accounting principles, is expected to exceed NIS 2.5 million, and also determines that an agreement of this kind will not be approved unless the ratio between the expected expense with respect to the aforementioned compensation, and the expected expense with respect to the lowest compensation paid by the corporation to an employee of the corporation (including contract employees), directly or indirectly, in the year preceding the date of the agreement, is less than 35.

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, the board of directors (by a special majority of outside directors), and 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.

In accordance with transitional provisions, at the end of six months after the publication date of the law, its provisions will apply to engagements which were approved before the publication of the law, or else they will not be valid.

The company is studying the implications of the law, and is unable, at this stage, to estimate its entire implications, including with respect to its effect on the continued tenure of the corporate officers in the company.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.1 General (Cont.)

4.3.1.3 The Equal Rights for People with Disabilities Regulations (Notice of Insurer Regarding the provision of different Treatment to Individual or Regarding Refusal of Insurance)

In February 2016, The Equal Rights for People with Disabilities Regulations (Notice of Insurer Regarding the provision of different Treatment to Individual or Regarding Refusal of Insurance), 5776-2016 were published, which primarily include a provision regarding the wording of the notice which is to be given by an insurer to people with disabilities, regarding its refusal to insure an individual, or to treat the policyholder differently. For details regarding a class action against Clal Insurance on this matter, see Note 7(a)(a2)(5) to the financial statements.

4.3.1.4 Transitional provisions regarding the implementation of a Solvency II-based solvency governance

For details regarding instructions for the performance of an IQIS study for 2015, within the framework of the preparation for the implementation of a Solvency-II based solvency regime, see Note 6 to the interim reports.

4.3.1.5 Service level indicator for insurance companies

Further to previous publications, in April 2016, comparative figures were published on the website of the Capital Markets, Insurance and Savings Division regarding the service level indicator of insurance companies in each of the main insurance products in Israel for 2015, based on the method of claim payment, of handling customer inquiries, public complaints and telephone response times.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2 Long term savings

4.3.2.1 Circular regarding "provisions with respect to the selection of provident funds" and the process of establishing chosen default funds

In March 2016, a circular was published on the subject of "Provisions regarding the selection of provident funds", 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 (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 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 once every three years, in which preference will be given to pension funds whose market share is less than 5%.
(2) A provident fund is a default provident fund for annuities 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. The default fund will be chosen for a period which will not exceed 5 years. The circular defines, inter alia, the criteria for selection of the employer's default fund within the framework of the aforementioned competitive process (service level, returns and management fees), and rules in connection with the weight which will be given for them. 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. The default fund circular entered into effect on the date its publication, except for the provisions regarding the selection of the default fund by the employer, which will enter into effect in July 2016.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2 Long term savings

4.3.2.1 Circular regarding "provisions with respect to the selection of provident funds" and the process of establishing chosen default funds (Cont.)

In March 2016, a proposed private law in amendment of Control of Financial Services Law (Provident Funds), 5775-2015 (hereinafter: the "**Provident Funds Law**") was submitted, in which it was proposed to establish an arrangement which primarily includes the depositing of funds of employees who have not chosen a fund to make their deposits in the default track, and a requirement for the Commissioner to conduct a tender process to select the managing company which will provide the default track service. In the proposal, it was determined that the terms of the tender will be determined by the Commissioner, with the approval of the Knesset Finance Committee, and that the default track will be managed in accordance with regulations which will be approved by the Commissioner and the Knesset Finance Committee. It was also proposed that the option to join the default track will be available to any employee or self-employed person.

Further to the default fund circular, in April 2016, the company received a letter from the Commissioner regarding the process of determining chosen default funds. In accordance with the letter, two 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%. The draft also includes provisions with respect to the method by which preference will be given to pension funds whose market share is less than 5%.

Additionally, in April 2016, the Israel Insurance Association filed a petition with the Supreme Court against the Commissioner, as well as a motion for the issuance of an interim order, until a determination has been reached regarding the petition. In the petition it was claimed, inter alia, that the Commissioner does not have the authority to create a new settlement involving the creation of a national default fund by way of publication of a circular (default fund circular); That the provisions of the circular, and particularly with respect to criteria for selection of the chosen default fund and the default funds of employers, are unreasonable and disproportional; And that the process of issuing the circular was flawed and defective (for various reasons). In April 2016, the Supreme Court partially accepted the motion, and issued a temporary order prohibiting the publication of the identity of the pension funds which were determined as chosen default funds, and the management fee rates collected by the managing companies in those funds. The Court determined that the petition and the motion for an interim order would be presented for a hearing before a panel, and ordered the respondents to respond to the foregoing.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.1 Circular regarding "Provisions with respect to the selection of provident funds" and the process of establishing chosen default funds (Cont.)

The provisions of the default fund circular, including the provisions regarding the provision of an advantage with respect to the management of the default fund to small players in the market, and the competitive advantages given to the chosen default fund, may have a significant industry-wide impact on the market for pension funds and study funds, and perhaps also with respect to additional products in the long term savings segment. 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 and in the study funds, in a change in the business model of the managing companies, in reduced profitability, and accordingly, may result in changes in the market shares of the current competitors, which may accordingly also affect Clal Pension and Provident Funds. The provisions of the circular and the proposed law may also affect the activities of insurance agents and their involvement in the relevant market, in a manner which could impose difficulties on the 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 services involving the monitoring of fund deposits and/or which markets 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 information presented on all matters associated with the possible implications of the provisions of the default fund circular and the process of establishing chosen default funds constitutes forward looking information which is based on the group's estimates and assumptions, as of the publication date of the report, and in light of the fact that not all of the arrangements have been accepted, and that some of the arrangements are in the early stages, actual implementation may differ significantly from the forecast. The implications of the aforementioned provisions of the law are significantly dependent upon the following factors: the current uncertainty regarding the method of implementation of some of the provisions of the law, as well as the steps which will be taken by member companies in the group, including with respect to dealing with the various provisions (such as the results of the petition which was filed against the Commissioner's authority to issue the default fund circular); The conduct of competing institutional entities and the preferences of members and policyholders with respect to their products; The conduct of employers and operating entities on their behalf; And the implications of other reforms in the segment, and their impact together with the provisions regarding increased competition.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.2 Transfer of funds between provident funds

In April 2016, a draft circular was published regarding the transfer of funds between provident funds, which amended the current circular on the matter, in order to simplify the fund transfer process and to shorten the timetables for its completion . According to the draft circular, it enters into effect on January 1, 2017.

According to the company's estimate, the entry into effect of the circular regarding the transfer of funds between provident funds, insofar as it will enter into effect, will impose difficulties on the group's institutional entities with respect to the performance of retention actions, and is expected to have operational implications which may lead to an increase in the company's operating costs.

The company's estimate in connection with the draft circular regarding the transfer of funds between provident funds 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 circular, once published, on the conduct of competing entities, and of members and policyholders.

4.3.2.3 Consolidation of inactive accounts in pension funds and addition to pension funds and provident funds

Amendment 13 to the Provident Funds Law from December 2015 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, 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 aforementioned amendment, in February 2016, a draft circular was published on the subject of "Consolidation of current accounts in new pension funds", which established provisions regarding the manner of implementation of the transitional provision on the subject of the consolidation of pension savings funds in new pension funds from inactive accounts to active accounts.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.3 Consolidation of inactive accounts in pension funds and addition to pension funds and provident funds (Cont.)

Further to the foregoing, in April 2016, a draft circular was also published with respect to the addition to a pension fund or provident fund, which established various provisions regarding the regulation of the addition to a pension fund or provident fund, including provisions regarding the fund transfer process upon a member's addition to a pension fund, from another pension fund in which he is defined as a "non-depositing member", in accordance with the provisions of section 24B of the Provident Funds Law; as well as a determination that payments beyond the monthly deposit limit to a new comprehensive pension fund will be deposited in a new account under the name of the member in a new general fund managed by the managing company.

The draft circular, insofar as it will be published as a binding circular, will enter into effect on April 1, 2017.

The entry into effect of the circular regarding the addition to pension funds or provident funds will allow the transfer of funds in inactive accounts in pension funds to active accounts, in accordance with the provisions of Amendment 13 to the Provident Funds Law, with respect to inactive accounts of members who will open additional accounts in the future. Providing the possibility to transfer funds from inactive accounts in pension funds into active accounts may result in an increase in transfers from inactive accounts managed by the pension funds of Clal Pension and Provident Funds, and on the other hand, may result in the transfer of funds from inactive accounts managed by competing entities into active accounts managed by it. Additionally, the possibility to perform transfers, as stated above, may result, in the short term, in increased operating expenses, and in the long term, in decreased operating expenses with respect to inactive accounts, and is expected to result in increased competition, and to have a corresponding effect on the rate of management fees which are collected.

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.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.3 Consolidation of inactive accounts in pension funds and addition to pension funds and provident funds (Cont.)

The information presented on all matters associated with the possible implications of the provisions of the law pertaining to the consolidation of inactive accounts in pension funds constitutes forward looking information, which is based on the group's estimates and assumptions as of the publication date of the report, and in light of the fact that the draft circular has not yet been published as a binding version, and actual implementation may differ significantly from the forecast. The implications of the aforementioned draft are significantly dependent upon the steps which will be taken by the company with respect to its dealing with the provisions with respect to the consolidation of accounts, and the preferences and conduct of members with respect to their products.

4.3.2.4 Task force regarding greater certainty in pension savings and draft regulations regarding the crediting of returns in new comprehensive pension funds

In December 2015, the task force regarding greater certainty in pension savings, led by the Director General of the Ministry of Finance, published a report, which includes, inter alia, recommendations for changes with respect to the allocation of designated bonds intended for pension funds, in a manner which increases the scope of allocation of designated bonds for retirees, due to the high level of certainty which they require when receiving annuities, and for adult savers 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.

Further to the foregoing, in April 2016, the Draft Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Funds), 5776-2016, were published. The Draft Regulations include provisions regarding the manner by which returns are applied to members and retirees in a new comprehensive pension fund, and the application date thereof, including provisions regarding the application of returns of designated bonds. As opposed to the current situation, in which the crediting of returns from investments in designated bonds is implemented in a uniform manner for all members of the fund, in the aforementioned draft regulations, it is proposed to determine that a managing company will credit returns to members of a new comprehensive pension fund which is managed by it, as specified below:

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.4 Task force regarding greater certainty in pension savings and draft regulations regarding the crediting of returns in new comprehensive pension funds (Cont.)

(A) Annuity recipients - The crediting of returns to annuity recipients will be implemented according to a ratio between 60% of the total assets of the annuity recipients, and the fund assets which were invested in designated bonds (according to a quarterly calculation).

(B) Members aged 50 and higher who are not annuity recipients - returns will be credited according to a ratio between 30% of the accrued balances in the fund for members of this group, and the total fund assets which were invested in designated bonds (according to a daily calculation).

(C) Other members - the crediting of returns will be implemented according to the balance of returns in the fund due to the investment in designated bonds after the returns have been credit to the previous two groups, as stated above (according to a daily calculation).

(Hereinafter: the "**Allocation Of Designated Bonds In Accordance With Age Groups**").

In accordance with the Draft Regulations, no change will be implemented to the rate of bonds which a managing company of a new comprehensive pension fund is entitled to acquire, which will remain 30% of the total fund assets.

The entry into effect of the regulations regarding the crediting of returns in new comprehensive pension funds, according to their current wording, and the allocation of the designated bonds in accordance with age groups, is expected to create variability the manner of allocation of designated bonds between members who belong to the same age group in the various pension funds, and as a result, may create a preference for addition to certain funds, according to the mix of ages of the fund members.

The combination of provisions with respect to the crediting of returns, together with provisions regarding the establishment 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 pension funds on the market, and may affect the market shares and the rate of management fees collected, and the scope thereof.

The company's estimate in connection with the draft regulations regarding crediting of returns in new comprehensive pension funds 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 regulations, once published, and on the conduct of competing entities, and of members and policyholders.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.4 Task force regarding greater certainty in pension savings and draft regulations regarding the crediting of returns in new comprehensive pension funds (Cont.)

In this regard, it should be noted that in May 2016, the Israel Insurance Association filed a motion to join as an appellant the Supreme Court petition which was filed by the forum of pension savers in Israel and the Association of Investment Houses (jointly: the "**Petitioners**") against the Minister of Finance and others (hereinafter: the "**Motion to Join**"). According to the appellants, the issuance of designated bonds for the new pension funds only constitutes unlawful discrimination against the provident fund members, as compared with the savers in the new pension funds. In the motion to join, it was claimed that there is no justification for the significant preference of savers in the new pension funds, with respect to policyholders in managers insurance, and also with respect to provident fund members.
In May 2016, the Supreme Court accepted the motion to join.

4.3.2.5 Draft provisions regarding payment of annuity from provident fund for savings

Amendment 13 to the Provident Funds Law, from December 2015, included, inter alia, the cancellation of the distinction between a paying fund and a non-paying fund, and provided the possibility of directly withdrawing funds from a non-paying provident fund (currently "fund for savings"), through a combination of an annuity (withdrawal of the accrued amount in payments), plus long life insurance coverage which will be acquired from an insurance company, as opposed to the current situation, according to which, in order to withdraw funds which are intended for annuities, from a provident fund for savings (formerly "non annuity paying fund"), the funds should be transferred to a provident fund for annuities (formerly "annuity paying fund").

Further to the foregoing, in April 2016, a draft circular was published which established provisions regarding the payment of annuities from provident funds for savings, as stated above, the applicable calculation method, and the long life insurance coverage which should be acquired in order to withdraw the amounts from such a fund and determined that the minimum age for the receipt of an annuity will be age 60. Additionally, conditions were determined in the draft circular regarding the marketing of insurance coverage by a managing company for long life coverage to its members.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.5 Draft provisions regarding payment of annuity from provident fund for savings (Cont.)

The entry into effect of the circular regarding provisions for the payment of annuities from provident fund for savings will allow the direct withdrawal of amounts from provident funds for savings, and, as a result, will allow the retention of funds in provident funds for savings which are managed by the managing companies, including Clal Pension and Provident Funds, for long periods, and may expand the mix of pension products which are available on the market, and may result in an increase in sales of pension savings products marketed by Clal Insurance. On the other hand, the option to pay the aforementioned annuity is expected to increase the number of active players in the annuity payment segment, and to increase the mobility and competition in the segment.

The information presented on all matters associated with the possible implications of the provisions of the law pertaining to the payment of annuities from provident funds for savings constitutes forward looking information, which is based on assumptions and estimates made by the group as of the publication date of the report. Actual results may differ from the estimated results, and are dependent, inter alia, on the final wording of the circular, once published, on the conduct of competing entities, and on the preferences and choices of members with respect to their products and the alternatives on the market.

4.3.2.6 Provident fund for investment

In May 2016, the Finance Committee approved a proposed law in amendment to the Provident Funds Law, on the subject of the creation of an additional savings product, to be called "provident fund for investment", which is intended to allow a capital savings track for individual funds, to include an incentive for the withdrawal of funds accrued therein as an annuity during the retirement period. In accordance with the proposed amendment, 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 (according to the rules for recognized annuities) 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. The Finance Committee further determined that the maximum amount for payment to a provident fund for investment will amount to NIS 70,000 per year.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.6 Provident fund for investment (Cont.)

According to the company's estimate, the aforementioned amendment to the Provident Funds Law, insofar as it is approved and becomes binding law, is expected to cause the provident funds for investment to become alternative investment tracks (such as bank deposits, management of securities portfolios and individual savings policies managed by insurance companies), and it is expected to increase the deposits to provident funds of this kind. The amendment is also expected, if and insofar as it will be accepted, to encourage the entry of additional entities into the provident fund market, and may result in changes in market shares relative to the status quo, and may also affect the market share relative to in individual savings products. This amendment is also expected to constitute a worthy alternative for high salary earners, instead of deposits to pension plans with respect to the part of the salary which exceeds the recognized deposit limit.

The information presented on all matters associated with the possible future implications of the aforementioned amendment to the Provident Funds 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 from the forecast. The implications of the amendment are largely dependent upon the following factors: changes in the capital market and in interest rates, changes in management fees in long term savings products, the conduct of various entities, including banks and investment houses, 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.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.7 The Draft Regulations Regarding the Acquisition, Sale and Holding of Securities

In May 2016, 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, and also establishes a new obligation to perform a competitive process with respect to custodian (holding / clearing) activities.
According to the group's estimate, the publication of the Draft Regulations Regarding the Acquisition, Sale and Holding of Securities, insofar as it will be accepted as a binding version, may require preparations and the implementation of a competitive process in order to engage with the aforementioned service providers. The company is studying the provisions of the circular and its implications.

The information presented on all matters associated with the possible implications of the Draft Regulations Regarding the Purchase, Sale and Holding of Securities constitutes forward looking information, which is based on assumptions and estimates made by the group, as of the reporting date. Actual implementation may differ significantly from the forecast. The implications are significantly dependent upon, inter alia, the final wording of the amendment, insofar as it will be accepted, and the conduct of the operating entities.

4.3.2.8 Explanatory document - postponement of effective date

In June 2015, a circular was published on the subject of explanatory documents. The circular replaces an old circular on the subject from 2009, which requires 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 changed and was determined 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. In accordance with the circular, most of the provisions of the circular will enter into effect on July 1, 2016.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.2. Long term savings (Cont.)

4.3.2.8 Explanatory document - postponement of effective date (Cont.)

Further to the foregoing, in April 2016, a circular was published which postponed the date of entry into effect of most of the provisions of the explanatory document circular, to January 2017. No changes were implemented to the other provisions of the explanatory document circular.

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 company's estimate in connection with the implications of the explanatory document circular 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 conduct of the consulting, marketing and distributing entities.

4.3.3 Health insurance

4.3.3.1 Memorandum of the National Health Insurance Law, 5776-2016

In March 2016, a memorandum in amendment of the National Health Insurance Law, 5776-2016, was published, in which it was proposed to cancel, in the National Health Insurance Law, 5754-1994, the prohibition which forbids health funds from offering life saving and life extending drugs to their members in Additional Health Services plans.

It is further proposed to amend the aforementioned plan in a manner whereby, with respect to the coverage for life saving and life extending drugs, the health fund will be able to take into consideration the member's economic situation, and to provide a discount or exemption from member fees, or the addition to member fees which refers to the drugs specified in the Additional Health Services.

In light of the preliminary stage of the memorandum, and inter alia, in light of the fact that the scope of the life saving and life extending drugs which may be added to the Additional Health Services is not yet known, it is not possible to estimate the entire implications of the memorandum, including as regards the extent of interchangeability of the services offered therein to the insurance coverage for drugs which is sold by the company.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.4 Non-life insurance

4.3.4.1 National Insurance annuity discount rate

For details regarding the recommendations of the inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd regarding the evaluation of a correction to the life expectancy tables and the interest rate which is used to discount annuities in accordance with the National Insurance Regulations (Discounting), 5738-1978 (the "**Discounting Regulations**" and the "**Winograd Committee Recommendations**"), and the implications thereof, see Note 8a to the interim report. The recommendations of the Winograd committee may also have an effect on the profitability from policies which will be sold in the future in the compulsory and liabilities branches, insofar as the tariffs will not be updated accordingly.

The company's estimate in connection with the aforementioned implications of the recommendation of the Winograd committee 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 regulations, the Commissioner's policy when approving the tariffs, and the conduct of competing entities, agents and customers.

4.3.4.2 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 (the "**Variables**"). The variables are intended to adjust the risk premium to the insured risk. Until recently, as specified below, premiums in the compulsory motor insurance branch for vehicles other than motorcycles cannot exceed the maximum rate, which is 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 (the "**Tariff Restriction**").

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.4. Non-life insurance (Cont.)

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

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 (the "**Amendment to the Compulsory Motor Insurance Circular**"). As part of the 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". As part of the amendment to the compulsory motor insurance circular, the possibility of determining unique net premiums for vehicle fleets and collectives was canceled beginning in January 2017, the mechanism for automatic linkage of premiums to the CPI, according to the approved tariff, was canceled, and the option for reimbursement of premiums for all vehicles at the end of the insurance period was expanded, which serves as an incentive due to a lack of claims during the insurance period (as opposed to the situation prior to the amendment, which allowed this with respect to vehicle fleets only).

As part of the amendment to the compulsory motor insurance circular, the tariff limit was temporarily canceled until the end of 2016. Additionally, and in parallel with the publication of the aforementioned amendment, the Commissioner published a draft amendment to the provisions of the consolidated circular (the "**Draft Amendment to the Compulsory Motor Insurance Circular**"), in which it was proposed to update the residual insurance premiums for private vehicles, and to reduce them beyond the reductions which were implemented following the amendment with respect to 2016, beginning in January 2017. Discussions are being held between the insurance companies and the Commissioner in connection with the provisions of the draft amendment to the compulsory motor insurance circular.

The amendment to the compulsory motor insurance circular resulted in a significant reduction of the "Pool" tariffs in 2016, and as a result, may affect the market share of the "Pool", and increase it in a manner whereby the "Pool" will no longer serve as insurance for exceptional risk cases only. Accordingly, the aforementioned amendment is expected to have an impact on premiums in the entire compulsory motor branch, and may result in the reduction of and harm to profitability in the branch, and may also affect the group's market share.

4. Developments subsequent to the publication of the periodic report (Cont.)

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

4.3.4. Non-life insurance (Cont.)

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

In February 2016, the Israel Insurance Association and the Pool filed a petition with the Supreme Court on the matter. As part of the hearing regarding the petition which was held in April 2016 in the Supreme Court, in its function as the High Court of Justice, the Ministry of Finance agreed to strike out the provision regarding the tariff restriction from the consolidated circular, and the parties reserved their claims. As a result, the aforementioned petition was struck out.

The draft amendment to the provisions of the consolidated circular in the compulsory motor insurance branch, which is expected to enter into effect in January 2017, insofar as it will be established as a binding circular, which is expected to result in the reduction of the Pool's tariffs, is expected to further increase the possibility that the Pool will become a competitive entity in the market, and accordingly, may affect the market share of Clal Insurance, and may reduce the premium rates in the compulsory motor branch in the market, as well as the profitability of the compulsory motor insurance branch.

The company's estimate in connection with the implications of the amendment to the compulsory motor insurance circular and the cancellation of the tariff limit in the consolidated circular 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 final version of the circular, as published with respect to 2017, the current studies which will be published in 2016 with respect to the cost of pure risk in compulsory insurance by the database operator, the Commissioner's policy upon the approval of tariffs, changes in the share of the "Pool" in compulsory insurance and in the conduct of competitors and customers, and the combined impact between the aforementioned amendment and the impact of the Discounting Regulations.

5. Exposure to and management of market risks

Effect of market risks on business results

According to the Securities Regulations (Immediate And Periodic Reports), 5730-1970, reports regarding the exposure to and management of market risks refer to the exposures of the company and its consolidated companies, excluding insurers in Israel.

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

Linkage bases report - as of March 31, 2016

NIS in thousands	Israeli currency		Foreign currency				Non-monetary items	Insurance company in Israel	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other			
Intangible assets	-	-	-	-	-	-	47,280	1,453,929	1,501,209
Deferred tax assets	-	-	-	-	-	-	7,708	12,667	20,375
Deferred acquisition costs	-	-	-	-	-	-	-	1,872,818	1,872,818
Property, plant and equipment	-	-	-	-	-	-	16,638	245,803	262,441
Investments in associates	-	-	-	-	-	-	913	203,794	204,707
Investment property for investment-linked contracts	-	-	-	-	-	-	-	2,724,208	2,724,208
Other investment property	-	-	-	-	-	-	-	1,187,661	1,187,661
Reinsurance assets	-	-	-	-	-	-	-	2,260,579	2,260,579
Current tax assets	-	5,261	-	-	-	-	-	308,529	313,790
Other accounts receivable	15,561	-	375	-	-	-	1,645	350,981	368,562
Outstanding premiums	72	-	-	-	-	-	-	948,742	948,814
Financial investments for investment-linked contracts	-	-	-	-	-	-	-	47,388,840	47,388,840
Other financial investments									
Marketable debt assets	83,980	-	-	-	-	-	-	6,023,100	6,107,080
Non-marketable debt assets	399	30,308	-	-	-	-	-	21,263,159	21,293,866
Stocks	-	-	-	-	-	-	742	1,043,543	1,044,285
Other	-	-	-	-	-	-	-	2,106,212	2,106,212
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	4,124,720	4,124,720
Other cash and cash equivalents	91,961	-	150	308	-	-	-	963,837	1,056,256
Total assets	191,973	35,569	525	308	-	-	74,926	94,483,122	94,786,423

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

Effect of market risks on business results (Cont.)

Linkage bases report - as of March 31, 2016 (Cont.)

	Israeli currency		Foreign currency						
NIS in thousands	**Unlinked**	**CPI-linked**	**USD**	**EUR**	**GBP**	**Other**	**Non-monetary items**	**Insurance company in Israel**	**Total**
Liabilities									
Liabilities in respect of non-investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	29,923,298	29,923,298
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	54,251,896	54,251,896
Deferred tax liabilities	-	-	-	-	-	-	1,822	385,226	387,048
Liabilities with respect to employee benefits, net	18,674	-	-	-	-	-	-	62,263	80,937
Deferred liability notes	-	-	-	-	-	-	-	3,194,020	3,194,020
Other accounts payable	53,256	-	-	-	-	-	-	2,215,909	2,269,165
Current tax liabilities	-	962	-	-	-	-	-	140	1,102
Liabilities to banking corporations and others	70,000	18,308	-	-	-	-	-	253,541	341,849
Total liabilities	141,930	19,270	-	-	-	-	1,822	90,286,293	90,449,315
Total exposure	50,043	16,299	525	308	-	-	73,104	4,196,829	4,337,108

6. Aspects of Corporate Governance

6.1 Disclosure regarding the financial statements approval process in the company

The company's board of directors is the organ responsible for ultimate supervision of the company and for the approval of its financial statements. The company's board of directors has appointed a "**balance sheet committee**" (financial statements review committee).

Members of the balance sheet committee - the following four members serve on the balance sheet committee: Yaacov Dior - Chairman, Shula Bandel, Mali Margaliot and Yossi Yagil. For additional details regarding the balance sheet committee members, see section 17 of part D of the periodic report.

Financial statements approval process - the meeting of the balance sheet committee, and also the meeting of the board of directors, which include a discussion and approval of the financial statements, involve invitations to, and the presence of, the company's auditors, whose presence is required in order to present the main findings, if any, which arose in their audit or review process, as relevant, as well as Mr. Izzy Cohen, CEO, Ms. Anath Levin, Finance, Investment and Credit Division Manager, Ms. Ronit Zalman Malach, Chief Accountant, Mr. Tal Cohen, Comptroller, Mr. Ofer Brandt, Chief Actuary and Life Insurance Manager in Clal Insurance, Mr. Moshe Ernst, Headquarters Division Manager, Ms. Hadar Brin Weiss, Legal Advisor, Mr. Yaniv Yefet, Finance Manager, Ms. Shiri Paz Asis, SOX Department Manager in Clal Insurance, Mr. Eran Shachaf, Internal Auditor, and other participants.

The balance sheet committee reviews, through a detailed presentation by the corporate officers and others in the company and in Clal Insurance, including the Chief Accountant, the Comptroller, the SOX Department Manager, and the Chief Actuary, the material issues in financial reporting, including transactions which are not in the ordinary course of business, if any, the material approximations and critical estimates which were applied in the financial statements, the adequacy of data, the accounting policy which was adopted and any changes therein, the accounting treatment which was applied and changes therein, and the accounting treatment which was applied regarding the company's material affairs, the application of the principle of completeness and due disclosure in the financial statements and in the accompanying information, and the internal controls which are associated with financial reporting (including the effectiveness of internal control over financial reporting and disclosure). The balance sheet committee reviews various aspects of risk control and management, both those reflected in the financial statements and those which affect the reliability of the financial statements. When necessary, the balance sheet committee requires the presentation of comprehensive reviews on matters which are of particularly material importance. For the purpose of formulating the balance sheet committee's recommendations to the board of directors, the draft financial statements are presented to the committee members several days before the date of the meeting in which the discussion is intended. The committee meeting is held prior to the board meeting which includes a discussion and approval of the financial statements. The committee's recommendations are passed to the board of directors shortly after the committee meeting.
The approval process of the interim reports involved the following meetings:

6. Aspects of Corporate Governance (Cont.)

6.1 Disclosure regarding the financial statements approval process in the company (Cont.)

A. A meeting of the balance sheet committee which was held on May 25, 2016, for the purpose of discussing the results of the interim reports, including an evaluation of various considerations, as stated above, which involved the participation of the following balance sheet committee members: Mr. Yaacov Dior (committee chairman), Ms. Shula Bandel, Ms. Mali Margaliot and Prof. Yossi Yagil (who is also a member of the balance sheet committee of Clal Insurance), as well as the following additional participants: Danny Naveh, Chairman of the Board and member of the balance sheet committee of Clal Insurance, Mr. Amos Eran, Chairman of the balance sheet committee of Clal Insurance, Mr. Amnon Sadeh, member of the balance sheet committee of Clal Insurance, Mr. Ron London, member of the balance sheet committee of Clal Insurance, Mr. Uri Ostro, member of the balance sheet committee of Clal Insurance, Avi Knobel, Board member, Mr. Izzy Cohen, CEO, Ms. Anath Levin, Finance, Investment and Credit Division Manager, Ms. Ronit Zalman Malach, Chief Accountant, Mr. Tal Cohen, Comptroller, Mr. Ofer Brandt, Chief Actuary and Life Insurance Actuary in Clal Insurance, Mr. Moshe Ernst, Headquarters Division Manager, Ms. Hadar Brin Weiss, Legal Counsel, Mr. Yaniv Yefet, Finance Manager, Ms. Shiri Paz Asis, SOX Department Manager in Clal Insurance, Mr. Eran Shahaf, Internal Auditor, Ms, Adi Barkan Stern, Company Secretary, additional entities who are not corporate officers in the Company, and the Company's auditors. Following this meeting, and based on the representations and discussions which were made therein, on May 25, 2016, the balance sheet committee's recommendations regarding the approval of the financial statements and relevant material reporting issues were passed to the company's directors.

B. A meeting of the board of directors which was held on May 30, 2016, which included a discussion regarding the results in the interim reports, and the acceptance of the balance sheet committee's recommendations which had been passed to the directors, as stated above, and in which the interim reports were approved. It was also approved that, in the opinion of the company's board of directors, the balance sheet committee's recommendations were submitted a reasonable period of time before the discussion was held in the board of directors, in light of their scope and complexity. The board meeting included the participation of the following directors: Mr. Danny Naveh (Chairman of the Board), Prof. Yossi Yagil, Ms. Shula Bandel, Ms. Varda Alsheich, Ms. Mali Margaliot and Mr. Avi Knobel.

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 interim reports.

7.2. Contingent liabilities

The review report presented by the auditors to the company's shareholders refers the reader's attention to that stated in Note 7 to the interim reports, regarding the exposure to contingent liabilities.

7.3. 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), 5770-2009, 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 companies managing 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 previous reports published by Clal Insurance's board of directors, Clal Insurance acted and currently acts to implement the process required pursuant to the above provisions, including an evaluation of the work and internal control processes 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, the Deputy CEO and Finance, Investments and Credit Division Manager, and the Deputy CEO and Chief Accountant of Clal Insurance, have evaluated, as of the end of the period covered in this report, the effectiveness of the controls and procedures regarding disclosure of Clal Insurance. On the basis of this evaluation, the CEO of Clal Insurance and the Deputy CEO, the Finance Division Manager, have concluded that, as of the end of this period, the controls and procedures relating to the disclosure of Clal Insurance are effective for the purpose of recording, processing, summarizing and reporting the information that Clal Insurance is required to disclose in the quarterly report, in accordance with the provisions of the law, and the reporting directives set forth by the Commissioner, and by the date stipulated in those directives.

During the quarter ended March 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. 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 (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. The company is also preparing for the initial implementation of SOX with respect to the report for members and policyholders, in accordance with the directives issued by the Commissioner (circular no. 2010-9-7).

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 contributions to the group's achievements.

Danny Naveh	**Izzy Cohen**
Chairman of the Board	**Chief Executive Officer**

Tel Aviv, May 30, 2016

Clal Insurance Enterprises Holdings Ltd.

Condensed Interim Consolidated Financial Statements As of March 31, 2016

(Unaudited)

Clal Insurance Enterprises Holdings Ltd.

Condensed Interim Consolidated Financial Statements as of March 31, 2016

Unaudited

Table of Contents

Tel: +972-3-6232525
Fax: +972-3-562-2555
ey.com

Kost Forer Gabbay and Kasierer
3 Aminadav St.,
Tel Aviv 6706703

Building a better working world

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

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

Introduction

We have reviewed the enclosed condensed financial information of Clal Insurance Enterprises Holdings Ltd. and its subsidiaries (hereinafter: the "**Group**"), which includes the interim consolidated statement of financial position as of March 31, 2016, as well as the interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the periods of three months then ended. The Board of Directors and Management are responsible for preparing and presenting the financial information for this interim period, in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements set by the Insurance Commissioner, pursuant to the Financial Services Supervision Act (Insurance), 5741-1981, and are also responsible for compiling financial information for this interim period in accordance with Chapter IV of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, to the extent that these regulations apply to a corporation which consolidates insurance companies. Our responsibility is to express a conclusion with regards to the financial information for this interim period, based on our review.

We have not reviewed the condensed interim financial information of an associate company which is accounted by the equity method, the investment in which amounted to approximately NIS 15 million as of March 31, 2016, and where the group's share in its income amounted to approximately NIS 16 thousand for the three month period then ended. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports were provided to us, and our conclusion, insofar as it pertains to financial information with respect to those companies, is based on the review reports prepared by the other auditors.

Scope of the Review

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

Conclusion

Based on our review, and on the review reports prepared by other auditors, we have not become aware of anything which would have caused us to believe that the aforementioned financial information has not been not prepared, in all material aspects, in accordance with IAS 34, and in accordance with the disclosure requirements set forth by the Insurance Commissioner, pursuant to the Control of Financial Services (Insurance) Law, 5741-1981.

In addition to that stated in the previous paragraph, based on our review and on the review reports prepared by other auditors, we have not become aware of any information which would cause us to believe that the aforementioned financial information is not compliant, in all material respects, with the disclosure provisions of Chapter IV of the Securities Law Regulations (Periodic and Immediate Statements), 5730-1970, to the extent to which these regulations apply to a corporation which consolidates insurance companies.

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

Tel Aviv,
May 30, 2016

Kost Forer Gabbay and Kasierer	Somekh Chaikin
Certified Public Accountants	Certified Public Accountants

Joint Auditors

Interim Consolidated Statements of Financial Position

NIS in thousands	As of March 31 2016	As of March 31 2015	As of December 31 2015
	Unaudited		Audited
Assets			
Intangible assets	**1,501,209**	1,439,449	1,503,630
Deferred tax assets	**20,375**	33,316	25,460
Deferred acquisition costs	**1,872,818**	1,769,870	1,850,218
Property, plant and equipment	**262,441**	275,710	270,287
Investments in investee companies accounted by the equity method	**204,707**	221,776	213,668
Investment property for investment-linked contracts	**2,724,208**	2,650,806	2,750,076
Other investment property	**1,187,661**	1,168,040	1,205,819
Reinsurance assets	**2,260,579**	2,253,090	2,318,475
Current tax assets	**313,790**	74,257	156,273
Other accounts receivable	**368,562**	385,439	349,114
Outstanding premiums	**948,814**	1,002,078	898,231
Financial investments for investment-linked contracts	**47,388,840**	47,512,314	47,844,720
Other financial investments:			
Marketable debt assets	**6,107,080**	6,354,014	6,488,224
Non-marketable debt assets	**21,293,866**	20,758,721	20,980,578
Stocks	**1,044,285**	1,086,604	974,810
Others	**2,106,212**	2,192,738	2,085,210
Total other financial investments	**30,551,443**	30,392,077	30,528,822
Cash and cash equivalents for investment-linked contracts	**4,124,720**	3,489,445	3,767,810
Other cash and cash equivalents	**1,056,256**	1,183,431	1,439,358
Total assets	**94,786,423**	93,851,098	95,121,961
Total assets for investment-linked contracts	**54,788,942**	54,212,760	54,930,139

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

Interim Consolidated Statements of Financial Position

NIS in thousands	As of March 31 2016	As of March 31 2015	As of December 31 2015
	Unaudited		Audited
Capital			
Share capital	**143,216**	143,170	143,216
Premium on shares	**976,329**	970,638	976,329
Capital reserves	**445,177**	748,638	460,554
Retained earnings	**2,735,408**	2,467,572	2,967,929
Total capital attributable to shareholders in the Company	**4,300,130**	4,330,018	4,548,028
Non-controlling interests	**36,978**	35,949	35,877
Total capital	**4,337,108**	4,365,967	4,583,905
Liabilities			
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**29,923,298**	30,039,485	29,794,233
Liabilities with respect to investment-linked insurance contracts and investment contracts	**54,251,896**	53,547,215	54,346,549
Deferred tax liabilities	**387,048**	457,020	439,348
Liabilities with respect to employee benefits, net	**80,937**	91,870	81,030
Deferred liability notes	**3,194,020**	2,704,170	3,219,656
Other accounts payable	**2,269,165**	2,302,285	2,312,501
Current tax liabilities	**1,102**	-	1,530
Liabilities to banking corporations and others	**341,849**	343,086	343,209
Total liabilities	**90,449,315**	89,485,131	90,538,056
Total capital and liabilities	**94,786,423**	93,851,098	95,121,961

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

May 30, 2016				
Approval date of the financial statements	Danny Naveh Chairman of the Board	Izzy Cohen Chief Executive Officer	Anath Levin Finance, Investment and Credit Division Manager	Ronit Zalman Malach Chief Accountant

Interim Consolidated Statements of Income

	For the period of three months ended March 31		For the year ended December 31
	2016	2015	2015
NIS in thousands	Unaudited		Audited
Gross premiums earned	**2,228,114**	2,236,572	9,054,725
Premiums earned by reinsurers	**262,441**	264,300	1,057,382
Premiums earned on retention	**1,965,673**	1,972,272	7,997,343
Investment income (loss), net, and financing income	**(505,417)**	2,579,818	3,010,393
Income from management fees	**212,769**	492,464	1,039,397
Income from commissions	**56,277**	62,464	238,723
Other income	**40**	29	2,095
Total income	**1,729,342**	5,107,047	12,287,951
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**1,609,867**	4,685,519	9,542,339
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(174,709)**	(186,466)	(742,620)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**1,435,158**	4,499,053	8,799,719
Commissions, marketing expenses and other acquisition costs	**458,153**	446,806	1,830,230
General and administrative expenses	**188,046**	183,919	753,126
Impairment of intangible assets	**-**	417	4,634
Other expenses	**4,194**	7,994	32,777
Financing expenses	**17,006**	18,584	139,188
Total expenses	**2,102,557**	5,156,773	11,559,674
Share in the results of investee companies accounted by the equity method, net	**605**	13,018	26,792
Income before taxes on income	**(372,610)**	(36,708)	755,069
Taxes on income (tax benefit)	**(140,313)**	(12,106)	274,630
Income (loss) for the period	**(232,297)**	(24,602)	480,439
Attributable to:			
Shareholders in the Company	**(233,190)**	(24,922)	477,285
Non-controlling interests	**893**	320	3,154
Income (loss) for the period	**(232,297)**	(24,602)	480,439
Earnings (loss) per share attributable to shareholders in the Company:			
Basic earnings per share (NIS)	**(4.21)**	(0.45)	8.62
Diluted earnings per share (NIS)	**(4.21)**	(0.45)	8.60
Number of shares used to calculate earnings per share:			
Basic	**55,412**	55,361	55,390
Diluted	**55,412**	55,361	55,484

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

Interim Consolidated Statements of Comprehensive income

NIS in thousands	For the period of three months ended March 31 2016	For the period of three months ended March 31 2015	For the year ended December 31 2015
	Unaudited	Unaudited	Audited
Income (loss) for the period	**(232,297)**	(24,602)	480,439
Other comprehensive income (loss):			
Other components of comprehensive income which, following initial recognition in comprehensive income, have been or will be transferred to income:			
Foreign currency translation differences for foreign operations applied to capital reserves	**(17,702)**	1,394	(6,024)
Change, net, in the fair value of available-for-sale financial assets applied to capital reserves	**26,141**	363,945	100,050
Change, net, in the fair value of available-for-sale financial assets transferred to profit and loss	**(44,347)**	(230,584)	(451,734)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	**14,699**	10,023	38,318
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	**(21,209)**	144,778	(319,390)
Tax (tax benefit) with respect to components of other comprehensive income for the period which have been or will be transferred to profit and loss	**(6,045)**	54,278	(120,521)
Other comprehensive income (loss) which, following initial recognition under comprehensive income, was or will be transferred to profit and loss, net of tax	**(15,164)**	90,500	(198,869)
Components of other comprehensive income which will not be transferred to profit and loss:			
Actuarial income (loss) from defined benefit plan	**(1,664)**	(4,814)	9,166
Other comprehensive income (loss) for the period, with respect to components of income which will not be transferred to profit and loss before tax	**(1,664)**	(4,814)	9,166
Tax (tax benefit) with respect to components of other comprehensive income which will not be transferred to profit and loss	**(459)**	(1,631)	2,935
Other comprehensive income (loss) which will not be transferred to profit and loss, net of tax	**(1,205)**	(3,183)	6,231
Other comprehensive income (loss) for the period	**(16,369)**	87,317	(192,638)
Total comprehensive income (loss) for the period	**(248,666)**	62,715	287,801
Attributable to:			
Shareholders in the Company	**(249,767)**	61,811	285,310
Non-controlling interests	**1,101**	904	2,491
Total comprehensive income (loss) for the period	**(248,666)**	62,715	287,801

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

Interim Consolidated Statements of Changes in Equity

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

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

Interim Consolidated Statements of Changes in Equity (Cont.)

NIS in thousands	Attributable to shareholders in the Company								Non-controlling interests	Total capital
	Share capital	Premium on shares	Translation reserve	Capital reserve with respect to available for sale assets	Other capital reserves	Capital reserve from transactions with non-controlling interests	Retained earnings	Total		
For the period of three months ended March 31, 2015 (unaudited)										
Balance as of January 1, 2015 (Audited)	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	-	-	-	-	-	-	(24,922)	(24,922)	320	(24,602)
Components of other comprehensive income (loss):										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	1,394	-	-	-	-	1,394	-	1,394
Change, net, in the fair value of available-for-sale financial assets applied to capital reserves	-	-	-	362,893	-	-	-	362,893	1,052	363,945
Change, net, in the fair value of available-for-sale financial assets transferred to profit and loss	-	-	-	(230,499)	-	-	-	(230,499)	(85)	(230,584)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	10,020	-	-	-	10,020	3	10,023
Actuarial losses from defined benefit program	-	-	-	-	-	-	(4,781)	(4,781)	(33)	(4,814)
Tax with respect to components of comprehensive income (loss)	-	-	(309)	(53,604)	-	-	1,619	(52,294)	(353)	(52,647)
Other comprehensive income (loss) for the period, net of tax	-	-	1,085	88,810	-	-	(3,162)	86,733	584	87,317
Total comprehensive income for the period	-	-	1,085	88,810	-	-	(28,084)	61,811	904	62,715
Transactions with shareholders which were applied directly to equity:										
Exercise and expiration of warrants for senior employees	6	1,257	-	-	-	-	(1,263)	-	-	-
Share-based payments	-	-	-	-	-	-	1,386	1,386	-	1,386
Balance as of March 31, 2015	143,170	970,638	21,735	585,883	180,329	(39,309)	2,467,572	4,330,018	35,949	4,365,967

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

Interim Consolidated Statements of Changes in Equity (Cont.)

	Attributable to shareholders in the Company								Non-controlling interests	Total capital
NIS in thousands	**Share capital**	**Premium on shares**	**Translation reserve**	**Capital reserve with respect to available-for-sale assets**	**Other capital reserves**	**Capital reserve from transactions with non-controlling interests**	**Retained earnings**	**Total**		
For the year ended December 31, 2015 (Audited)										
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 profit 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 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	-	-	-	-	-	-	(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 attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Cash Flows

NIS in thousands		For the period of three months ended March 31		For the year ended December 31
		2016	2015	2015
		Unaudited		Audited
Cash flows from operating activities				
Before taxes on income	(A)	**192,689**	1,714,891	2,385,840
Income tax paid		**(58,307)**	(20,897)	(217,875)
Net cash from operating activities		**134,382**	1,693,994	2,167,965
Cash flows from investing activities				
Consideration from disposal of property, plant and equipment		**240**	224	5,991
Consideration from disposal of investments in other investee companies		**1,699**	-	22,754
Consideration from disposal of investment in available for sale financial assets by companies which are not insurance and finance companies		**10,058**	5,025	40,782
Investment in available for sale financial assets by companies that are not insurance and finance companies		**(36,998)**	(5,025)	(62,126)
Repayment of investment (investment) in shares and loans in investee companies		**711**	-	(3,798)
Investment in property, plant and equipment		**(2,895)**	(20,441)	(53,128)
Investment in intangible assets		**(45,526)**	(52,254)	(259,203)
Net cash used in investing activities		**(72,711)**	(72,471)	(308,728)
Cash flows from financing activities				
Repayment of liabilities to banks and others		**(7,387)**	(29,017)	(133,442)
Costs of issue and exchange of deferred liability notes		**-**	-	(5,695)
Consideration from issue of deferred liability notes		-	111,937	700,728
Repayment of deferred liability notes		**(14,977)**	(245,652)	(325,446)
Interest paid on bonds and deferred liability notes		**(51,447)**	(47,311)	(128,438)
Net cash flows from (used in) financing activities		**(73,811)**	(210,043)	107,707
Impact of exchange rate fluctuations on cash and cash equivalent balances		**(14,052)**	(10,396)	(31,568)
Net increase (decrease) in cash and cash equivalents		**(26,192)**	1,401,084	1,935,376
Cash and cash equivalents at beginning of period	(B)	**5,207,168**	3,271,792	3,271,792
Cash and cash equivalents at end of period	(C)	**5,180,976**	4,672,876	5,207,168

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

Interim Consolidated Statements of Cash Flows (Cont.)

		For the period of three months ended March 31		For the year ended December 31
		2016	2015	2015
	NIS in thousands	Unaudited		Audited
(A)	**Cash flows from operating activities before taxes on income [1) 2)]**			
	Income (loss) for the period	**(232,297)**	(24,602)	480,439
	Adjustments:			
	The Company's share in the income of investee companies accounted by the equity method	**(605)**	(13,018)	(26,792)
	Dividends received from investee companies accounted by the equity method	**125**	3,333	3,508
	Changes in liabilities with respect to non-investment-linked insurance contracts and investment contracts	**129,065**	406,248	160,996
	Change in liabilities with respect to investment-linked insurance contracts and investment contracts	**(94,653)**	2,638,877	3,391,290
	Change in deferred acquisition costs	**(22,600)**	(11,493)	(91,841)
	Change in reinsurance assets	**57,896**	(46,313)	(112,879)
	Depreciation of property, plant and equipment	**10,458**	10,511	42,274
	Amortization of intangible assets	**47,930**	42,078	186,866
	Impairment of assets	**-**	417	4,634
	Loss (gain) from disposal of property, plant and equipment	**42**	100	(853)
	Interest and linkage differences accrued with respect to deferred liability notes	**23,323**	18,686	129,239
	Interest accrued and revaluation of liabilities to banking corporations and others	**20,080**	(147,646)	(21,923)
	Change in fair value of investment property for investment-linked contracts	**35,234**	12,005	(63,148)
	Change in fair value of other investment property	**11,242**	6,405	(26,767)
	Share-based payment transactions	**1,869**	1,386	10,802
	Net loss (profit) from financial investments for insurance contracts and investment contracts, from and investment-linked contracts	**1,041,274**	(1,976,217)	(493)
	Taxes on income	**(140,313)**	(12,106)	274,630
	Net income from other financial investments:			
	Marketable debt assets	**30,989**	50,615	54,927
	Non-marketable debt assets	**(37,853)**	72,794	(317,974)
	Stocks	**(5,995)**	(133,230)	(230,257)
	Others	**(29,583)**	(39,920)	(129,364)
	Financial investments and investment property for investment-linked contracts:			
	Acquisition of investment property	**(9,366)**	(6,750)	(30,867)
	Receipts from sales (acquisitions), net, of financial investments	**(585,394)**	938,964	(1,369,166)
	Receipts (investments) from the sale of (investment in) available for sale financial assets and investment property in insurance business operations:			
	Marketable debt assets	**442,480**	412,389	80,419
	Non-marketable debt assets	**(284,481)**	(380,838)	(259,123)
	Stocks	**(100,073)**	19,975	90,501
	Others	**(24,283)**	(57,814)	36,070
	Acquisition of other investment property	**(3,693)**	(2,798)	(14,563)
	Consideration from the sale of other 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 attached to the interim consolidated financial statements constitute an integral part thereof.

Interim Consolidated Statements of Cash Flows (Cont.)

		For the period of three months ended March 31		For the year ended December 31
		2016	2015	2015
	NIS in thousands	Unaudited		Audited
(A)	**Cash flows from operating activities before taxes on income (Cont.)**			
	Changes in other items in the statement of financial position, net			
	Change in securities by companies other than insurance companies	**9,513**	24,606	71,609
	Other accounts receivable	**(19,447)**	(72,088)	(35,768)
	Outstanding premiums	**(50,583)**	(36,152)	67,695
	Other accounts payable	**(25,855)**	20,644	32,567
	Liabilities with respect to employee benefits, net	**(1,757)**	(4,157)	(1,017)
	Total cash flows from operating activities before taxes on income	**192,689**	1,714,891	2,385,840
(B)	**Cash and cash equivalents at beginning of period:**			
	Cash and cash equivalents for investment-linked contracts	**3,767,810**	1,891,753	1,891,753
	Other cash and cash equivalents	**1,439,358**	1,380,039	1,380,039
	Cash and cash equivalents in the statement of financial position	**5,207,168**	3,271,792	3,271,792
(C)	**Cash and cash equivalents at end of period:**			
	Cash and cash equivalents for investment-linked contracts	**4,124,720**	3,489,445	3,767,810
	Other cash and cash equivalents	**1,056,256**	1,183,431	1,439,358
	Balance of cash and cash equivalents at end of period	**5,180,976**	4,672,876	5,207,168
(D)	**Cash flows with respect to interest and dividends received, included under operating activities:**			
	Interest received	**485,403**	498,324	1,766,411
	Dividend received	**12,875**	30,560	351,826
(E)	**Operations which are not associated with cash flows**			
	Investment in intangible assets against other accounts payable	**-**	-	6,237

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

Note 1 - General

A. Reporting entity

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

The condensed consolidated financial statements as of March 31, 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, 51% 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 Note 1(b)(2) below). In addition to the holding through the trustee, IDB Development directly holds approximately 3.9% of the Company's issued capital at full dilution, and a total of 54.9% of the issued capital[1] (approximately 53.3% 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 because its bonds are traded 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 in the first quarter of 2013, the financial statements of IDB Development and the independent auditors' review/audit reports (as applicable) include 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 December 31, 2015 include a note and reference, respectively, by the auditors of IDB Development, concerning the existence of significant doubts as to its continued existence as a going concern. This is due to the financial position of IDB Development, and the cash which it requires in order to service its liabilities, in consideration of the non-success of the negotiations for the sale of IDB Development's holdings in the Company, the outline which was determined by the Commissioner for the sale of the control and holdings of the Company, and the need for an arrangement over time of the covenants which apply to IDB Development by virtue of agreements with lenders.

[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 is secured, inter alia, by a pledge on approximately 4% (approximately 3.88% at full dilution) of the Company's shares which are held by IDB Development.**

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 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.

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**") and to protect the interests of policyholders and savers, 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.

Additionally, the Commissioner formalized the trustee's activities in various letters.

Additionally, in the months January and March 2015, 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 agreed-upon outline for the sale of IDB's control and holding of the Company (see Note 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, 5741 - 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 meeting for 2015, will be done according to the mechanisms which were used to appoint directors in Clal Insurance until now, and not according to the aforementioned mechanisms.

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 by the trustee, 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.

In April 2016, the committee announced that it had called upon candidates to offer their candidacy for tenure as outside directors in Clal Holdings and in Clal Insurance, for the purpose of replacing outside directors in Clal Holdings 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.

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 (at the time) from June 2014, for the receipt of 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 agreed-upon 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 a shareholders agreement with respect to the holding and control of IDB Development together with the Dolphin Group), primarily in light of 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:

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 (Cont.)

A. (Cont.)

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

2. IDB Development will sign an agreement for the sale of control vis-à-vis a potential buyer, according to a price and commercial terms which it considers appropriate, by and no later than December 31, 2015.
3. In the event that an agreement has been signed as specified in subsection 2 above, on time, the potential buyer will be given the opportunity to complete the process of obtaining a control permit from the Commissioner, by and no later than June 30, 2016.

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

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

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

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

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

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.

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 (Cont.)

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 (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 that time, will be evaluated, inter alia, also in light of the provisions of the Law to Promote Competition and Reduce Concentration, 5774-2013 (the "Concentration Law"), and that the provisions of the Commissioner's letter do not constitute approval for the performance of the sale, as stated above, in accordance with the provisions of the Concentration Law.

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

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

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

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

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

Note 1- General (Cont.)

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

3. 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 (Cont.)

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

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

The sale process which was conducted by IDB Development in 2015, in connection with a possible transaction for the sale of the control of the Company, was unsuccessful, and in light of the fact that IDB Development did not fulfill 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.

In its financial statements as of December 31, 2015, IDB Development reported that it believes that, in the current market conditions, it would not be appropriate to work to sell its holdings in the Company in accordance with the outline ordered by the Commissioner, and that it would be appropriate to formulate an alternative outline which will allow IDB Development to sell its shares in the Company within the framework of a transaction for the sale of the control core, or any other outline which would prevent the harm which may be caused to IDB Development if the Commissioner's outline is implemented. However, if and insofar as may be required for the purpose of servicing the cash flows of IDB Development, and insofar as IDB Development does not have other sources to service its cash flows, IDB Development intends to work to exercise some of the holdings in the Company, holdings the timing of the sale, and the market conditions, while maximizing the consideration which will be received with respect to the sale of those holdings. In parallel, IDB Development intends to continue working towards selling the control core of the Company.

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 immediate reporting dated February 11, 2016, **reference number 2016-01-027244**.

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 (Cont.)

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). The plaintiff is requesting to stay the aforementioned sale process until a final and non-appealable ruling has been issued regarding the claim. The main cause of action noted in the motions to stay the sale processes are that the exercise of the shares in accordance with the aforementioned outline, before the claim has been heard, may cause irreversible damage to IDB Development and to its bond holders.

On March 2, 2016, IDB Development filed with the Court its response to the motion for a temporary injunction, in which, inter alia, it claimed that in light of the current market circumstances, it would not be appropriate to move forward with the sale of the Company's shares in accordance with the Commissioner's outline; that it would be appropriate to formulate an alternative outline which will allow IDB Development to sell its shares in the Company within the framework of a transaction involving the sale of the control core, or any other outline which will prevent the destruction of value which would be caused to IDB Development if the Commissioner's outline is implemented; that the implementation of the provisions in the outline and the implementation of the forced sale are expected to cause a tremendous, disproportional and unnecessary destruction of value, with far-reaching implications on IDB Development and other entities, as specified in the response; and that the circumstances of the matter justify an evaluation of whether, in light of the entire set of considerations, the aforementioned sale of shares is reasonable in a manner which correctly balances between the needs and benefits of the Company's policyholders on the one hand, and the real and severe harm which the Company's shareholders, IDB Development, IDB Development's shareholders and its creditors are expected to incur.

On the same date, the Company also responded to the motion for a temporary injunction, in which it objected to the response, in light of the existence of weighty claims which justify the dismissal of the motion to approve the claim as a class action on the merits, and the connection between the two proceedings.

On March 28, 2016, the Commissioner filed her response to the motion for an injunction, in which the Court was requested to summarily dismiss the motion for an injunction due to a lack of material jurisdiction, or alternatively, to dismiss it on the merits, for various reasons. In the response, 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.

On May 4, 2016, a hearing was held in Court, in which the plaintiff was given a period of 45 days to announce whether it wishes to withdraw the claim (the motion for an injunction), in which case the claim will be struck out without expenses being ordered, or whether it intends to continue conducting the claim, in which case the respondents will be given the opportunity to respond to the claim (insofar as they have not done so until now), and to file motions in their discretion. Additionally, it was determined, in accordance with the Court's decision, that due to the fact that issues arose in the hearing which have the potential to justify an attempt at additional negotiations between all of the parties which are involved in the search for a different outline than the current one, during this period, it would be appropriate for the parties to exhaust the period of time which was given to the petitioner, as stated above, and notify the Court regarding their position with respect to an additional outline, in accordance with the positions and proposals which were raised by the respondents in the hearing.

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 (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 reasserted her claims with respect to the summary dismissal of the motion, and 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 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).

IDB Development reported that it was considering its steps in light of the aforementioned letters.

In accordance with the public reports of IDB Development, on May 25, 2016, IDB Development received a written offer entitled "Non-Binding Indicative Offer" from Ashkenazy Acquisition Corporation (the "Bidder"), for the acquisition of the control of the Company. The offer included 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 constitutes a non-binding offer, 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.

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:

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 (Cont.)

1. 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 will take place:

   1.1. 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.

   1.2. IDB Development will formulate an outline for the sale process, inter alia, based on the advice which will be received from the investment bank, with the intention of completing the sale process as soon as possible.

2. 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.

3. 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.

4. 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.

Additionally, 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 shares of Clal Holdings Insurance Enterprises, as well as reference to solutions which were proposed in place of the aforementioned sale of shares).

Note 1- General (Cont.)

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

4. 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, and in its financial statements for 2015, IDB Development reported that the alternatives which it is evaluating include, inter alia: (A) Converting IDB Development or DIC into a private company which is a non-reporting corporation (and, as a result, also not a "tier company"); and (B) a merger between IDB Development and DIC. The Board of Directors of DIC has appointed an advisory committee with a similar function. Additionally, IDB Development clarified that as of the date of approval of its quarterly and annual financial statements for 2015 (i.e., most recently, as of the end of March 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, that based on an analysis which was performed, IDB Development estimates that 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 Shufersal Ltd. and of Cellcom Israel Ltd., also after December 2019.

In accordance with transitional provisions which were determined in the Concentration Law, after the aforementioned date, a significant real corporation, or the controller of such a corporation, may not control 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. In light of the Commissioner's directives in connection with the appointment of the trustee for the holding of the means of control of the Company, which are held by IDB Development, and the Commissioner's letter from December 30, 2014, according to which IDB Development is required to sell the control shares in the Company, as specified above, the Company contacted the concentration committee in connection with its classification as a significant real corporation.

Note 1- General (Cont.)

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

5. Implications

As of the reporting date, the Company is unable to estimate the entire impact of the results of the aforementioned events on the Company. For details regarding the implications of the foregoing, see section 1(b)(6) to the annual statements.
For details regarding the implications of the Concentration Law, see subsection 4 above.

Note 2- Basis for Preparation of the Interim Reports

A. Statement of compliance with international financial reporting standards

The interim reports were prepared in accordance with IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements established by the Insurance Commissioner, pursuant to the Control of Financial Services (Insurance) Law, 5741-1981, and do not include all of the information which is required in complete annual financial statements. These should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2015 (hereinafter: the "**Annual Statements**"). Furthermore, these financial statements were compiled in accordance with the provisions of Chapter IV of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, to the extent to which these regulations apply to a corporation that consolidates insurance companies.

The interim reports were approved for publication by the Board of Directors on May 30, 2016.

B. Use of estimates and judgment

In preparing the interim reports in accordance with IFRS and in accordance with the Control Law and regulations enacted by virtue thereof, the directives of the Commissioner and the provisions of Chapter IV of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, insofar as they are relevant, company management is required to exercise judgment in making estimates, approximations and assumptions which affect the implementation of the accounting policy and the amounts of assets and liabilities, revenues and expenses. It is hereby clarified that actual results may differ from these estimates.

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

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

Note 2- Basis for Preparation of the Interim Reports (Cont.)

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

	Index in lieu	Known index	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
	%		%	%	%
For the period of three months ended					
March 31, 2016	**(1.0)**	**(0.9)**	**0.9**	**(3.5)**	**(6.2)**
March 31, 2015	(1.3)	(1.6)	(9.5)	2.3	(3.0)
For the year ended December 31, 2015	(1.0)	(0.9)	(10.1)	0.3	(4.6)

	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
As of March 31, 2016	**4.286**	**3.766**	**5.427**
As of March 31, 2015	4.274	3.980	5.881
As of December 31, 2015	4.247	3.902	5.784

Note 3- Significant Accounting Policies

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

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

Note 4- Segmental Reporting

A. General

The group is engaged in the following operating segments:

1. Long term savings

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

2. Health insurance

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

3. Non-life insurance

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

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

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

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

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

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

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

4. Other

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

5. Operations which were not allocated to segments

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

Note 4- Segmental Reporting (Cont.)

B. Additional information regarding the segmental reporting basis

The segmental division basis and the measurement basis of segmental results are as specified in Note 5 to the annual reports.

C. Seasonality

1. Long-term savings segment

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

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

2. Non-life insurance segment

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

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

Note 4- Segmental Reporting (Cont.)

D. Report on operating segments

	Long-term savings											
	Provident			Pension			Life insurance [1]			Total		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2016	2015	2015	2016	2015	2015	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Gross premiums earned	-	-	-	-	-	-	**1,216,848**	1,192,013	4,860,632	**1,216,848**	1,192,013	4,860,632
Premiums earned by reinsurers	-	-	-	-	-	-	**43,518**	42,406	163,571	**43,518**	42,406	163,571
Premiums earned on retention	-	-	-	-	-	-	**1,173,330**	1,149,607	4,697,061	**1,173,330**	1,149,607	4,697,061
Income (loss) from investments, net, and financing income	**11,917**	(4,317)	112,571	**178**	(1,618)	(483)	**(482,789)**	2,343,807	2,350,605	**(470,694)**	2,337,872	2,462,693
Income from management fees	**53,055**	57,129	232,186	**66,527**	63,381	269,791	**93,030**	371,747	536,524	**212,612**	492,257	1,038,501
Income from commissions	-	-	-	-	-	-	**9,860**	11,136	26,939	**9,860**	11,136	26,939
Other income	-	-	-	-	-	-	-	-	-	-	-	-
Total income	**64,972**	52,812	344,757	**66,705**	61,763	269,308	**793,431**	3,876,297	7,611,129	**925,108**	3,990,872	8,225,194
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**10,015**	(6,235)	104,878	-	-	-	**782,089**	3,612,297	6,710,204	**792,104**	3,606,062	6,815,082
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	-	-	-	-	-	-	**(24,216)**	(30,133)	(147,652)	**(24,216)**	(30,133)	(147,652)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**10,015**	(6,235)	104,878	-	-	-	**757,873**	3,582,164	6,562,552	**767,888**	3,575,929	6,667,430
Commissions, marketing expenses and other acquisition costs	**15,262**	16,555	64,689	**28,950**	25,673	109,266	**170,273**	167,263	645,433	**214,485**	209,491	819,388
General and administrative expenses	**24,584**	24,768	98,450	**30,387**	26,270	118,423	**87,161**	80,914	341,315	**142,132**	131,952	558,188
Impairment of intangible assets	-	-	-	-	-	-	-	-	3,018	-	-	3,018
Other expenses	**1,364**	1,548	5,896	-	1,575	1,585	**143**	1,367	1,801	**1,507**	4,490	9,282
Financing expenses (income)	**3**	(2)	2	**(15)**	(3)	376	**(3,381)**	1,352	1,562	**(3,393)**	1,347	1,940
Total expenses	**51,228**	36,634	273,915	**59,322**	53,515	229,650	**1,012,069**	3,833,060	7,555,681	**1,122,619**	3,923,209	8,059,246
Share in the results of associate companies, net	-	-	-	**(193)**	(531)	(392)	**(356)**	670	4,167	**(549)**	139	3,775
Income (loss) before taxes on income	**13,744**	16,178	70,842	**7,190**	7,717	39,266	**(218,994)**	43,907	59,615	**(198,060)**	67,802	169,723
Other comprehensive income before taxes on income	-	-	-	**273**	3,068	(681)	**(18,164)**	(34,456)	(124,907)	**(17,891)**	(31,388)	(125,588)
Total comprehensive income before taxes on income	**13,744**	16,178	70,842	**7,463**	10,785	38,585	**(237,158)**	9,451	(65,292)	**(215,951)**	36,414	44,135
	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31
	2016	2015	2015	2016	2015	2015	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**2,338,540**	2,315,393	2,351,594	-	-	-	**18,932,443**	18,544,164	18,786,560	**21,270,983**	20,859,557	21,138,154
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	**50,906,280**	50,338,777	51,104,369	**50,906,280**	50,338,777	51,104,369
1) Total premiums (including pure savings premiums (investment contracts) which were applied directly to reserve).							**1,356,071**	1,382,830	5,660,535	**1,356,071**	1,382,830	5,660,535

Note 4- Segmental Reporting (Cont.)

D. Report on operating segments (Cont.)

	Health			Non-life			Other		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2016	2015	2015	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Gross premiums earned	**419,148**	398,752	1,674,136	**592,780**	646,467	2,522,324	-	-	-
Premiums earned by reinsurers	**47,656**	46,778	186,941	**171,267**	175,116	706,870	-	-	-
Premiums earned on retention	**371,492**	351,974	1,487,195	**421,513**	471,351	1,815,454	-	-	-
Income (loss) from investments, net, and financing income	**(55,295)**	156,487	116,238	**2,925**	21,126	203,070	**1,903**	1,382	9,705
Income from management fees	-	-	-	-	-	-	**1,494**	1,494	5,974
Income from commissions	**2,619**	714	18,425	**31,015**	37,859	140,143	**27,669**	27,480	115,288
Other income	-	-	-	**22**	17	85	**18**	47	1,746
Total income	**318,816**	509,175	1,621,858	**455,475**	530,353	2,158,752	**31,084**	30,403	132,713
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**313,142**	645,016	1,153,321	**505,227**	435,220	1,578,083	-	-	-
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(37,562)**	(36,608)	(159,246)	**(112,931)**	(119,725)	(435,722)	-	-	-
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**275,580**	608,408	994,075	**392,296**	315,495	1,142,361	-	-	-
Commissions, marketing expenses and other acquisition costs	**92,836**	79,271	372,821	**142,737**	150,660	610,444	**22,557**	21,884	87,747
General and administrative expenses	**13,536**	12,509	53,368	**15,681**	16,712	65,699	**3,610**	3,621	15,962
Impairment of intangible assets	-	-	-	-	-	-	-	417	1,616
Other expenses	-	-	116	-	-	7,033	**1,418**	1,541	3,294
Financing expenses (income)	**(785)**	(3,521)	4,382	**(2,910)**	2,893	(670)	**522**	(1,589)	1,803
Total expenses	**381,167**	696,667	1,424,762	**547,804**	485,760	1,824,867	**28,107**	25,874	110,422
Share in the results of associate companies, net	**(386)**	91	843	-	-	-	**84**	70	341
Income (loss) before taxes on income	**(62,737)**	(187,401)	197,939	**(92,329)**	44,593	333,885	**3,061**	4,599	22,632
Other comprehensive income (loss) before taxes on income	**365**	46,244	(20,423)	**9,096**	56,608	(65,960)	**(631)**	(1,183)	1,124
Total comprehensive income (loss) before taxes on income	**(62,372)**	(141,157)	177,516	**(83,233)**	101,201	267,925	**2,430**	3,416	23,756

	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31
	2016	2015	2015	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	**1,770,418**	1,882,648	1,750,868	**6,884,310**	7,301,234	6,907,609	-	-	-
Liabilities with respect to investment-linked insurance contracts and investment contracts	**3,364,135**	3,227,977	3,260,969	-	-	-	-	-	-

Note 4- Segmental Reporting (Cont.)

D. Report on operating segments (Cont.)

	Not allocated to segments			Adjustments and offsets			Total		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2016	2015	2015	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Gross premiums earned	-	-	-	**(662)**	(660)	(2,367)	**2,228,114**	2,236,572	9,054,725
Premiums earned by reinsurers	-	-	-	-	-	-	**262,441**	264,300	1,057,382
Premiums earned on retention	-	-	-	**(662)**	(660)	(2,367)	**1,965,673**	1,972,272	7,997,343
Income (loss) from investments, net, and financing income	**15,649**	62,659	219,331	**95**	292	(644)	**(505,417)**	2,579,818	3,010,393
Income from management fees	-	-	-	**(1,337)**	(1,287)	(5,078)	**212,769**	492,464	1,039,397
Income from commissions	-	-	-	**(14,886)**	(14,725)	(62,072)	**56,277**	62,464	238,723
Other income	-	(35)	261	-	-	3	**40**	29	2,095
Total income	**15,649**	62,624	219,592	**(16,790)**	(16,380)	(70,158)	**1,729,342**	5,107,047	12,287,951
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	-	-	-	**(606)**	(779)	(4,147)	**1,609,867**	4,685,519	9,542,339
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	-	-	-	-	-	-	**(174,709)**	(186,466)	(742,620)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	-	-	-	**(606)**	(779)	(4,147)	**1,435,158**	4,499,053	8,799,719
Commissions, marketing expenses and other acquisition costs	-	-	-	**(14,462)**	(14,500)	(60,170)	**458,153**	446,806	1,830,230
General and administrative expenses	**14,787**	16,101	63,512	**(1,700)**	3,024	(3,603)	**188,046**	183,919	753,126
Impairment of intangible assets	-	-	-	-	-	-	-	417	4,634
Other expenses	**1,133**	1,863	11,619	**136**	100	1,433	**4,194**	7,994	32,777
Financing expenses (income)	**23,549**	19,069	132,066	**23**	385	(333)	**17,006**	18,584	139,188
Total expenses	**39,469**	37,033	207,197	**(16,609)**	(11,770)	(66,820)	**2,102,557**	5,156,773	11,559,674
Share in the results of associate companies, net	**1,456**	12,718	21,833	-	-	-	**605**	13,018	26,792
Income (loss) before taxes on income	**(22,364)**	38,309	34,228	**(181)**	(4,610)	(3,338)	**(372,610)**	(36,708)	755,069
Other comprehensive income before taxes on income	**(13,206)**	70,145	(102,709)	**(606)**	(462)	3,332	**(22,873)**	139,964	(310,224)
Total comprehensive income (loss) before taxes on income	**(35,570)**	108,454	(68,481)	**(787)**	(5,072)	(6)	**(395,483)**	103,256	444,845

	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31
	2016	2015	2015	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	-	-	-	**(2,413)**	(3,954)	(2,398)	**29,923,298**	30,039,485	29,794,233
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	**(18,519)**	(19,539)	(18,789)	**54,251,896**	53,547,215	54,346,549

Note 4- Segmental Reporting (Cont.)

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

	Liability branches					
	Compulsory motor			Liabilities and others branches [1)]		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited
Gross premiums	**129,742**	150,219	454,704	**92,405**	94,666	325,391
Reinsurance premiums	**4,085**	4,623	17,389	**26,939**	22,266	98,739
Premiums on retention	**125,657**	145,596	437,315	**65,466**	72,400	226,652
Change in unearned premium balance, on retention	**(22,540)**	(18,140)	40,123	**(10,584)**	(13,790)	4,585
Premiums earned on retention	**103,117**	127,456	477,438	**54,882**	58,610	231,237
Income (loss) from investments, net, and financing income	**2,217**	10,000	99,809	**1,369**	6,071	59,170
Income from commissions	**-**	-	-	**3,283**	2,232	10,031
Total income	**105,334**	137,456	577,247	**59,534**	66,913	300,438
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**147,130**	86,930	230,109	**156,785**	33,890	160,623
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(15,211)**	(8,021)	(735)	**(75,673)**	(3,005)	(23,215)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**131,919**	78,909	229,374	**81,112**	30,885	137,408
Commissions, marketing expenses and other acquisition costs	**16,714**	15,956	76,018	**24,043**	22,118	95,789
General and administrative expenses	**2,319**	2,887	9,257	**1,588**	1,818	6,624
Other expenses	**-**	-	-	**-**	-	-
Financing income	**-**	-	-	**(138)**	(50)	(70)
Total expenses	**150,952**	97,752	314,649	**106,605**	54,771	239,751
Income (loss) before taxes on income	**(45,618)**	39,704	262,598	**(47,071)**	12,142	60,687
Other comprehensive income before taxes on income	**3,773**	26,681	(31,857)	**2,336**	16,146	(18,841)
Total comprehensive income (loss) before taxes on income	**(41,845)**	66,385	230,741	**(44,735)**	28,288	41,846

	As of March 31		As of December 31	As of March 31		As of December 31
	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to insurance contracts						
Gross	**2,579,076**	2,868,078	2,566,840	**2,481,278**	2,574,827	2,419,866
Reinsurance	**108,114**	136,326	103,484	**911,997**	899,481	873,100
Retention	**2,470,962**	2,731,752	2,463,355	**1,569,281**	1,675,346	1,546,766

1) Other liability branches primarily include the results of the third party liability and employers' liability insurance branches, the activity in which, in the reporting period, in the corresponding period last year and in the year ended December 31, 2015, constitutes approximately 70%, approximately 71% and approximately 66%, respectively, of total premiums in those branches.

Note 4- Segmental Reporting (Cont.)

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

	Property branches											
	Motor property			Credit insurance			Property and others branches [1]			Total		
	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31	For the period of three months ended March 31		For the year ended December 31
	2016	2015	2015	2016	2015	2015	2016	2015	2015	2016	2015	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Gross premiums	**194,499**	206,345	639,097	**26,513**	24,268	103,121	**225,944**	227,219	872,976	**669,103**	702,717	2,395,289
Reinsurance premiums	**757**	812	4,446	**13,664**	11,550	49,572	**135,438**	129,381	495,004	**180,883**	168,632	665,150
Premiums on retention	**193,742**	205,533	634,651	**12,849**	12,718	53,549	**90,506**	97,838	377,972	**488,220**	534,085	1,730,139
Change in unearned premium balance, on retention	**(37,929)**	(29,397)	45,527	**(30)**	211	(103)	**4,376**	(1,618)	(4,817)	**(66,707)**	(62,734)	85,315
Premiums earned on retention	**155,813**	176,136	680,178	**12,819**	12,929	53,446	**94,882**	96,220	373,155	**421,513**	471,351	1,815,454
Income (loss) from investments, net, and financing income	**726**	3,320	19,242	**(2,051)**	(1,715)	3,394	**664**	3,450	21,455	**2,925**	21,126	203,070
Income from commissions	**1**	(47)	(10)	**4,040**	3,809	16,366	**23,691**	31,865	113,756	**31,015**	37,859	140,143
Other income	**-**	-	-	**22**	17	85	**-**	-	-	**22**	17	85
Total income	**156,540**	179,409	699,410	**14,830**	15,040	73,291	**119,237**	131,535	508,366	**455,475**	530,353	2,158,752
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	**123,936**	147,490	546,742	**11,577**	21,700	121,699	**65,799**	145,210	518,910	**505,227**	435,220	1,578,083
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	**(52)**	(1,908)	(8,274)	**(7,840)**	(14,469)	(95,916)	**(14,155)**	(92,322)	(307,582)	**(112,931)**	(119,725)	(435,722)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	**123,884**	145,582	538,468	**3,737**	7,231	25,783	**51,644**	52,888	211,328	**392,296**	315,495	1,142,361
Commissions, marketing expenses and other acquisition costs	**38,922**	44,589	172,760	**1,957**	2,081	8,470	**61,101**	65,916	257,407	**142,737**	150,660	610,444
General and administrative expenses	**3,346**	3,965	13,011	**3,493**	3,942	14,812	**4,935**	4,100	21,995	**15,681**	16,712	65,699
Other expenses	**-**	-	7,033	**-**	-	-	**-**	-	-	**-**	-	7,033
Financing income	**(308)**	(313)	(216)	**(1,055)**	(743)	(977)	**(1,409)**	3,999	593	**(2,910)**	2,893	(670)
Total expenses	**165,844**	193,823	731,056	**8,132**	12,511	48,088	**116,271**	126,903	491,323	**547,804**	485,760	1,824,867
Income (loss) before taxes on income	**(9,304)**	(14,414)	(31,646)	**6,698**	2,529	25,203	**2,966**	4,632	17,043	**(92,329)**	44,593	333,885
Other comprehensive income before taxes on income	**622**	4,112	(4,304)	**1,562**	4,509	(4,895)	**803**	5,160	(6,063)	**9,096**	56,608	(65,960)
Total comprehensive income (loss) before taxes on income	**(8,682)**	(10,302)	(35,950)	**8,260**	7,038	20,308	**3,769**	9,792	10,980	**(83,233)**	101,201	267,925
	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31	As of March 31		As of December 31
	2015	2015	2016	2015	2015	2016	2015	2015	2015	2015	2016	2015
NIS in thousands	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited	Unaudited		Audited
Liabilities with respect to insurance contracts												
Gross	**532,375**	546,664	505,939	**76,795**	86,715	144,868	**1,214,786**	1,224,950	1,270,097	**6,884,310**	7,301,234	6,907,609
Reinsurance	**7,046**	3,267	8,323	**39,511**	57,324	99,764	**630,189**	623,826	666,086	**1,696,857**	1,720,224	1,750,757
Retention	**525,329**	543,397	497,616	**37,284**	29,391	45,104	**584,597**	601,124	604,011	**5,187,453**	5,581,010	5,156,852

1) Property and other branches primarily include the results of the business property insurance and apartment insurance branches, the activity in which during the reporting period, in the corresponding period last year and in the year ended December 31, 2015, constitutes approximately 72%, approximately 69% and approximately 65%, respectively, of the total premiums in these branches.

Note 4- Segmental Reporting (Cont.)

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

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

NIS in thousands	Life insurance policies which include a savings component (including appendices) by policy issue date				Life insurance policies without a savings component		
			From 2004		Risk sold as a single policy		
	Until 1990 1)	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
Gross premiums:	65,256	409,468	3,230	566,877	143,596	27,773	1,216,200
Receipts with respect to investment contracts charged directly to insurance reserves	-	-	-	139,223	-	-	139,223
Financial margin including management fees 2)	87,926	48,853	(549)	43,727	-	-	179,957
Payments and changes in liabilities with respect to insurance contracts, gross	345,637	(96,291)	4,800	472,101	49,747	21,615	797,610
Payments and changes in liabilities with respect to investment contracts	-	-	(24)	(15,496)	-	-	(15,521)

Data for the year ended December 31, 2015

NIS in thousands	Policies which include a savings component (including appendices) by policy issue date				Life insurance policies without a savings component		
			From 2004		Risk sold as a single policy		
	Until 1990 1)	Until 2003	Non-investment-linked	Investment-linked	Individual	Collective	Total
Gross premiums:	281,251	1,657,848	19,220	2,196,512	558,492	147,060	4,860,383
Receipts with respect to investment contracts charged directly to insurance reserves	-	-	-	799,903	-	-	799,903
Financial margin including management fees 2)	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	19,044	2,390,017	174,780	163,183	6,714,391
Payments and changes in liabilities with respect to investment contracts	-	-	78	(4,269)	-	-	(4,190)

Notes:

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

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

Note 4- Segmental Reporting (Cont.)

G. Additional Details Regarding The Health Insurance Segments

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

	Long term care		Other health *)		
NIS in thousands	**Individual**	**Collective**	**Long term**	**Short term**	**Total**
Gross premiums	58,068	175,609	161,178	25,135	419,990
Payments and changes in liabilities with respect to insurance contracts, gross	128,407	91,292	78,353	15,090	313,142

Data for the year ended December 31, 2015 (Audited)

	Long term care		Other health *)		
NIS in thousands	**Individual**	**Collective**	**Long term**	**Short term**	**Total**
Gross premiums	231,664	708,074	588,026	150,610	1,678,374
Payments and changes in liabilities with respect to insurance contracts, gross	199,456	637,009	236,567	80,289	1,153,321

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

Note 5- Financial Instruments

A. Assets for investment-linked contracts

1. Composition:

NIS in thousands	As of March 31 2016	As of March 31 2015	As of December 31 2015
	Unaudited		Audited
Investment property *)	**2,724,208**	2,650,806	2,750,076
Financial investments			
Marketable debt assets	**21,064,244**	19,280,510	19,942,157
Non-marketable debt assets	**6,709,517**	6,942,163	6,617,456
Stocks	**8,401,258**	8,878,035	8,662,467
Other financial investments	**11,213,821**	12,411,606	12,622,640
Total financial investments *)	**47,388,840**	47,512,314	47,844,720
Cash and cash equivalents	**4,124,720**	3,489,445	3,767,810
Other	**551,174**	560,195	567,533
Total assets for investment-linked contracts	**54,788,942**	54,212,760	54,930,139

*) Measured at fair value through profit and loss.

2. Additional information regarding fair value

A. Fair value of financial assets, classified by levels

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

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

Note 5- Financial Instruments (Cont.)

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

2. Additional information regarding fair value (Cont.)

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

	As of March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
NIS in thousands	**Unaudited**			
Financial investments:				
Marketable debt assets	17,808,502	1,472,008	-	19,280,510
Non-marketable debt assets	-	6,738,763	203,400	6,942,163
Stocks	8,732,593	-	145,442	8,878,035
Other financial investments *)	9,485,168	640,518	2,285,920	12,411,606
Total financial investments	36,026,263	8,851,289	2,634,762	47,512,314
*) Of which, with respect to derivatives	109,885	348,074	434	458,393

	As of December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
NIS in thousands	**Audited**			
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

B. Assets measured at fair value level 3

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

Note 5- Financial Instruments (Cont.)

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

2. Additional information regarding fair value (Cont.)

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

NIS in thousands	Non-marketable debt assets	Stocks	Other financial investments	Total
	Unaudited			
As of January 1, 2015	208,027	151,346	2,116,767	2,476,140
Total income recognized in the statement of income	(1,445)	(1,827)	77,439	74,167
Acquisitions	-	-	191,580	191,580
Sales	-	-	(96,385)	(96,385)
Redemptions	(450)	-	-	(450)
Interest and dividend receipts	(2,732)	(4,077)	(3,481)	(10,290)
As of March 31, 2015	203,400	145,442	2,285,920	2,634,762
Total income (loss) for the period included under the income statement with respect to held financial assets as of March 31, 2015	(1,445)	(1,827)	77,439	74,167

NIS in thousands	Non-marketable debt assets	Stocks	Other financial investments	Total
	Audited			
As of January 1, 2015	208,027	151,346	2,116,767	2,476,140
Total income 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)
Interest and dividend receipts	(12,448)	(7,623)	(9,236)	(29,307)
Transfers to level 3 *)	71,511	-	-	71,511
As of December 31, 2015	220,562	162,726	2,332,173	2,715,461
Total income (loss) for the period included under profit and loss with respect to held financial assets as of December 31, 2015	6,387	29,188	176,247	211,822

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

Note 5- Financial Instruments (Cont.)

B. Other financial investments

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

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

	As of March 31, 2015	
	Book value	Fair value
NIS in thousands	Unaudited	
Government bonds		
HETZ bonds and deposits with the Ministry of Finance	14,785,155	24,175,518
Other non-convertible debt assets	4,972,137	5,660,553
Deposits in banks	1,001,429	1,258,501
Total non-marketable debt assets	20,758,721	31,094,572
Impairment applied to income statement (cumulative)	70,553	

	As of December 31, 2015	
	Book value	Fair value
NIS in thousands	Audited	
Government bonds		
HETZ bonds and deposits with the Ministry of Finance	15,044,358	22,366,471
Other non-convertible debt assets	4,974,848	5,439,118
Deposits in banks	961,372	1,109,084
Total non-marketable debt assets	20,980,578	28,914,673
Impairment applied to income statement (cumulative)	86,207	

Note 5- Financial Instruments (Cont.)

B. Other financial investments (Cont.)

2. Additional information regarding fair value

A. Fair value of financial assets, classified by levels

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

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

	As of March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
NIS in thousands	**Unaudited**			
Financial investments:				
Marketable debt assets	6,087,339	266,675	-	6,354,014
Non-marketable debt assets	-	13,459	-	13,459
Stocks	1,007,489	-	79,115	1,086,604
Other financial investments *)	1,191,380	106,664	894,694	2,192,738
Total financial investments	8,286,208	386,798	973,809	9,646,815
*) Of which, with respect to derivatives	1,334	52,436	1,262	55,032

	As of December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
NIS in thousands	**Audited**			
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 5- Financial Instruments (Cont.)

B. Other financial investments (Cont.)

2. Additional information regarding fair value (Cont.)

B. Assets measured at fair value level 3

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

	Stocks	Other financial investments	Total
NIS in thousands		**Unaudited**	
As of January 1, 2015	6,190	791,748	797,938
Total recognized income:			
Under profit and loss	(33)	(7,216)	(7,249)
Under other comprehensive income	458	47,785	48,243
Acquisitions	72,500	93,131	165,631
Sales	-	(28,924)	(28,924)
Interest and dividend receipts	-	(1,830)	(1,830)
As of March 31, 2015	79,115	894,694	973,809
Total income (loss) for the period included under the income statement with respect to held financial assets as of March 31, 2015	-	(7,242)	(7,242)

Note 5- Financial Instruments (Cont.)

B. Other financial investments (Cont.)

2. Additional information regarding fair value (Cont.)

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

	Stocks	Other financial investments	Total
NIS in thousands		**Audited**	
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)
Interest and dividend receipts	(2,900)	(4,272)	(7,172)
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 held financial assets as of December 31, 2015	3,584	33,231	36,815

C. Financial liabilities

1. Composition and fair value:

	As of March 31				As of December 31	
	2016		2015		2015	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
NIS in thousands		**Unaudited**			**Audited**	
Liabilities to banking corporations and others:						
Total financial liabilities presented at amortized cost:						
Loans from banking corporations:						
The Company	**70,000**	**71,800**	130,000	138,317	70,000	71,800
Clal Credit and Finance	**18,309**	**18,342**	69,091	69,387	25,853	25,899
Total liabilities presented at amortized cost	**88,309**	**90,142**	199,091	207,704	95,853	97,699
Financial liabilities resented at fair value through profit and loss:						
Liabilities with respect to derivative financial instruments and short sales *)	**253,541**	**253,541**	143,992	143,992	247,356	247,356
Total liabilities to banking corporations and others	**341,850**	**343,683**	343,083	351,696	343,209	345,055
Deferred liability notes **)	**3,194,020**	**3,494,831**	2,704,170	3,089,718	3,219,656	3,519,275
*) Of which, with respect to investment-linked liabilities	**214,408**	**214,408**	118,063	118,063	196,983	196,983

**) For details regarding the exchange of deferred liability notes subsequent to the reporting period, see Note 8(c).

Note 5- Financial Instruments (Cont.)

C. Financial liabilities (Cont.)

2. Fair value of financial liabilities, classified by levels

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

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

	As of March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
NIS in thousands	**Unaudited**			
Derivatives	3,527	140,465	-	143,992
Total financial liabilities	3,527	140,465	-	143,992

	As of December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
NIS in thousands	**Audited**			
Derivatives	3,851	243,505	-	247,356
Total financial liabilities	3,851	243,505	-	247,356

D. Valuation techniques and valuation processes implemented in the Company

Non-marketable debt assets *)

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

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

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

Note 6 - Capital Management and Requirements

A. Capital management and requirements in the group

For details regarding the management of capital requirements in the Company, see sections c(3) and (4) below. As of the end of the reporting period, Clal Insurance achieved its target capital, as determined by the Board of Directors of Clal Insurance. Additionally, as of the end of the reporting period, managing companies under the control of Clal Insurance have a capital surplus relative to the minimum equity required pursuant to the Equity Regulations. For additional details, see Note 16(d) to the annual statements.

B. Capital requirements for insurance companies in the group

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

2. Details regarding capital requirements

Presented below are details pertaining to capital requirements in accordance with the Control of Insurance Business Regulations (Minimum Capital Required of Insurer), 5758-1998, including the amendments thereto (hereinafter: the "**Capital Regulations**"), and directives issued by the Commissioner which are applicable to consolidated companies that are insurance companies:

	As of March 31, 2016		As of December 31, 2015	
	Clal Insurance	Clal Credit Insurance	Clal Insurance	Clal Credit insurance
NIS in thousands	Unaudited		Audited	
Minimum capital:				
Amount required pursuant to the amended Capital Regulations 1)	**4,614,834**	**33,468**	**4,607,129**	**36,235**
Current amount as calculated pursuant to the Capital Regulations:				
Basic Tier 1 capital	**4,151,197**	**181,472**	**4,401,932**	**175,968**
Tier 2 subordinated capital 2)	**205,577**	**-**	**222,360**	**-**
Tier 2 hybrid capital	**2,449,950**	**-**	**2,600,322**	**-**
Tier 3 capital	**111,938**	**-**	**111,938**	**-**
Total Tier 2 and Tier 3 capital	**2,767,465**	**-**	**2,934,620**	**-**
Total current capital, calculated according to the Capital Regulations 3)	**6,918,662**	**181,472**	**7,336,552**	**175,968**
Surplus	**2,303,828**	**148,004**	**2,729,423**	**139,733**
Capital operations subsequent to the reporting date:				
Tier 2 subordinated capital	**-**	**-**	**(14,992)**	**-**
Surplus in consideration of operations which were performed subsequent to the reporting date	**2,303,828**	**148,004**	**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	**122,668**	**-**	**123,232**	**-**
Required capital reduction with respect to original difference	**204,688**	**-**	**205,329**	**-**
Tax reserve with respect to the acquisition of provident funds	**90,545**	**-**	**90,032**	**-**
Surplus in consideration of operations which were performed subsequent to the reporting date and after deducting tied-up surplus	**2,067,017**	**148,004**	**2,475,902**	**139,733**
1) Total required amount, including capital requirements with respect to:				
Non-life insurance operations / required Tier 1 capital	**573,638**	**29,522**	**577,724**	**29,792**
Long term care insurance operations	**105,693**	**-**	**106,447**	**-**
Extraordinary risks in life insurance	**419,571**	**-**	**419,001**	**-**
Deferred acquisition costs in life insurance and illness and hospitalization insurance	**1,301,918**	**-**	**1,297,140**	**-**
Requirements with respect to guaranteed return plans	**3,522**	**-**	**4,128**	**-**
Non-recognized assets, as defined in the Capital Regulations	**57,603**	**249**	**65,731**	**343**
Investment in consolidated insurance and managing companies (including acquired management operations)	**756,960**	**-**	**760,341**	**-**
Required capital reduction with respect to original difference	**(204,688)**	**-**	**(205,329)**	**-**
Capital required with respect to investments	**1,075,989**	**1,619**	**1,054,125**	**3,203**
Catastrophe risks in non-life insurance	**122,920**	**-**	**129,831**	**-**
Operational risks	**284,643**	**2,078**	**282,132**	**2,897**
Guarantees	**117,065**	**-**	**115,858**	**-**
Total required capital	**4,614,834**	**33,468**	**4,607,129**	**36,235**

2) Issued until December 31, 2009.

3) See section 3(b) below.

Note 6 - Capital Management and Requirements (Cont.)

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

3. Clal Insurance - 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 with additional directives published by the Commissioner from time to time, including the effect of the maximum limit regarding Tier 2 and Tier 3 capital (40%). Therefore, as of the reporting date, the amount of distributable dividends, without the Commissioner's approval, is restricted to a total of approximately NIS 825 million.

Further to that stated in Note 16(e)(3)(d) to the annual statements, the regulatory capital requirements applicable to the insurance companies in the group will be determined from the application date of a solvency regime system in Israel which will be based on the principles of the Solvency II Directive (hereinafter: the "**Solvency Regime**"), in accordance with the application terms that will be determined.

Instructions regarding the implementation of IQIS for 2015

Further to that stated in Note 16(e)(3)(d) to the annual statements, regarding the publication of a draft circular on March 14, 2016, "Instructions for the implementation of IQIS5 for 2015", on April 21, a draft circular was published on the subject of "Instructions for the implementation of IQIS for 2015" (hereinafter: the "**Circular**"), according to which, as part of the preparation for the implementation of a Solvency II-based solvency regime, the insurance companies are required to submit an additional quantitative impact study, based on the data for December 2015 ("IQIS5"), by August 7, 2016.

The draft was established by way of reference to European legislation, and includes additional adjustments for the local market, beyond those which were given within the framework of previous provisions regarding the implementation of quantitative impact studies. The changes primarily pertain to the stabilization of risk-free interest rate curves through extrapolation until the ultimate forward rate point, composition of recognized capital, reduced capital requirement with respect to investment in infrastructure (capital and debt), adjustment of capital requirements with respect to managing companies, and updates to the capital requirement calculation formula with respect to premium and reserve risk in non-life insurance. At this stage, the Company is unable to estimate the overall impact of the changes due to the circular, relative to previous directives, regarding the implementation of quantitative impact studies, and is working to evaluate the current capital status once in accordance with the provisions of the circular. The calculation of IQIS5, which constitutes the last quantitative study before the implementation of the new Solvency II-based solvency regime to replace the current solvency regime, will contribute to the preparedness of insurance companies and to the formulation of the final directives.

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 currently available indications, is expected to result in a significant decrease in the ratio between the recognized capital and the required capital of Clal Insurance (the "Capital Ratio"), as compared with the capital ratio according to the current capital governance. However, in general, the capital requirements in the solvency regime are intended to represent an absorption cushion for more severe events, with a lower probability, than the capital requirements under the current governance.

The Company - The balance of distributable earnings as of the reporting date, in accordance with the "profit test" in the Companies Law, and in accordance with the capital requirements in accordance with the permit for control of institutional entities which are held by the Company (which was canceled on May 8, 2014, as specified in section 4 below), amounted to a total of approximately NIS 1.5 billion. A dividend distribution in the Company will require taking into account the impacts which will result on the level of the institutional entities from the application of Solvency II, as described above, and is affected by the ability of investee companies to distribute dividends, in light of their capital requirements and liquidity requirements.

Note 6 - Capital Management and Requirements (Cont.)

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

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

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

   It was also reported that the permit stipulates conditions and restrictions concerning holdings and pledges in the control chain of institutional entities in the group, and the previous controlling shareholders were required to maintain the capital requirements of the Company, so long as pledges exist on their holdings in the means of control of IDB Holdings, such that the equity of the Company will be no less, at any time, than the multiple of the Company's holding in Clal Insurance by 140% of the minimum capital required of Clal Insurance, pursuant to the Capital Regulations, on September 30, 2005, as these existed at the time, and linked to the CPI for September 2005. As of the end of the reporting period, the minimum capital required of the Company, as specified above, amounted to approximately NIS 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 cushion is also evaluated with attention given to negative developments that may impact capital and the capital requirements.

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

   For details regarding the holding and control of the Company, and for details regarding the cancellation of the control permit, see Note 1 to the Company's annual statements for 2015.

   For details regarding the appointment of Mr. Moshe Terry as the trustee for the majority of IDB Development's holdings in the Company, regarding the Commissioner's letters dated November 27, 2013 and May 8, 2014 with respect to the control of the Company, and regarding undertakings which were given to the Commissioner by the Elsztain-Extra Group with respect to the control of the Company, in connection with the debt settlement in IDB Holdings, see Note 1(b)(2) to the Company's financial statements for 2015.

5. For details regarding the exchange of deferred liability notes, see Note 8(c).

6. For details regarding the extension of the validity of the shelf prospectus of Clalbit Finance until May 29, 2017, see Note 8(f).

Note 7 - Contingent Liabilities and Claims [2]

Presented below are details regarding claims which are not in the ordinary course of business, as follows: material claims[3] whose filing as class actions was approved; Pending motions to approve class action status for material claims; Material and immaterial class actions which concluded during the reporting year, until its signing date, other material claims 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, 5766 - 2006 (hereinafter: the "**Law**"), the multiplicity of lawsuits, and the approach of the courts, significantly increases the Company's potential exposure to losses with respect to rulings issued against the group's member companies in class actions which are filed against them.

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

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

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

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

In general, the process of evaluating a claim as a class action may include 4 stages: Stage A - Filing of the motion to recognize the claim as a class action in the first instance; Stage B - Appeal 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.

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

[3] It is noted that, in this note, a claim is considered material if the actual exposure amount, net of tax, assuming that the claim is found to be justified, and without addressing the claim's chances, may exceed approximately NIS 25 million, or where it is not estimable.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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, while others are in appeal proceedings.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	4/2008 Regional Labour Court of Jerusalem	Clal Insurance and additional insurance companies	The plaintiff contends that Clal Insurance determined, in a managers insurance policy, that the annuity factor which will be used for the payment of insurance benefits to female policyholders upon reaching retirement age, will be lower than that used for male policyholders, due to the longer life expectancy of women. However, on the other hand, Clal Insurance collected and continues to collect from female policyholders a risk premium which is identical to male policyholders, in spite of the fact that the mortality rates of women are lower than those of men. According to the plaintiffs, in 2001, or proximate thereto, Clal Insurance amended the policies; however, this amendment applied to new policies only.	To order that: A. The discrimination practiced by the defendant is in contravention of the law, and any provision in the policy and/or any action taken by virtue of such discrimination is hereby null and void. B. Allowing the class members to choose between: (1) Comparing the annuity factors for a female policyholder to a male policyholder, and, in case of a one-time payment instead of a pension, increasing it. (2) Reducing, retrospectively and prospectively, the risk premium amounts which were charged, where the amounts which will be reduced will be added to the accrual and savings amounts.	All women who acquired managers insurance policies from the defendant, in which a distinction was made between men and women regarding the pension payment, although a distinction was not made between the genders regarding the risk premium.	In August 2014, the Regional Labor Court of Jerusalem accepted the motion to approve class action status, while determining that the elements required to accept the motion at this preliminary stage of the hearing had been fulfilled.. The court emphasized that, at this stage, it is not hearing the claim on its own merits, and that from its perspective, it was not an "unfounded claim" for the purpose of approving the motion. In April 2015, the National Labor Court granted leave to appeal the decision to approve the claim as a class action, and a hearing on the case before a board was scheduled. In February 2016, a hearing was held in the National Labour Court, in which the Court stated that, in light of the circumstances of the matter, questions arise which have not been evaluated in depth by the Court, and which may have an impact regarding the cause of action and the approval thereof, regarding the reasonable chances of winning the claim, and regarding the most efficient and fair method of conducting the class action. In these circumstances, the court issued a decision according to which the position of the Insurance Commissioner is required, and also proposed that the parties speak between them in order to reach an agreement regarding a certain sum which will be paid to the plaintiff without the claims being recognized as a class action.	The plaintiff did not specify the damage amount which was caused to her, and in the absence of the data required to estimate the exact scope of damages, she estimated the total amount of damages caused to the class members as hundreds of millions of NIS.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	3/2010 District - Center	Clal Insurance	The plaintiff contends that Clal Insurance unlawfully and wrongfully took advantage of the Control of Financial Services (Provident Funds) Law, 5768 - 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 to allow him 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, 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 fixed-payment policy and a capital policy of Clal Insurance (whether of Clal Insurance or of another insurance company), and to whom, following the aforementioned amendment to the law, an annuity factor[4] was not guaranteed in the capital policy, or to whom an 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 provisions 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 provision 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.	The plaintiff estimates the number of the class members as 37,752 members, and accordingly, the monetary compensation to all of the class members is estimated as NIS 107 million, in each year.

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

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	4/2010 District - Center	Clal Insurance and additional insurance companies	The plaintiffs contend that in case of discontinuation of insurance during a certain month, after the insurance premium with respect to that month was collected by Clal Insurance in advance, Clal Insurance does not reimburse to policyholders the surplus relative share of the insurance premium with respect to that month, or alternatively, reimburses the insurance premium at nominal values only.	The reimbursement of the surplus premium amounts which were unlawfully collected from the class members and/or the reimbursement of unlawful revaluation differences, with the addition of duly calculated linkage differentials, as well as a mandamus order instructing the defendants to change their conduct.	Anyone who is and/or was a policyholder of one or more of the defendants, under any insurance policy, excluding a property insurance policy, or the inheritor of such a policyholder, where the insurance policy was discontinued for any reason, whether due to its cancellation by the policyholder, or due to the occurrence of the insurance event.	In June 2015, the Court issued a decision to dismiss the motion to approve against all of the defendants with respect to the primary claims, including: (A) proportional reimbursement of premiums should be performed in case of the occurrence of the insurance event; (B) proportional reimbursement of premiums should be performed in case of cancellation of the policy, where the wording of the policy does not stipulate section 10 of the Insurance Contract Law, 5741 - 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, 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. The motion to approve the claim as a class action was accepted 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.	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 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
4.	6/2011 District - Center	Clal Insurance, against a consolidated company of Clal Insurance - Clal Health, and against 8 additional insurance companies	According to the plaintiffs, in cases of expiration of a lien which is imposed at the request of a third party, on insurance benefits or compensation which is owed to a policyholder or injured party, he defendants' practice is to pay the policyholders the insurance benefits at their nominal values, and without conducting any revaluation whatsoever, or, in certain cases, with the addition of linkage differentials only. The plaintiffs further claim that the defendants allegedly withhold, in some cases, payment due to an incorrect belief that a restriction applies to their payment.	To order the defendants to repay to the class members all of the interest which they earned by virtue of their holding of the withheld insurance benefits (or other funds) or the interest and linkage differences with respect to the holding of such funds throughout the entire withholding period of the funds, according to the higher rate of the two, with the addition of linkage differentials and interest; To order the defendants to pay other special compensation, in the Court's discretion; To declare that the defendants are required to pay insurance benefits or damages to the injured parties, duly revaluated as of the date of actual payment, where such compensation was paid after the required date, regardless of whether or not the delay was implemented lawfully or unlawfully; To order the defendants to establish internal policies on all matters associated with liens or approval of "notices to holders", in order to ensure that funds of policyholders or other payables are not unlawfully withheld by insurers.	The policyholders of the defendants and injured parties who sued them by virtue of section 68 of the Insurance Contract Law, 5741-1981, 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 February 2012, the plaintiffs announced that the hearing of the Motion would be conducted on the basis of the assumption that the withholding of the class members' funds was lawfully performed. 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 is not transferred in their entirety to the class members. Negotiations towards a settlement are being conducted between the parties.	The total amount of damage claimed against Clal Insurance was estimated by an expert representing the plaintiffs at approximately NIS 69 million, while the amount claimed against Clal Health was estimated at approximately NIS 7 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

A1. Material claims for which class action status was approved

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	5/2013 District - Tel Aviv	Clal Insurance and additional insurance companies	The plaintiff contends that Clal Insurance breaches its obligation to attach linked interest and duly calculated linkage differentials, with respect to the insurance benefits which it pays. According to the claim, the date from which the interest and linkage differentials should be calculated is beginning on the date of the occurrence of the insurance event, until the actual payment date. Alternatively, linkage differentials should be paid from the date of the occurrence of the insurance event until the actual payment date, as well as interest starting 30 days after the filing date of the claim, until the actual payment date of the insurance benefits.	To order Clal Insurance to pay to the class members linkage differentials and interest with respect to the underpayment which was performed. Additionally, and/or alternatively, the Court is requested to order the provision of compensation in favor of the public, in its discretion.	Any person who received, during the 7 years prior to the filing of the claim and/or who will receive, until a ruling has been given on the claim, insurance benefits from Clal Insurance, to which duly calculated interest (the "**First Class**") and duly calculated linkage differentials (the "**Second Class**") were not added.	In August 2015, the District Court decided to dismiss the motion to approve against the defendants, regarding the claim of non-payment of linkage differentials, and to accept the motion to approve against the defendants with respect to the claim regarding the underpayment of interest on insurance benefits, and it was determined that the entitled class members include any policyholder, beneficiary or third party who, during the period from three years prior to the filing of the claim, until the date of the claim's approval as a class action, received from the defendants, and not through any ruling which was given between them, insurance benefits to which duly calculated interest was not added, within 30 days after the date of submission of the claim to the insurer (and not from the date of submission of the last document required by the insurer to evaluate the liability), until the actual payment date. In October 2015, the respondents filed a motion for leave to appeal with the Supreme Court (the "Motion for Leave to Appeal"), 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. The respondents clarified that they reserve the right to appeal the other determinations which were given in the decision of the District Court at the end of the proceeding. In November 2015, the Court gave a decision stating that the Motion for Leave to Appeal requires a reply. In February 2016, the Supreme Court issued a stay of proceedings regarding the hearing of the claim in the District Court, until a determination has been reached regarding the motion for leave to appeal, and ordered a hearing on the motion for leave to appeal before a panel of three judges.	The plaintiff estimates the cumulative amount for the first class in the amount of NIS 518 million (if it is ruled that the interest should be calculated beginning from the date of the occurrence of the insurance event), and in the amount of NIS 210 million (if it is ruled that the interest should be calculated beginning from 30 days after the date of the claim's submission to the insurance company). The plaintiff estimates the cumulative amount for the second class, with respect to linkage differentials, in an additional amount of NIS 490 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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
1.	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. The proceedings are currently in the stage involving an evaluation of the motion 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 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	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), 5758-1998 (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.	Any person who was entitled to receive, beginning on April 1, 2004, insurance benefits from the defendant with respect to damage to a private or commercial vehicle weighing up to 4 tons, including due to total loss, constructive total loss, or theft during the period when they were insured by the defendant in a policy prepared in accordance with Chapter A of the Standard Policy, in whole or in part, and did not receive all and/or part of the insurance benefits with respect to the loss or damage caused to said protective components.	In July 2012, a settlement arrangement was filed with the Court which had been signed between the plaintiff (and additional plaintiffs in other claims which were being heard collectively along with the claim) and Clal Insurance (and other insurance companies the claims against which were being collectively heard), along with a motion to approve the settlement arrangement. The settlement arrangement does not specify an amount, but rather 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. Following the position of the Attorney General of Israel, the Court's decision, and the supplementary opinion of the examiner, in May 2016 the Company filed, together with additional insurance companies, an amended settlement agreement which includes several changes, which pertain, inter alia, to the method for performance of the repayment, and to the amounts which will be paid within the framework of the settlement agreement, including regarding the increase of the minimum payment amount which Clal Insurance will be required to pay as part of the settlement agreement, and which will be donated to public causes if it is not actually repaid 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 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	4/2010 District - Center	Clal Insurance and 3 additional insurance companies	The plaintiff contends that the defendant breaches its obligations and does not act to identify policyholders and beneficiaries and to repay funds which are held by it and are unclaimed, 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 September 2012, the position of the Attorney General of Israel was filed, in which he clarified that, in light of the new arrangement which was published on the matter, and from its commencement date, a previous arrangement which had been determined on the matter was canceled, and the remedy requested by the plaintiff, according to which the Court should order the defendants to establish a separate fund for monies which were not demanded, contracts the provisions of the new arrangement. In February 2016, a settlement arrangement and a motion to approve it were filed with the District Court (hereinafter: the "**Settlement Arrangement**") according to which the defendants undertake to take certain actions to locate the class 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. Approval of the settlement agreement, subject to the approval of the Court, the issuance of which is uncertain.	The plaintiff is unable to estimate the amount of the claim.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
4.	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 their 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, when the current claim was filed, the Court 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, according to which a mechanism was established for reimbursement to the class members who are holders of life insurance policies combined with savings which were issued until 2004, in which the savings amount was derived from the routine provisions of the policyholder (or on his behalf) and from the earnings gained thereupon, which were not predetermined, from which the policy factor was collected during for the period beginning on April 4, 2004. According to the settlement arrangement, the reimbursement which will be paid by Clal Insurance to the class members with respect to the policies which are the subject of the settlement, with respect to the past period, will amount to a total of NIS 26.5 million. It was also agreed, with respect to the future collection of the policy factor component, that the policy factor amount charged by Clal Insurance will be reduced, at a rate of 25% of the collection amount which would have actually been collected without the reduction. An agreement was also reached, within the framework of the settlement arrangement, regarding the payment of professional fees to the plaintiff and to his legal counsel, at a rate of 8% of the total remedy for the class members (hereinafter: the "Settlement Arrangement").	The plaintiffs' claim pertains to the policy factor which was collected from them from 2004. According to various estimates and assumptions which were made by the plaintiffs with respect to the collection of the policy factor in the last seven years during the seven years preceding the filing date of the claim by the defendants, and the relevant annual returns, the amount claimed for the class members, against all of the defendants, was estimated by the plaintiffs as a nominal total of approximately NIS 2,325 million. Out of this amount, a total of approximately NIS 661.9 million is attributed to Clal Insurance, according to its alleged market share.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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. (Cont.)						In June 2015, the Court decided that the settlement arrangement was not dismissed in limine, and appointed an expert on behalf of the Court in the role of examiner. In September 2015, the examiner filed his opinion regarding the settlement arrangement, in which the examiner recommended to increase the benefit to the class members whose policies will be settled until the “effective date” (the date of the court’s approval of the settlement agreement). The above is implemented, inter alia, by increasing the proposed amount (in an amount which was not specified in the opinion), or by scheduling for earlier the effective date which confers eligibility, under the settlement agreement, to the class members, for a discount in the collection of the factor, at a rate of 25% of the collected amount (hereinafter: the “**Examiner’s Opinion**”). In September 2015, an objection to the settlement arrangement was filed. In October 2015, a court hearing was held regarding the settlement arrangement, in which the Court clarified its initial position, after reading the examiner’s opinion, according to which it clearly tends towards not approving the settlement arrangement if left unchanged, in light of the significant difference between the proposed settlement, and an appropriate settlement in its opinion. The judge offered the parties to consider agreeing to changes in the agreement, regarding which, if accepted by the parties - the agreement will be approved. In accordance with the Court’s decision, in February 2016, the Attorney General filed his position, according to which, in his opinion, the settlement arrangement, in its current version, should not be approved. In general, the Attorney General agrees with the main points of the examiner’s opinion, subject to certain changes, and believes, inter alia, that there is difficulty with respect to the determination according to which the defendants will continue collecting the policy factor in the future (while providing a discount), due to the inherent representative problem in class actions, and accordingly, the difficulty in obtaining agreement, in advance, from a class action plaintiff, to waive future causes of action of the class members. On this matter, the Attorney General requests to leave the question of continued collection to the discretion of the Court.	

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	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, 5758 - 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 from the motions to approve (hereinafter: the "**Motion to Withdraw**"), in which the Court was requested to approve the motion to withdraw, and to rule significant damages for the petitioners, and significant fees their legal counsel. The motion to withdraw is subject to the approval of the Court.	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.
6.	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 5 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 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
7.	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. Accordingly, 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 December 2015, the Court appointed an examiner for the settlement agreement. The settlement agreement is subject to the approval of the Court, and there is no certainty that such approval will be received, nor that the suspensory conditions will be fulfilled.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 120 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
8.	4/2013 District - Tel Aviv	Clal Insurance	According to the plaintiff, whose deceased wife (the "**Policyholder**") was insured under the long term care policy for members of Maccabi Health Services, despite the fact that those insured under long term care insurance policies are entitled to receive compensation beginning from the date when they began requiring long term care, according to the position of Clal Insurance, the eligibility for compensation began on the date when a nurse visited the policyholder's home, examined him, and determined that he is indeed a patient requiring long term care. Additionally, according to the plaintiff, there is eligibility to receive long term care benefits during the waiting period as well.	To order Clal Insurance to ask the policyholder for the date on which he began requiring long term care; To pay to the class members insurance benefits with respect to the entire period when they required long term care, and did not receive compensation; To repay to the class members any monthly premiums which were paid by them, beginning on the date when they began requiring long term care, until the date when they began receiving compensation, including (but not limited to) any premiums which were paid during the waiting period; To provide any additional and/or other remedy considered appropriate and worthy by the Court, in light of the circumstances.	Holders of Clal Insurance long term care insurance policies in the last 7 years to whom the insurance event occurred, and who began receiving compensation on a date later than the date when they began requiring long term care and/or when they became policyholders of Clal Insurance, but who paid monthly premiums after the insurance event occurred, including but not limited to during the waiting period.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of the class action claimed by the plaintiff, is NIS 215.3 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
9.	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, 5741 - 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. It is noted that, at this stage, there is no certainty regarding the Court's decision on the Motion, and the proceedings are currently in the stage involving 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 473.8 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
10.	2/2014 District - Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance abuses the fact that the policyholder does not pay, for a certain period, the savings component in a life insurance policy which includes a savings component and a risk component, and fundamentally and grossly violates the policy terms by implementing unilateral changes to the policy (shortening the policy period, changing the insurance commencement date and increasing the policyholder's age at the start of insurance coverage), which leads to an unlawful increase in the real premium cost, although the premium for the risk component in the policy has been paid in full. According to the plaintiff, Clal Insurance thereby causes policyholders to incur damages in significant amounts.	To order Clal Insurance to pay the excess premium amounts which it collected by first moving the insurance commencement date until the date when the claim was approved as a class action, with the addition of the maximum linkage differentials and interest permitted by law. To receive an order prohibiting Clal Insurance from continuing its collection of premiums at rates higher than the rate specified in the policy. Alternatively, to order Clal Insurance to pay an appropriate and adequate amount in favor of the entire public, in an amount equal to the collection fees which were collected and not reimbursed to the payer, with the addition of duly calculated linkage differentials and interest.	Any person who obtained and/or who was insured by a life insurance policy, and who did not pay the savings component in this policy in its entirety, from the policy preparation date until the date of entitlement for a monthly annuity according to the policy, and from whom premiums were unlawfully overcollected, due to the change in the insurance commencement date.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 20 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
11.	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. 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 against Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 97 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
12.	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 March 2016, the position of the Commissioner of Insurance was requested by the Court. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate that the management fees which were unlawfully collected by the defendants from current pensioners amount to NIS 48 million, that the management fees which will be unlawfully collected in the future from current pensioners amount to NIS 152 million, and that the management fees which will be unlawfully collected in the future by the defendants from future pensioners, with respect to accrual which was performed until now, amount to NIS 2,800 million. The aforementioned amounts are claimed with respect to all of the defendants.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
13.	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.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total claim amount was estimated by the plaintiff in the amount of approximately NIS 26 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	**Date and instance**	**Defendants**	**Main claims and causes of action**	**Main remedies**	**Represented class**	**Status / additional details**	**Claim amount**
14.	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 agreed to conduct mediation proceedings between them.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 70 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
15.	11/2014 District - Economic Department of Tel Aviv	Bank of Jerusalem ltd. (hereinafter: "**Bank of Jerusalem**") and several additional defendants who served as directors in Clal Finance Batucha Investment Management Ltd. ("**Clal Batucha**") from 2007 until the sale of Clal Batucha to Bank of Jerusalem in December 2013[5].	The plaintiff contends that Clal Batucha, which merged with and into Bank of Jerusalem, in its function as portfolio manager, performed, on behalf of its customers, transactions with securities of member companies in the IDB Group, in a manner which gave preference to its interests and to the interests of various member companies of the IDB Group over the interests of its customers. The plaintiff contends that Clal Batucha breached the provisions of the law, including the provisions of the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 5755-1995, which involves the duty of loyalty which applies to Clal Batucha towards its customers, its obligation to inform its customers regarding any conflict of interests which it has regarding 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.	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 amount amounts to a total of approximately NIS 18,624. According to the statement of claim, the damage claimed for all class members cannot be estimated at this stage.

[5] Clal Finance Ltd. 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, according to which Clal Finance, a wholly owned subsidiary of the Company, has an undertaking to indemnify, which the Company accepted upon itself, as specified in Notes 27(b)(1) and 27(b)(2) to the annual 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. Additionally, some of the directors who served in Clal Batucha during the period when it was controlled by the Company and defendants in the claim hold letters of indemnity towards the Company and/or Clal Finance and/or Clal Batucha.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
16.	1/2015 District - Economic Department in Tel Aviv	Harel Pia Mutual Funds Ltd. (hereinafter: "**Harel Pia**") and against additional defendants which are management 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**")[6]	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 effectively 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, 5754-1994 (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 is 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.

[6]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(b)(1)(a) to the annual statements, the Company accepted upon itself an undertaking to indemnify Harel within the framework of a capital reduction in Clal Finance, see Note 27(b)(1) to the annual statements. The aforementioned undertaking to indemnify may be activated if and insofar as Harel Pia owes funds by law, in connection with the aforementioned claim, and subject to the terms of the agreement between the parties.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
17.	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.
18.	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.	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, 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 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
19.	5/2015 District - Jerusalem	Clal Insurance	According to the plaintiff, after many 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.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 90 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
20.	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, 5761 - 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.	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 against Clal Insurance amounts, in the plaintiff’s estimate, to a total of over NIS 2.5 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
21.	6/2015 District - Center	Clal Insurance and an additional company	The plaintiff contends that Clal Insurance collects insurance premiums which include a "risk addition" or "professional addition" or another addition pertaining to the risk which is due to the nature of the policyholders' work (hereinafter: the "**Risk Addition**"), also during periods when the policyholders are not employed.	To order Clal Insurance to reimburse to the class members the premium differentials which were overcollected, with the addition of linkage differentials and interest, and to order it to refrain from collecting the risk addition in the future.	Anyone who paid to the defendants, during the seven years which preceded the date of filing of the motion to approve, until the date of its approval as a class action, premiums with respect to insurance coverage (including but not limited to loss of working capacity and life and/or risk insurance), with respect to the period during which the policyholder did not actually work, and from whom Clal Insurance collected a premium which included a risk addition.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiff's personal claim against Clal Insurance amounts to NIS 1,067. the plaintiff estimates the damage incurred by all class members as many millions of NIS.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
22.	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.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	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.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
23.	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 alleges 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.	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.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
24.	8/2015 District - Tel Aviv	Clal Insurance	According to the plaintiff, for the purpose of determining the occurrence of a long term care insurance event, Clal Insurance applies a method of evaluation which separates the activities of daily living, 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 activities, to order Clal Insurance to pay financial compensation and remedies, at a rate which will be determined, to each one of the class members whose entitlement to the aforementioned compensation or remedy was proven, and to order the provision of any other remedy in favor of the class (in whole or in part), or in favor of the public, in its discretion, in light of the applicable circumstances.	The group of holders of Clal Insurance long term care insurance policies.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The damage caused, according to the plaintiff, to the class members, is estimated in the amount of NIS 75.6 million, half of which includes insurance benefit damages over 3 years, and half due to emotional distress damages over 7 years.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
25.	9/2015 Regional Labour Court of Tel Aviv	Clal Insurance	The plaintiff contends that, in a motion to approve the claim as a class action, and in the answer to the defendant's response, Clal Insurance performed an incorrect, faulty and deficient calculation of the interest and linkage applicable to the amounts which are 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.	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.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
26.	9/2015 District - Center	Clal Insurance and four other insurance companies	The plaintiffs contend that Clal Insurance, when giving points for the “continence” action, as part of the evaluation of insurance benefits in long term care policies, adopted an interpretation according to which, in order to recognize a policyholder’s claim with respect to “incontinence”, the condition must result from a urological or gastroenterological illness or impairment only, instead of giving points also when the policyholder’s medical condition and impaired functioning which have caused his “incontinence”, may be due to an illness, accident or health impairment which are not urological or gastroenterological in nature.	To order the defendants to compensate the class members for all damages which they incurred due to their alleged beaches of the agreement, and to fulfill the agreement from this point forward, or alternatively, to order the provision of any other remedy considered appropriate by the Court, in light of the applicable circumstances.	Any person who held a long term care insurance policy which was sold by the defendants (or his inheritors, as applicable), and who suffered from a health condition and impaired functioning as a result of an illness or accident or health condition, which caused them to be incontinent and/or to require the permanent use of a stoma or catheter in the bladder, or diapers or absorbent pads of various kinds, and notwithstanding the foregoing, who did not receive from the defendants (as applicable) points with respect to the “continence” component, in a manner which injured his rights.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs contend that the damage cannot be estimated at this stage, but estimate it at tens or even hundreds of millions of NIS. The personal damage claimed by the plaintiff from Clal Insurance, as alleged, amounts to a total of approximately NIS 32,500 (without linkage differentials and interest).

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
27.	9/2015 District - Tel Aviv	Clal Pension and Provident Funds Ltd. and four additional companies which are manage 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.
28.	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 April 2016, the class action plaintiff notified the Court of his consent to the striking out of the claim (the "Strike Out Notice"). The strike out notice is subject to the approval of the Court.	The petitioner estimates the damage incurred by the class at a total of NIS 90 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
29.	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.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
30.	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 decreased during the year.	To order the defendants to change the method used to calculate the sub-annual installments component, in a manner whereby it will be calculated in consideration of the actual premium payment dates, and in consideration of the reduction of the annual premiums for each payment. To reimburse to the class members the amounts of the sub-annual installments component which were overcollected from them, beginning on the date when the sub-annual installments component was charged to the policyholders, until a ruling has been given on the claim, or alternatively, in the seven years prior to the plaintiff's claim, until a ruling has been given on the claim. Alternatively, the plaintiff is petitioning for the issuance of a declaratory ruling, according to which the method used by Clal Insurance to calculate the sub-annual installments component is illegal, or for the issuance of another declaratory ruling considered appropriate by the Court, in light of the circumstances.	Holders of life insurance policies which were issued beginning on August 1, 1982, and in which a sub-annual installments component was collected, where the premium is paid in installments throughout the year.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members, in the plaintiffs' estimate, amounts to a total of no less than NIS 50 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
31.	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 41D2 of the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 5724 - 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 persons who were members of the pension funds and provident funds which were managed by the defendants during the period from January 1, 2009 to July 4, 2012.	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[7].
32.	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.

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

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
33.	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.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	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 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
34.	2/2016 District - Tel Aviv	The Company and the Company's directors[8].	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.	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 March 2016, the Commissioner filed her response to the motion for an injunction, in which the Court was requested to summarily dismiss the motion for an injunction due to a lack of material jurisdiction, or alternatively, to dismiss it on the merits, for various reasons. In the response, 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.	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.

[8] It is noted that directors in the Company have letters of indemnity from the Company.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
34. (Cont.)	2/2016 District - Tel Aviv	The Company and the Company's directors[9].	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, 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.			In May 2016, a hearing was held in Court, in which the plaintiff was given a period of 45 days to announce whether he wishes to withdraw the motion for a temporary injunction, in which case it will be struck out without expenses being ordered, or whether he insists on continuing to conduct the motion, in which case the respondents will be given the opportunity to respond to the proceedings (insofar as they have not done so until now), and to file motions, in their discretion. Additionally, it was determined, in accordance with the Court's decision, that due to the fact that issues arose in the hearing which have the potential to justify an attempt at additional negotiations between all of the parties which are involved in the search for a different outline than the current one, during this period, it would be appropriate for the parties to exhaust the period of time which was given to the petitioner, as stated above, and notify the Court regarding their position with respect to an additional outline, in accordance with the positions and proposals which were raised by the respondents in the hearing. For details regarding the Commissioner's letters to the trustee which were sent subsequently regarding the outline for the sale of the means of control of Clal Group, see Note 1(b)(3) above.	

[9]It is noted that directors in the Company have letters of indemnity from the Company.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
35.	2/2016 District - Tel Aviv	Clal Insurance	The claim involves the manner by which Clal Insurance gives points with respect to the ADL activity “continence” and the ADL activity “mobility”, in claim settlement in long term care insurance. According to the plaintiff,. for the purpose of determining the eligibility to long term care benefits, Clal Insurance unilaterally determined, without approval from the Insurance Commissioner, with respect to the “continence” activity, that a policyholder who is incontinent at a frequency of once every two days or less, is considered independently continent, and that only a policyholder who suffers from leakage of urine or feces on a daily basis, and who requires full assistance regarding the handling of waste, will be entitled to receive long term care assistance. Additionally, with respect to the “mobility” activity, the plaintiff contends that Clal Insurance unilaterally determined, for the purpose of determining the eligibility for long term care insurance benefits, that a policyholder who is capable of moving from one room to another in his house is allegedly considered as a person with the independent ability to move from place to place, despite the fact that, according to the plaintiff, he is unable to perform the activity of independently leaving his house.	To order Clal Insurance to pay the entire insurance benefits, plus duly calculated interest and linkage.	All policyholders of Clal Insurance who, during the 7 years before the filing date of the motion, submitted a request for entitlement to long term care insurance benefits, based on the claim of inability to perform at least 3 ADL activities according to the insurance policy, and who were rejected by Clal Insurance due to the erroneous phrasing in the definition of any of the aforementioned activities, where had not it not been for those definitions, they would have been entitled to receive insurance benefits.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The damage claimed for all of the class members was estimated by the plaintiff in the amount of approximately NIS 36 million.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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.	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, the District Court gave a ruling in which it dismissed the motions to approve.	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").

Note 7 - 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
2.	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 Ltd.[10]	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 held, during part of the period which is relevant to the claim, control of Clal Batucha, hereinafter: **Clal Mutual Funds Management**") as the manager of the mutual funds, to pay 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 performs on its behalf, as a member 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 contend that the continued collection of the aforementioned high fee is due to various agreements which Clal Finance Batucha reached with Discount Bank, within the framework of the sale of control in Clal Funds Management.	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 Finance 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.

[10]Clal Finance Ltd. 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, according to which Clal Finance, a wholly owned subsidiary of the Company, has an undertaking to indemnify, which the Company accepted upon itself, as specified in Notes 27(b)(1) and 27(b)(2) to the annual statements. The aforementioned undertaking to indemnify may be activated if and insofar as Bank of Jerusalem owes funds by law in connection with the aforementioned claim, and subject to the terms of the agreement between the parties.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

1. In addition to the material class actions which are described in Note 7(a)(a1), the pending motions for the approval of class action status for material claims, as described in Note 7(a)(a2), and the motions to approve class action status for material claims which were withdrawn during the reporting year, as described in Note 7(a)(a3), there are pending against the Company and/or its subsidiaries motions to approve class actions which are immaterial, and regarding which a detailed description was therefore not included in the financial statements. As of the reporting date, 8 claims of this kind are being conducted against the Company and/or its subsidiaries, where the total amount specified by the plaintiffs in the aforementioned claims amounts to approximately NIS 89.5 million[11].

2. In addition to the aforementioned legal proceedings, there also exists potential exposure, 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 with customers 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. Along with the aforementioned considerations, in January 2015, an amendment to the Control of Financial Services (Insurance) Law, 5741 - 1981, entered into effect, which reflects a significant reform regarding the approval of insurance plans, and additionally, in February 2015, an insurance plan and provident fund regulations implementation circular was published, in which a policy was established regarding the submission of notice concerning a new insurance plan or regulations or changes therein, and in April 2015, an insurance circular was published on the subject of "Instructions regarding the phrasing of insurance plans", as well as a position paper on the subject of principles for the phrasing of insurance plans which include additional instructions which are to be included in insurance plans, and additional instructions which are not to be included in those insurance plans, and additionally, the exceptions which may be included in insurance policies were reduced, relative to the prior situation (hereinafter: the "**Insurance Plan Reform**"). The insurance plan reform 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.

[11] Including 2 claims in which the plaintiffs did not specify the claim amount. For additional information regarding all class actions, see section 7(c) below.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

2. (Cont.)

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 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 Finance Services Regulations (Provident Funds) (Payments to Provident Funds), 5774-2014 (the “Payment Regulations”), in general, and the update to the fund collection and intake interface in particular, are expected, in the short term, to increase the aforementioned complexity, although in the long term, they are expected to reduce it.

Additionally, further to the provisions of the Commissioner’s circular from November 2012, regarding the optimization of data regarding members’ rights, the institutional entities in the group are currently involved in a comprehensive data optimization process with respect to the systems in the long term savings segment, which is expected to continue into 2016 as well. The institutional entities in the group performed certain provisions in their financial statements, as required, however, at this stage, the member companies in the group are unable to estimate the total scope and costs involved in the aforementioned handling and data cleansing procedures, nor their implications, including with respect to their past activities.

The exposure to unfiled claims against 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.

Note 7 - Contingent Liabilities and Claims (Cont.)

A. Class action claims (Cont.)

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

2. (Cont.)

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 which are published by the Commissioner. For additional details regarding industry-wide determinations and position papers, see section D below.

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 to an industry-wide determination, 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 in the event that a class action of this kind is filed.

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

Clal Insurance engaged, from January 2004 to June 2013, with the 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 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B2. Material derivative claims

A derivative claim is a claim which is filed in accordance with the provisions of the Companies Law, 5759-1999 (hereinafter: the “Companies Law”), on behalf of a shareholder or a director in a company, and in certain circumstances, on behalf of a creditor of the Company. The claim was filed on behalf of the Company, due to a cause of action of the Company, after the plaintiff’s request towards the Company to exhaust its rights was rejected, or was not accepted, in a manner which entitles him to file a derivative claim in accordance with the provisions of the Companies Law; A derivative claim requires approval from the Court, which will approve it if it is convinced that the claim and the management thereof are, prima facie, in the Company’s best interest, and that the plaintiff is not acting in bad faith. In accordance with the provisions of the Companies Law, the plaintiff will not withdraw a derivative claim, and will not implement an arrangement or settlement with the defendant without the approval of the Court; A motion to approve an arrangement or settlement will include specification of all details thereof, including any consideration offered to the plaintiff.

Note 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B2. Material derivative claims (Cont.)

<table>
<tr><th>Serial number</th><th>Date and instance</th><th>Defendants</th><th>Main claims and causes of action</th><th>Main remedies</th><th>Status / additional details</th><th>Claim amount</th></tr>
<tr><td>1.</td><td>2/2014

District - Economic Department, Tel Aviv</td><td>Clal Insurance, four additional insurance companies, and Clalit Health Services (hereinafter: "Clalit")[12]</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 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 of liabilities 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 absorb themselves the materialization of the risk with respect to the insurance event, while passing on the risk to the health funds, and thereby allegedly performing unjust enrichment.</td><td rowspan="2">Exercise of the health funds' participation right towards the insurance companies, while requiring each of the insurance companies to pay to the health funds at least half of the payments which the health funds paid for the purpose of covering the expenses which were paid by them in the additional health services plans, both with respect to the component involving surgery and choice of surgeon in Israel, and with respect to the component involving medical advice, during the seven years preceding the filing date of the motion, and in cases where, the policyholders of the health funds have commercial health insurance, which provides them insurance coverage with respect to those components.</td><td rowspan="2">In July 2015, following the Court's decision that a member of an Ottoman association may file a motion to approve a derivative claim on behalf of the association, Maccabi and Clalit health funds filed a motion for leave to appeal the decision to the Supreme Court, and in October 2015, the Company and the insurance companies joined the motion for leave to appeal. In accordance with the Court's decision, the Attorney General of Israel filed, in March 2016, a position regarding the main issues raised in the claim, which supported the position of the defendants. Inter alia, it was determined that the plaintiffs are not entitled to file a derivative claim on behalf of the health funds, and therefore, there is no reason to hear the motion on the merits.</td><td rowspan="2">With respect to the general claim, the plaintiffs estimate the claim amount against all of the insurance companies at a total of approximately NIS 3.5 billion, plus interest and linkage. The petitioner has not specified a part of his claim amount with respect to Clal Insurance, however, he has stated that according to the data of the Division of Capital Markets, Insurance and Savings in the Ministry of Finance, as of the end of 2011, the market share of Clal Insurance is 14% of the total market share of the insurance companies in the branch, where the total market share of the defendant insurance companies is 98%.</td></tr>
<tr><td>2.</td><td>3/2014

District - Economic Department, Tel Aviv</td><td>Clal Insurance, four additional insurance companies, and Maccabi Health Services (hereinafter: "Maccabi")[13]</td></tr>
</table>

[12] 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 consolidated letter of claim regarding the motions and the claims.

[13] See note 12 above.

Note 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B2. Material derivative claims (Cont.)

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

Note 7 - Contingent Liabilities and Claims (Cont.)

B. Material claims and derivative claims (Cont.)

B3. Immaterial derivative claims

Serial number	**Date and instance**	**Defendants**	**Main claims and causes of action**	**Status / additional details**	**Claim amount**
1.	1/2014 District - Tel Aviv	DIC, directors and corporate officers of DIC, and against 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**").	Claim regarding an unlawful dividend distribution by DIC.	In December 2014, the Court hearing the debt settlement of IDB Development accepted the motion of Eduardo Elsztain and Mordechai Ben-Moshe and corporations under their control, and issued an anti-suit injunction estopping the entities which filed the motion from conducting derivative claim proceedings, as stated above, against IDB Development and against the additional respondents (including the Company and Clal Finance) regarding the motion to approve, with respect to the aforementioned dividend distributions. In February 2015, the entities which had filed the motion filed an appeal with the Supreme Court against the aforementioned anti-suit injunction. Additionally, the Central District Court decided to accept the motion of the petitioners to say the proceedings which are being conducted regarding the derivative claim, until a determination has been reached regarding the aforementioned appeal.	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).

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

Note 7 - Contingent Liabilities and Claims (Cont.)

C. Summary details regarding exposure to claims

Presented below are details concerning the total amount claimed in class action suits, both material and immaterial, which were approved for filing as class actions, in pending motions to approve claims as class actions, in pending motions to approve derivative claims and other materials claims, as specified by the plaintiffs in their claims (nominally) within the framework of the statements of claim which were filed against companies in the group. It is noted that in most of the cases the amount claimed by the plaintiffs is an estimated amount only, and that the exact amount will be decided within the framework of the legal proceedings. It is noted that the above amount does not include claims for which the representative plaintiff has not stated an amount. Furthermore, it is hereby clarified that the claimed amount does not necessarily constitute quantification of the Company's actual exposure amount, which may eventually turn out to be lower or higher[15].

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	2	1,084
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 [16]	1	-
4. An annual amount has been specified (and accordingly, the total amount is period-dependent)	1	107 [17]
B. Pending motions to approve claims as class actions		
1. An amount referring to the Company was presented	27	4,877
2. The claim was filed against a number of entities, with no specific amount attributed to the Company	8	5,981
3. Claim amount not presented [18]	8	-
C. Other material 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. Claim amount not presented	-	-
D. Derivative claims		
1. An amount referring to the Company was presented	-	-
2. The claim was filed against a number of entities, with no specific amount attributed to the Company	3	5,276
3. Claim amount not presented	-	-

In addition to the details provided in Notes 7(a) and 7(b) above, the Company and/or the consolidated companies are party to additional legal proceedings, which are not in the ordinary course of business and which are not material claims, which were initiated by customers, former customers and various third parties for a total sum of approximately NIS 65 million. The causes of action against the Company and/or the consolidated companies within the framework of the aforementioned proceedings are varied and multiple.

[15] It should further be noted that the specified amounts do not include amounts which were demanded by the plaintiffs with respect to compensation to the class action plaintiff, and legal fees for his representative.
[16] The plaintiff did not specify a claim amount in the motion, although he estimated it as hundreds of millions of NIS.
[17] The specified amount refers to one year only.
[18] These motions include two motions: one motion in which the plaintiff did not specify the claim amount, but estimated it as many millions of NIS, and a second motion which was estimated at many millions of NIS.

Note 7 - Contingent Liabilities and Claims (Cont.)

D. Exposure due to regulatory provisions and position papers

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

The institutional entities in the group are evaluating the need to perform provisions in the financial statements, in connection with the aforementioned alerts, based on the opinion of their legal counsel and/or are currently evaluating the alerts, as required and as appropriate. Additionally, during the reporting period, financial sanctions were imposed on Clal Insurance and Clal Pension and Provident Funds, each in immaterial amounts. Presented below are details regarding the Commissioner's position or determinations in principle which have or may have an impact on the class, as follows:

1. In May 2015, a determination in principle was published regarding joining collective life insurance. The Determination was published following industry-wide evaluations performed by the Commissioner regarding collective life insurance policies in the insurance companies, in which cases where found were policyholders were added to collective life insurance policies without receiving their written consent, despite the fact that the policyholders paid the insurance cost (fully or partially) (hereinafter: the "**Policyholders**"). In accordance with the provisions of the determination, it was established that, with respect to existing collective life insurance policies, on the publication date of the determination, regarding which the insurance company is unable to present written consent, the insurance company is required to verify the existence of written consent by those policyholders to join the aforementioned policies, no later than the coming renewal date of the polices, or within 12 month after the publication date, whichever is earlier (the "**Effective Date**"). If the insurance company has not obtained the consent of a certain policyholder in the aforementioned policies, by the effective date, the insurance of that policyholder in the group of policyholders will not be renewed, and notice of this will be sent to the policyholder one month before the renewal date (while the policy will continue with respect to the other policyholders). The above will not apply with respect to: (1) a group of policyholders regarding which approval has been given by the Commissioner which exempts the insurance company from the obligation to maintain a list of policyholders, such as due to the security classification of that group of policyholders, or due to the status of the policyholder as a managing company of a provident fund; (2) collective life insurance policies which were issued due to a mandate set forth in law; (3) life insurance policies which were marketed before January 1, 2006 ("**Old Policies**"), and which were not renewed. On the next renewal date of old policies, the insurance company is required to obtain consent from the aforementioned policyholders. The determination will enter into effect 60 days after the date of its publication. Clal Insurance worked, and continues to work, in accordance with the provisions of the determination, in order to receive the consent of policyholders as required in accordance with the provisions the determination and the delivery of notice to policyholders regarding the non-renewal of their policy, insofar as their consent has not been received, or will not be received. According to the Company's estimate, the implementation of the determination is not expected to have a significant impact on the Company.

Note 7 - Contingent Liabilities and Claims (Cont.)

D. Exposure due to regulatory provisions and position papers (Cont.)

2. 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 joined personal accident insurance at insurers, after they had a previous 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 in which it evaluates the method used to market the insurance, and in accordance with the results, to contact policyholders and to obtain 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 preparing for the implementation of the determination.

3. The Company is holding discussions with the Commissioner, within the framework of 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. The Company is holding discussions with the Commissioner in connection with the draft determination. 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.

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

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.

Note 7 - Contingent Liabilities and Claims (Cont.)

E. (Cont.)

At this preliminary stage, it is not possible to estimate the chances of the motions to approve claims as class actions with respect to the claims specified in Notes 7(a)(a2)(29), 7(a)(a2)(30), 7(a)(a2)(31), 7(a)(a2)(32), 7(a)(a2)(33), 7(a)(a2)(33), 7(a)(a2)(34), and 7(a)(a2)(35) above, and therefore, a provision with respect to these motions was not included in the financial statements.

The provision which is included in the financial statements as of March 31, 2016, with respect to all of the legal claims mentioned in Note 7(a), 7(b) and 7(c) above, amounted to a total of approximately NIS 98 million.

Note 8 - Additional Events During and After the Reporting Period

A. Actuarial estimates

1. Strengthening of insurance reserves in light of the low interest environment, and its effect on discount rates in life, non-life and long term care insurance

Further to that stated in Note 41(e)(e1)(d)(1) to the annual statements, regarding the strengthening of insurance reserves in light of the low interest rate environment, and its impact on the discount rates in life and long-term care insurance, and the Commissioner's directives regarding the liability adequacy test (LAT), during the reporting period, an additional decrease occurred in the risk-free interest rate curve, which resulted in an update to the discount rate.

The impact on the financial results is specified below:

NIS in millions	For the period of three months ended March 31 2016	For the period of three months ended March 31 2015	For the year ended December 31 2015
	Unaudited	Unaudited	Audited
Life insurance			
Change in the discount interest rate used in the calculation of the liabilities to supplement the annuity and paid pension reserves	**23**	110	35
Change in pension reserves following the decreased forecast of future income (K factor)	**-**	87	86
Liability adequacy test (LAT)	**228**	187	144
Life insurance - total impact of the low interest rate environment before tax	**251**	384	265
Non-life insurance*	**2**	37	-
Long term care insurance in the health segment	**97**	265	-
Total (income) loss before tax	**350**	686	265
Total (income) loss after tax	**224**	425	166

*) During the reporting period, with respect to the impact of the interest rate on the liability adequacy test (LAT); in the corresponding period last year, with respect to the discount rate for outstanding claims.

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

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 a correction to the life expectancy tables and the interest rate which is used to discount annuities in accordance with the National Insurance Regulations (Discounting), 5738-1978 (the "**Discounting Regulations**" and the "**Committee**"). In March 2016, the committee's recommendations were published on the National Insurance website, including a statement that the Ministry of Welfare is working to draft regulations on the subject. As of the present date, an Amendment to the Discounting Regulations (hereinafter: the "**Amendment to the Discounting Regulations**") has not yet been published.

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), 5755 - 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.

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

A. Actuarial estimates (Cont.)

2. Change in estimates used in the calculation of outstanding claims in non-life insurance (Cont.)

National Insurance annuity discount rate (Cont.)

In accordance with the committee’s recommendations, the interest rate will be determined once every four years, according to a arithmetic, four-year average mechanism, based on the gross monthly rates of yield to maturity, of all marketable government bonds, denominated in NIS and CPI-linked, whose maturity dates are for a periods of 8 to 12 years. The interest rate which will be determined will be no less than zero and the change therein, relative to the previous level, will be no more than one percentage point upwards or downwards. A life expectancy component will be added to the interest component (based on the life expectancy tables of the Central Bureau of Statistics). The committee also recommended that so long as it has not been determined otherwise, the interest rate for the purpose of discounting an annuity will amount to 2%, instead of 3%, as defined in the current regulations. The Amendment to the Discounting Regulations will result in an increase in the subrogation claims which will be paid by the insurance companies to National Insurance, which will be offset by the insurance benefits which are paid to policyholders.

According to the Company’s estimate, the Amendment to the Discounting Regulations, insofar as it will be published, in accordance with the committee’s recommendations, may affect the interest rates which are used to discount the insurance benefits that are paid by the insurance companies, in a one-time amount with respect to claims of the compulsory and liabilities types, and as a result, may lead to increased claim settlement costs.

The Company estimated the effect of the foregoing, including taking into account the uncertainty with respect to its actual impact and the manner of its occurrence (if and insofar as it will take place), and accordingly, increased the insurance liabilities as of March 31, 2016 in the compulsory motor and liabilities branches by approximately NIS 118 million, on retention and before tax, and by a total of approximately NIS 76 million after tax.

It is emphasized that, at this preliminary stage, before the publication of the Discounting Regulations, and so long as it is not yet known if and when a binding directive will be formulated regarding the method used to determine the discount interest rate for non-subrogation claims of National Insurance, there is uncertainty in connection with the impact of the committee’s recommendations, if any, on the Company’s liabilities. Accordingly, the future development of claims may differ significantly from the Company’s estimates as of the publication date of the report, and as a result, the Company may be required to update its estimates in the future.

B. Rating

Further to that stated in Note 28(f) to the annual statements, regarding the ratings of member companies in the Group, in April 2016, Midroog announced a rating of (Aa3), stable outlook, for the new liability certificates which will be issued within the framework of the exchange specified in section C below, and left unchanged the ratings of the liability certificates if Tier 2 hybrid capital of Clal Insurance and Clalbit Finance.

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

C. Exchange of deferred liability notes in Clal Insurance through Clalbit Finance subsequent to the reporting date

Further to that stated in Note 45(i), in March 2016, Clalbit Finance published a shelf offering report which also constitutes a specification for a partial exchange offer, according to which an offer was made to the holders of liability certificates (Series F) of Clalbit Finance, to acquire from them up to NIS 600 million par value of bonds (Series F) which are traded on the stock exchange, by way of a partial exchange offer, in consideration of an issuance of up to approximately NIS 628 million par value of liability certificates (Series J) of Clalbit Finance, by way of a series extension, which reflects an exchange ratio of 1.04682; i.e., with respect to each NIS 1 par value of liability certificates (Series F), Clalbit Finance will issue NIS 1.04682 par value of liability certificates (Series J).

There was overdemand for the exchange offer which was published in April 2016, which was accepted by the holders of approximately NIS 669 million par value of liability certificates (Series F) of Clalbit Finance. Accordingly, Clalbit Finance allocated to the participants approximately NIS 628 million par value of liability certificates (Series J) of Clalbit Finance, in a manner whereby the holders of the liability certificates (Series F) of Clalbit Finance who accepted the exchange offer, accepted it in a partial manner. 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 16 million.

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

D. Employment agreement - 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**"). 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 employment agreement with Mr. Naveh, beginning on June 5, 2016, for an undefined period (hereinafter: the "**New Employment 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.

It is noted that the new employment 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), 5776-2016 (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.

During the period of the new employment agreement, the Chairman of the Board is entitled to engage, whether as an employee or as a service provider, in other position/s, subject to the scope of position stated above, which will be dedicated to members of the group of companies owned by the Company, subject to restrictions regarding avoidance of conflict of interests and/or competition with the Company's business and/or the Commissioner's directives, as agreed upon between the parties on the date of the initial appointment.

In accordance with the new employment agreement, the monthly salary of Mr. Naveh as the Chairman of the Board will amount to a total of NIS 131,750, linked to the CPI for June 2016, In accordance with the definition of "linkage to the CPI" in the Company's compensation policy. The annual cost of salary of Mr. Naveh is expected to amount to approximately NIS 2.37 million. 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), 5760-2000 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 the Board of Directors 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 the Company per year (hereinafter: "Compensation Paid to Outside Director"). The employment terms 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[19], 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[20].

[19] 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 by virtue of the old agreement: annual bonus and deferred bonus, adjustment bonus and options. For additional details regarding these components, see Note 42(b)(4) to the annual statements.

[20] See footnote 1.

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

D. Employment agreement - Chairman of the Board (Cont.)

Additionally, Mr. Naveh is 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 crediting the benefit with respect to the vehicle and the cellphone for tax purposes.

The new employment agreement includes various provisions with respect to eligibility for annual holiday, convalescence pay, sick pay and social benefits in accordance with the Company's conventional practice. 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 would be entitled by law in the event that of dismissal, the Company will supplement the difference owed to Mr. Naveh.

The new employment agreement determines that the cancellation of the engagement will be implemented by providing written notice three months in advance, a period which the Company will be entitled to shorten subject to the payment of all rights until the end of the advance notice period.

The new employment 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.

For details regarding the employment terms of Mr. Naveh in accordance with the old agreement, including regarding existing rights which accrued for him by virtue of the old agreement, which include an annual bonus and a deferred bonus, an adjustment bonus and options, see Note 42(b)(4) to the annual statements.

For details regarding the holdings of Mr. Naveh in an international investment fund, Agate R.M. Investments and Medical Technologies Ltd. (hereinafter: the "**Fund**"), in which Clal Insurance invested prior to the appointment of Mr. Naveh as the Chairman of the Board, through a trustee, in accordance with understandings vis-à-vis the Commissioner, see Note 42(b)(4) to the annual statements.

E. Update to the corporate tax rate

A. In January 2016, the Law in Amendment of the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 5776 - 2016, was approved, in which the corporate tax rate was reduced from 26.5% to 25%, effective beginning on January 1, 2016.

Presented below are the statutory tax rates which apply to financial institutions, including the Company, following the aforementioned change:

Year	Corporate tax rate	Capital gains tax rate	Overall tax rate in financial institutions
		%	
2015	26.5	17.75 *)	37.58 **)
2016 and thereafter	25.0	17.00	35.90

*) Weighted rate.
**) As compared with a tax rate of 37.71%, prior to the publication of the amendment.

B. The balances of deferred taxes as of December 31, 2015 and March 31, 2015 were calculated according to the previous tax rate. The balances of deferred taxes which are included in the financial statements as of March 31, 2016 are calculated according to the new tax rate, as stated above. The change in the tax rate had an immaterial effect on the balances of liabilities and of deferred tax assets.

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

F. Shelf prospectus in Clalbit Finance

In May 2016, Clalbit Finance received notice from the Israel Securities Authority stating that, by virtue of its authority in accordance with section 23a(b) of the Securities Law, 5728-1968, and in light of the Company's request, it had decided to extend the period for offering securities of the Company in accordance with the Company's shelf prospectus dated May 29, 2014, by an additional 12 months, in other words, until May 29, 2017.

G. Update to compensation policy

Further to sections 10.2.11 and 10.7.5 of Chapter A of the periodic report, on May 30, 2016, the Board of Directors of Clal Insurance and the Board of Directors of the Company discussed, further to the recommendation of the Compensation Committee, an updated compensation policy, further to the provisions of the Commissioner's circular from April 2014 regarding "compensation policy in institutional entities", and the amendment thereto from October 2015, and the provisions of the Executive Salary Law (for additional details, see section 4.3.1.2 of the Board of Directors' report). The approval of the policy is subject to the receipt of the required authorizations from the competent organs, including approval from the general meeting. As part of the above, the Company's compensation policy was consolidated with the compensation policy of Clal Insurance, which will include updates regarding, inter alia, the compensation of the Chairman of the Board, which became fixed compensation only, the minimum conditions for the receipt of variable compensation, and the terms for the reimbursement of the variable bonus. In this context, it is noted that 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 section D above).

The Company is evaluating the need for the adjustment of the compensation agreements to the amended policy, as it will be approved, as a derivative of the aforementioned regulatory arrangements.

H. Developments in the markets during the reporting period

During the reporting period, there were declines in the capital markets, which adversely affected the investment portfolio of the profit-sharing policies. As of March 31, 2016, estimated gross real negative returns from the beginning of the year in the profit-sharing policies portfolio amounted to approximately 0.66%. As a result, variable management fees were not collected with respect to the aforementioned period, and as of that date, the estimated total negative addition (potential loss of income - the "hole") which will be deducted in the future from any positive addition, if and insofar as any will be created, amounts to approximately NIS 37 million (according to the estimate regarding income from management fees after the reporting period, as of May 25, 2016, the deficit was offset in its entirety). For additional details regarding the mechanism for the collection of variable management fees, see Note 3(l)(3)(a) to the annual statements.

I. Development in markets after the reporting date

Subsequent to the reporting date, the risk-free interest rate curve decreased. Further to that stated in Note 41(e)(e1) to the annual statements and in Note 8(a) above, a decrease in interest rates may lead to an increase in insurance liabilities in non-life insurance, in the compulsory, liabilities and personal accidents branches, in the liability to supplement annuity reserves, in paid pension liabilities in life insurance, and also as part of the liability adequacy test (LAT).

At this stage, it is not possible to estimate the implications of the decline in the risk-free interest rate curve during this period on the results for the second quarter of 2016, inter alia, due to the uncertainty regarding the effect that the aforementioned developments will have on the estimated insurance liabilities of Clal Insurance, regarding the impact of the decreased interest rate curve on the fair value of debt assets, and regarding the continuing developments in financial markets until the end of the second quarter of 2016, and the above does not constitute any estimate regarding the Company's expected financial results for the second quarter of 2016.

For details regarding sensitivity tests to market risks, see Note 41(c)(2) to the annual statements.

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

1. Assets for investment-linked contracts

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

	As of March 31		As of December 31
	2016	**2015**	**2015**
NIS in thousands	**Unaudited**		**Audited**
Investment property *)	**2,724,208**	2,650,806	2,750,076
Financial investments			
Marketable debt assets	**21,064,244**	19,280,510	19,942,157
Non-marketable debt assets	**6,709,517**	6,942,163	6,617,456
Stocks	**8,401,258**	8,878,035	8,662,467
Other financial investments	**11,213,821**	12,411,606	12,622,640
Total financial investments *)	**47,388,840**	47,512,314	47,844,720
Cash and cash equivalents	**4,124,720**	3,489,445	3,767,810
Other	**551,174**	560,195	567,533
Total assets for investment-linked contracts	**54,788,942**	54,212,760	54,930,139

*) Presented at fair value through profit and loss.

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

2. Details of other financial investments

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

	As of March 31, 2015			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
NIS in thousands	Unaudited			
Marketable debt assets [(a)]	398,699	5,919,567	-	6,318,266
Non-marketable debt assets [(b)]	13,459	-	20,672,609	20,686,068
Stocks [(c)]	-	1,085,944	-	1,085,944
Others [(d)]	259,986	1,932,752	-	2,192,738
Total other financial investments	672,144	8,938,263	20,672,609	30,283,016

	As of December 31, 2015			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
NIS in thousands	Audited			
Marketable debt assets [(a)]	275,187	6,155,775	-	6,430,962
Non-marketable debt assets [(b)]	11,477	-	20,940,755	20,952,232
Stocks [(c)]	-	973,992	-	973,992
Others [(d)]	287,918	1,797,292	-	2,085,210
Total other financial investments	574,582	8,927,059	20,940,755	30,442,396

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

2. Details of other financial investments (Cont.)

A. Marketable debt assets - composition

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

	As of March 31, 2015	
	Book value	Amortized cost [1)]
NIS in thousands	Unaudited	
Government bonds	3,812,101	3,599,948
Other debt assets		
Other non-convertible debt assets	2,495,957	2,366,263
Other convertible debt assets	10,208	9,563
	2,506,165	2,375,826
Total marketable debt assets	6,318,266	5,975,774
Impairment applied to income statement (cumulative)	93,652	

	As of December 31, 2015	
	Book value	Amortized cost [1)]
NIS in thousands	Audited	
Government bonds	4,057,390	3,972,204
Other debt assets		
Other non-convertible debt assets	2,371,501	2,355,761
Other convertible debt assets	2,071	2,463
	2,373,572	2,358,224
Total marketable debt assets	6,430,962	6,330,428
Impairment applied to income statement (cumulative)	67,257	

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

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

2. Details of other financial investments (Cont.)

B. Non-marketable debt assets - composition

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

	As of March 31, 2015	
	Book value	Fair value
NIS in thousands	Unaudited	
Government bonds		
HETZ bond and deposits with the Ministry of Finance	14,785,155	24,175,518
Other non-convertible debt assets, excluding deposits in banks	4,899,484	5,587,900
Deposits in banks	1,001,429	1,258,501
Total non-marketable debt assets	20,686,068	31,021,919
Impairment applied to income statement (cumulative)	34,716	

	As of December 31, 2015	
	Book value	Fair value
NIS in thousands	Audited	
Government bonds		
HETZ bond and deposits with the Ministry of Finance	15,044,358	22,366,471
Other non-convertible debt assets, excluding deposits in banks	4,946,502	5,410,772
Deposits in banks	961,372	1,109,084
Total non-marketable debt assets	20,952,232	28,886,327
Impairment applied to income statement (cumulative)	65,422	

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

2. Details of other financial investments (Cont.)

C. Stocks

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

	As of March 31, 2015	
	Book value	Cost
NIS in thousands	Unaudited	
Marketable stocks	1,006,828	927,784
Non-marketable stocks	79,116	108,770
Total stocks	1,085,944	1,036,554
Impairment applied to income statement (cumulative)	201,309	

	As of December 31, 2015	
	Book value	Cost
NIS in thousands	Audited	
Marketable stocks	893,109	909,343
Non-marketable stocks	80,883	107,489
Total stocks	973,992	1,016,832
Impairment applied to income statement (cumulative)	155,092	

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

2. Details of other financial investments (Cont.)

D. Other financial investments [1)]

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

	As of March 31, 2015	
	Book value	Cost
NIS in thousands	Unaudited	
Marketable financial investments	1,241,933	1,096,498
Non-marketable financial investments	950,805	698,022
Total other financial investments	2,192,738	1,794,520
Impairment applied to income statement (cumulative)	89,954	

	As of December 31, 2015	
	Book value	Cost
NIS in thousands	Audited	
Marketable financial investments	1,042,690	991,789
Non-marketable financial investments	1,042,520	857,200
Total other financial investments	2,085,210	1,848,989
Impairment applied to income statement (cumulative)	82,388	

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

Clal Insurance Enterprises Holdings Ltd.

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

As of March 31, 2016
(Regulation 38D)

Unaudited

<u>Clal Insurance Enterprises Holdings Ltd.</u>

Financial Data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2016 (Regulation 38D)

<u>Unaudited</u>

<u>Table of Contents</u>

- - - - - - - -

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Kost Forer Gabbay and Kasierer
3 Aminadav St.,
Tel Aviv 6706703

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

Attn.:

The Shareholders of Clal Insurance Enterprise Holdings Ltd.

Re: Auditors' special report regarding separate interim financial information pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970

Introduction

We have reviewed the separate interim financial information presented pursuant to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 5730-1970 for Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") as of March 31, 2016, and for the period of three months then ended. The Company's board of directors and management are responsible for the separate interim financial information. Our responsibility is to express a conclusion regarding the separate financial information for these interim periods, based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Financial Information for Interim Periods Prepared by the Entity's Auditor." A review of interim financial information includes making inquiries, particularly with the people responsible for financial and accounting matters, and performing analytic and other review procedures. A review is significantly limited in scope in comparison to an audit, which is conducted in accordance with generally accepted accounting principles in Israel, and therefore does not allow us to reach an assurance that we have become aware of all material issues which may have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Tel Aviv,
May 30, 2016

Kost Forer Gabbay and Kasierer
Certified Public Accountants

Somekh Chaikin
Certified Public Accountants

Joint Auditors

Financial data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2016

Interim Data Regarding the Company's Financial Position

	As of March 31		As of December 31, 2015
	2016	**2015**	
NIS in thousands	**Unaudited**		**Audited**
Assets			
Investments in investee companies	**4,278,842**	4,344,735	4,537,681
Loans and balances of investee companies	**1,967**	22,612	51
Other accounts receivable	**92**	2,472	149
Other financial investments:			
Marketable debt assets	**83,979**	35,748	57,261
Stocks	**742**	660	818
Total other financial investments	**84,721**	36,408	58,079
Cash and cash equivalents	**8,529**	58,808	25,631
Total assets	**4,374,151**	4,465,035	4,621,591
Capital			
Share capital	**143,216**	143,170	143,216
Premium on shares	**976,329**	970,638	976,329
Capital reserves	**445,177**	748,638	460,554
Retained earnings	**2,735,408**	2,467,572	2,967,929
Total capital	**4,300,130**	4,330,018	4,548,028
Liabilities			
Other accounts payable	**2,006**	2,053	1,741
Balances of investee companies	**193**	1,142	-
Deferred tax liabilities	**1,822**	1,822	1,822
Liabilities to banking corporations and others	**70,000**	130,000	70,000
Total liabilities	**74,021**	135,017	73,563
Total capital and liabilities	**4,374,151**	4,465,035	4,621,591

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

May 30, 2016				
Approval date of the financial statements	Danny Naveh Chairman of the Board	Izzy Cohen Chief Executive Officer	Anath Levin Finance, Investment and Credit Division Manager	Ronit Zalman Malach Chief Accountant

Financial data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2016

Interim Data Regarding Income

	For the period of three months ended March 31		For the year ended December 31
	2016	**2015**	**2015**
NIS in thousands	**Unaudited**		**Audited**
The Company's share in the income of investee companies, net of tax	**(232,093)**	(23,139)	483,827
Income from investments, net, and financing income			
from investee companies	**14**	(68)	100
Others	**(10)**	32	101
Total income	**(232,089)**	(23,175)	484,028
General and administrative expenses	**661**	520	2,201
Financing expenses	**426**	1,227	3,932
Other expenses	**14**	-	610
Total expenses	**1,101**	1,747	6,743
Income before taxes on income	**(233,190)**	(24,922)	477,285
Taxes on income (tax benefit)	**-**	-	-
Income for the period	**(233,190)**	(24,922)	477,285
Loss from discontinued operation, net	**-**	-	-
Income for the period	**(233,190)**	(24,922)	477,285

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

Financial data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2016

Interim Data Regarding Comprehensive Income

	For the period of three months ended March 31		For the year ended December 31
	2016	**2015**	**2015**
NIS in thousands	**Unaudited**		**Audited**
Income (loss) for the period	**(233,190)**	(24,922)	477,285
Other comprehensive income:			
Other components of 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	**171**	274	405
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	**(2)**	1	5
Other comprehensive income (loss) with respect to investee companies which has been or will be transferred to profit and loss, net of tax	**(15,546)**	89,620	(198,599)
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	**(15,377)**	89,895	(198,189)
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	**(15,377)**	89,895	(198,189)
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	**(1,200)**	(3,162)	6,214
Other comprehensive income for the period which will not be transferred to profit and loss, net of tax	**(1,200)**	(3,162)	6,214
Other comprehensive income (loss) for the period	**(16,577)**	86,733	(191,975)
Total comprehensive income for the period	**(249,767)**	61,811	285,310

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

Financial data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2016

Interim Data Regarding Cash Flows

	For the period of three months ended March 31		For the year ended December 31
	2016	**2015**	**2015**
NIS in thousands	**Unaudited**		**Audited**
Cash flows from operating activities			
Income for the period	**(233,190)**	(24,922)	477,285
Adjustments:			
The Company's share in the income of investee companies	**232,093**	23,139	(483,827)
Dividends from investee companies	**10,000**	3,465	23,829
Interest accrued with respect to liabilities to banking corporations	**424**	1,191	3,842
Income from other financial investments	**467**	(23)	(215)
	242,984	27,772	(456,371)
Changes to other components in the data regarding financial position, net:			
Change in other accounts receivable	**57**	2,690	5,013
Change in other accounts payable	**265**	(2,389)	999
Net cash from operating activities with respect to transactions with investee companies	**146**	3,991	12,878
Interest received	**2**	250	349
Net cash from operating activities	**10,264**	7,392	40,153
Cash flows from investing activities			
Repayment of loans to investee companies	**-**	-	21,811
Investment in available for sale financial assets	**(36,998)**	(5,025)	(62,126)
Consideration from sale of available for sale financial assets	**10,058**	5,025	40,782
Net cash from (used in) investing activities	**(26,940)**	-	467
Cash flows from financing activities			
Repayment of liabilities to banking corporations	**-**	(15,000)	(75,000)
Interest paid with respect to liabilities to banking corporations	**(426)**	(1,227)	(7,632)
Net cash used in financing activities	**(426)**	(16,227)	(82,632)
Decrease in cash and cash equivalents	**(17,102)**	(8,835)	(42,012)
Cash and cash equivalents at beginning of period	**25,631**	67,643	67,643
Cash and cash equivalents at end of period	**8,529**	58,808	25,631

Financial data from the Consolidated Interim Financial Statements Attributed to the Company Itself as of March 31, 2016

Additional information

1. General

The separate interim financial information is presented pursuant to Regulation 38D to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, and does not contain all of the information which is required according to Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 5730-1970, regarding a corporation's separate financial information. The separate interim financial information should be read in conjunction with the separate financial information for the year ended December 31, 2015 (the "**Consolidated Annual Statements"**), and especially with the condensed consolidated interim financial statements as at March 31, 2016 (hereinafter: the **"Consolidated Interim Statements"**).

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

A. For details regarding a new employment agreement which was signed with the Chairman of the Board after the balance sheet date, see Note 8(d) to the consolidated interim reports.

B. For details regarding the update to the corporate tax rate beginning in January 2016, see Note 8(e) to the consolidated interim reports.

3. Credit facility in the Company

After the balance sheet date, according to the date specified in the agreement, the Company's credit facility expired. The Company chose not to renew the credit facility.

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

CLAL
INSURANCE ENTERPRISES HOLDINGS LTD.

Embedded Value Report of Clal Insurance Company Ltd. Consolidated Report

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

As of December 31, 2015

Table of Contents

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36 Raoul Wallenberg St. | Kiryat Atidim Park, Tower 8, Tel Aviv | **Mailing Address:** P.O.B. 37070 Tel Aviv 6136902
Tel: 972-3-6387777 | **Fax:** 972-3-6387676 | **www.clal.co.il**

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36 Raoul Wallenberg St. | Kiryat Atidim Park, Tower 8, Tel Aviv | **Mailing Address:** P.O.B. 37070 Tel Aviv 6136902
Tel: 972-3-6387777 | **Fax:** 972-3-6387676 | **www.clal.co.il**

1 General

1.1 Background and scope of disclosure

In accordance with the Insurance Commissioner's circular dated August 12, 2007 (insurance circular 2007-1-11) (the "**Circular**"), insurance companies are required to publish, once per year, no later than the publication date of the financial statements for the first quarter of the year, information regarding the embedded value ("**Embedded Value**" or "**EV**") of long term insurance policies (life insurance and health insurance) as of the end of the previous year. In accordance with the circular, Clal Insurance Company Ltd. (the "**Company**") hereby publishes the embedded value of the Company's insurance business operations as of December 31, 2015, including the movement in embedded value in 2015.

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

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

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36 Raoul Wallenberg St. | Kiryat Atidim Park, Tower 8, Tel Aviv | **Mailing Address:** P.O.B. 37070 Tel Aviv 6136902
Tel: 972-3-6387777 | **Fax:** 972-3-6387676 | **www.clal.co.il**

The disclosure method implemented in this report is in accordance with the general disclosure rules in the Committee Report, and with the provisions specified in the disclosure format which was prepared by the Committee in coordination with the Commissioner. The draft “disclosure format” has not yet been published by the Commissioner as an addendum to the circular.

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

This report includes a review report prepared by an external reviewer regarding the embedded value as of December 31, 2015 and regarding the value of new business, which refer to the long-term life and health insurance policies and pension fund management business operations for the year then ended, as well as sensitivity tests with respect to them and an analysis of the movement in embedded value in 2015.

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1.2 Clarification regarding forward looking information

The determination of embedded value and the value of new business (as this term is defined below) was prepared on the basis of forecasts, estimates and approximations regarding future events, the realization of which is uncertain, and which are not under the Company's control, and should be regarded as "forward looking information", as defined in section 32A of the Securities Law, 5728-1968. No restriction exists which would prevent these forecasts, estimates and approximations, in whole or in part, from being realized, or from being realized in a manner which is different than that presented in the embedded value report, and therefore, actual results may differ from the forecast.

1.3 Main chapters in the document

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

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1.4 Definitions

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

Definition value	Explanation of definition value
"Present value of future profits" ("PVFP")	The discounting of future forecasted profits generated by the existing portfolio of included business operations (see section 2.5.2. below).
"Adjusted net worth" ("ANW")	The Company's net worth, after performing several adjustments in order to ensure consistency with the value in force (see section 2.5.1 below).
"Required cost of capital"	The effect, from the perspective of shareholders, on embedded value, due to the requirement that the Company maintain minimum equity (see section 2.5.3 below).
"Value in force" ("VIF")	The present value of future profits, less the required cost of capital.

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36 Raoul Wallenberg St. | Kiryat Atidim Park, Tower 8, Tel Aviv | **Mailing Address:** P.O.B. 37070 Tel Aviv 6136902
Tel: 972-3-6387777 | **Fax:** 972-3-6387676 | **www.clal.co.il**

Definition value	Explanation of definition value
“Embedded value” (“EV”)	Embedded value is comprised of a combination of the following two components: • **“Value in Force”** (“VIF”) and • **“Adjusted Net Worth”** (“ANW”) It is clarified that adjusted net worth is net worth which applies to all operations in the entire Company, and not in respect of the business operations included under VIF only. It is further clarified that value in force does <u>not</u> include: • Non-life (elementary) insurance business operations. • Other operating segments of companies under the Company’s control, such as provident fund management. • The ability to create additional business in the future (goodwill).
“Value of new business” (“VNB”)	The present value, from the date of sale until the end of the policy period, of projected profits with respect to the new policies in included business operations which were sold during the reporting year.

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36 Raoul Wallenberg St. | Kiryat Atidim Park, Tower 8, Tel Aviv | **Mailing Address:** P.O.B. 37070 Tel Aviv 6136902
Tel: 972-3-6387777 | **Fax:** 972-3-6387676 | **www.clal.co.il**

Definition value	Explanation of definition value
"Included business operations"	Business operations included in the calculation of value in force: • Long term individual policies in the life and health insurance portfolio which are in effect as of December 31, 2015, including assumptions regarding future increases in premiums and one-time deposits due to the increase in wages for these policies. • Collective policies in the life and health insurance portfolio which are in effect as of December 31, 2015. According to the rules and principles specified in the Committee Report, the profits of these policies were estimated only until the next renewal date of the policies. • Pension fund management business operations managed by managing companies owned by the Company, and including only 50% of the business operations of Atudot Havatika.

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36 Raoul Wallenberg St. | Kiryat Atidim Park, Tower 8, Tel Aviv | **Mailing Address:** P.O.B. 37070 Tel Aviv 6136902
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1.5 Remarks, clarifications and qualifications

1.5.1 General

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

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

1. Economic factors (including discount interest, returns).
2. Demographic factors (such as changes in mortality and morbidity).
3. Legislation and legislative arrangements on relevant subjects.
4. Contingent liabilities (For additional details, see Note 40 to the Company's periodic report for 2015).
5. Taxation.
6. Changes in the business environment.

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

1.5.2 Reforms and legislation

In recent years, many reforms have been implemented in the long-term savings and health insurance segment, which have affected, and continue to affect, the estimation and calculation of embedded value. There is uncertainty regarding the

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36 Raoul Wallenberg St. | Kiryat Atidim Park, Tower 8, Tel Aviv | **Mailing Address:** P.O.B. 37070 Tel Aviv 6136902
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projected effect of the legislative reforms, due, inter alia, to the fact that some of the reforms have not yet been completed, or have not yet begun, and that the actual implementation of some of the reforms may differ from the projection, and is dependent on various uncertain factors, such as competitive conditions, preferences of policyholders and members and the conduct of competing entities and distributors, and therefore, **the calculation of embedded value does not take into account the possible future implications of these reforms**. The following are the primary regulatory changes, regarding which there is uncertainty with respect to the future impact of the calculation of embedded value:

- **Future changes due to differences in the calculation of members' rights, and due to the data cleansing process (circular regarding data cleansing with respect to members' rights) -** The institutional entities are required to perform a data cleansing process with respect to members' rights, in order to ensure that the recording of members' right in the information systems of the institutional entities is reliable, complete, accessible and retrievable. Due to the fact that the calculation of embedded value refers to long term policies, some of which were sold many years ago, the implementation of the aforementioned data cleansing process may have an effect on the rights of individual members, groups of members, and institutional entities. Additionally, differences of the aforementioned kind, insofar as they are not fully corrected, or insofar as they have not been corrected, may have broad consequences, both in the past and in the future, and may result in potential exposure, inter alia, by way of the filing of claims, including class actions and/or by way of determinations (specific or industry-wide) of the Commissioner. The Company is preparing and working towards the implementation of the provisions of the data cleansing circular and the reduction of differences, and is currently undergoing a comprehensive data cleansing process in systems in the long-term savings segment and vis-à-vis customers, including compliance with automational requirements and with the actions which are required for the purpose of optimizing the data of members and policyholders. The Company implemented provisions in its financial statements as needed, and in accordance with its estimates as of the present

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date; however, the aforementioned differences may have additional costs and consequences, the scope of which cannot be estimated at this stage.

- **Increased competition -** Further to the previous reforms, including the mobility reform, which expanded the possibility of transferring the savings funds between the various pension products reforms in pension products which resulted in the reduction of the management fees which are charged, and in the regulation of the discount provision method in recent years, many legislative arrangements were published (including legal provisions, regulations, circulars and position papers) with the aim of improving the market, and the competition and transparency therein, improving the quality and price of offered products, allowing pension savers to better tailor the products to their individual needs, and simplifying the process of reaching decisions. These arrangements include, inter alia, the provisions with respect to:
  - **Default pension fund -** In March 2016, a circular was published in order to establish provisions regarding the selection of a provident fund for deposits of employees and employers on behalf of employees who have not chosen a provident fund for those deposits. The aforementioned employees' deposits will be made to one of the following: (a) the two default funds chosen by the Commissioner, where the only criterion for their selection will be the management fees offered therein, and in which the management fees will not exceed 2% of deposits; or (b) a default provident fund for annuities or default study fund, which will be selected through a competitive process to be conducted by the employer, in which the main criterion for its selection will be the management fees offered therein. The creation of a chosen default fund, whose management fees are expected to be low, and the competition over the employers' selection of the default fund, which will also focus on management fees, is expected to result in an additional increase of competition over the amount of management fees, in changes to the business model of managing companies, in harm to their profitability, and accordingly, may result in changes in the market shares of the current competitors. The provisions may have a significant broad

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impact on the pension fund and study fund market, and possibly also with respect to additional products in the long-term savings segment.

- **Consolidation of inactive accounts in pension funds** - In November 2015, provisions were published according to which, when a member joins a new pension fund, and so long as the member has not requested otherwise, the savings funds available to him in inactive accounts in other new pension funds will be transferred to the new pension fund which he intends to join, while maintaining continuity of insurance. A mechanism was also established for the consolidation of such funds, including with respect to the existing inventory of funds currently managed in inactive accounts. The consolidation of pension fund accounts is expected to result in a reduction of management fees in the pension funds, and as a result, also in their profitability. The provisions with respect to the consolidation of inactive accounts in pension funds, together with the provisions regarding the default fund, may result in a significant increase in the scope of assets of the default fund, at the expense of the other entities in the economy, and may affect the market shares and, as a result, also the profitability of the managing company. For the purpose of evaluating the possible impact of the provision, the sensitivity test described in section 2.8.10 was added, and is presented in table 3.7 below.

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

- Annuity factor reform - In 2012, provisions were published in which the Commissioner restricted the marketing of life insurance policies with guaranteed annuity factors in 2013, and prevented the continued marketing of such policies beginning in 2014, excluding with respect to policyholders who were at least 60 years old on the date of the sale. As a supplementary measure, in March 2013, the Commissioner published a circular regarding the calculation of provisions for annuity payments in life insurance policies, in which he updated the mortality tables based on updated life expectancy estimates, and the future improvements therein. Embedded value includes an estimate of the effect of the update to life expectancy assumptions. In December 2015, provisions were established which allow the transfer and retention of life insurance policies with guaranteed annuity factors which were acquired since 1991, also for policyholder under age 60, where in general, the amounts of the deposits in the new policy will be identical to the amounts of the deposits in the current policy, and the guaranteed annuity factors in the new policy will be identical to the annuity factors in the current policy, subject to adjustments.These provisions are expected to impose difficulties on the retention of insurance policies with guaranteed factors, which were almost not transferred in previous years, to increase the competition over these products, and may affect the Company's profitability, inter alia, due to the possible erosion of the current management fees, as stated above, and a change in the

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36 Raoul Wallenberg St. | Kiryat Atidim Park, Tower 8, Tel Aviv | Mailing Address: P.O.B. 37070 Tel Aviv 6136902
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scope of the life insurance portfolio managed by the Company. However, the effects of the provisions with respect to the mobility of policies with guaranteed annuity factors are unknown at this stage, due to the uncertainty regarding the number of insurance companies which will intend to transfer to them policies of this kind, the management fees which will be determined in the competitive conditions which will arise, and the scope of transfers which will actually be implemented.

- **Increase of pension deposits** - In August 2015, provisions were established with respect to a prohibition forbidding employers against setting conditions on the rates of deposit out of the salaries of employees which they are required to deposit into a provident fund for deposits, to a certain fund, or to a fund of a certain type (the "**Prohibition Against Conditions**"). However, in February 2016, a general collective agreement was signed between the Histadrut New General Federation of Labor and Representation of Business Organizations, in which it was agreed to increase the rate of minimum deposits for all employees and employers in the economy, in a manner whereby, beginning on July 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. This arrangement, insofar as an extension order will be issued with respect to it, is expected to lead to an amendment of the provisions of the law in a manner which will cause the prohibition against conditions to be canceled. Increasing the pension deposits is expected to lead to an increase in the management fees collected by the Group's institutional entities; however, the effect of this amendment in combination with the provisions which may lead to a reduction in the collected management fees, including the provisions specified above, is not yet known.

- **Compulsory pension for the self-employed** - In December 2015, the Ministerial Committee Regarding Legislative Affairs decided to support a proposal to impose on the self-employed an obligation to make payments to a provident fund for annuities, with respect to self-employed persons whose income exceeds half of the average salary in the economy, up to an income

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beyond the average salary in the economy (subject to various exceptions). Insofar as this provision will become binding, it is expected to result in an increase in the provisions of the self-employed for pension funds, and as a result, also in an increase in the management fees which are collected by the managing company, although the scope of salary with respect by which the self-employed are required to provide a social provision is relatively low.

- **The Commissioner's position regarding payment by an institutional entity to a license holder** - The Commissioner objects to the agreements according to which 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 a manner whereby the brokerage fees will be higher, the greater the management fees paid by the customer. In June 2015, the Israel Insurance Association petitioned the District Court with a motion to determine that the compensation which is derived from management fees in itself is not prohibited by law. **The District Court decided that the Supreme Court has the authority to hear the claim, and the Israel Insurance Association appealed that decision.** It is noted that in January 2016, a proposed law passed a preliminary reading in the Knesset, in which it was proposed that the combined distribution commission for pension agents will not be calculated in connection with the management fees which the managing company collects from its members.The prohibition against the payment of commissions to agents in connection with management fees may have implications on the pension savings segment in its entirety, on the amount of management fees collected from customers, on agreements with agents and marketers, and on the Company's possibility of linking income and expenses. The company is unable to estimate, at this stage, all of the implications. For details regarding a class action which was filed on the matter, see Note 44(a2)(29) to the Company's financial statements (reference number 2016-01-012162).
- Uniform products - In recent years, and in accordance with the regulatory directives, the trend involving the obligation to unify products has increased, according to which, based on the directives issued by the Commissioner of

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Insurance, uniform provisions are established with respect to certain products. As of the present date, uniform provisions have been established with respect to the regulations of provident funds, health policies which include uniform insurance coverage for surgeries, alternative treatments to surgery, and consultations with specialized physicians, as well as the collective long-term care insurance of health funds. The aforementioned unification of products may increase the competition among the insurance companies, in a manner which will focus on price, service, and the claim settlement method, which may also have an impact on the possibility of maintaining policyholders in policies which were sold in the past.

- **Regulation in the health insurance market:**
  - **Pricing of individual products** - Beginning in February 2016, an insurer may, once every two years, subject to the approval of the Control of Insurance Office, update the tariffs and rates in individual health insurance policies, and the update will also apply with respect to existing policyholders, until the date of the next update (until the present date, these policies were generally for an undefined period). In light of the uncertainty regarding the ability to receive approval to update the insurance tariffs once every two years, and in light of the operating costs which are associated with updating the policy terms, it is difficult to estimate the overall impact of this change in the long term, although in the short term, is resulted in a reduction of tariffs in the insurance policies which were sold beginning in January 2016. Additionally, periodically updating the policy terms may affect the ability to maintain policyholders and may increase the cancellation rates for policies which were sold in the past, particularly among healthy policyholders. The obligation to offer existing policyholders the option to transfer to policies according to the new framework may result in cancellations also in existing policies, and in the transition of healthy policyholders to policies according to the new framework, at reduced tariffs.

- **Claim settlement in long-term care insurance** - In recent years, various issues have been raised with respect to the claim settlement method in long-term care insurance policies, including by way of directives issued by the Control of Insurance Office with respect to the interpretation of previously published directives, by way of the amendment of circulars, and by way of class actions. These changes may have an impact on the claim settlement method in the long-term care branch in general, and on claim settlement costs in the past and in the future. At this stage, the Company is unable to estimate the entire impact of the aforementioned changes.

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

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

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

It is hereby clarified that inferences should not be made from the sensitivity analysis regarding the Company's estimates as to the possible effects of these reforms and amendments to the provisions of the law, and the possible effect of other regulatory changes whose effect the Company is as yet unable to estimate, prior to their actual complete implementation. For details regarding additional regulatory changes and the possible implications thereof, see sections 6, 8 and 10 of the report regarding the Company's business affairs for 2015 (reference number 2016-01-012162).

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1.5.3 Handling of risks

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

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

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

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

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

- Embedded value is based on the theory according to which investors do not require compensation for non-market risks, provided that they can be hedged or that investors can distribute the uncertainty by holding a diverse and varied investment portfolio. Effectively, it is possible that some of the demographic

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and operational risks cannot be distributed and hedged (hereinafter: "Unhedged Risks"). in the absence of a liquid and deep market, which could be used to estimate the risk price given by the market for these risks, and in the absence of an agreed-upon methodology to quantify the theoretical market price for such risks, the embedded value has not been reduced with respect to such risks.

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

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

1.5.4 **Revaluation of assets according to fair value**

In accordance with the rules and principles specified in the Committee Report, revaluation according to the fair value of the Company's assets which are presented

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

1.5.5 **Governmental subsidization arrangements for pension funds**

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

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

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

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

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

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

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2 Methodology used to calculate embedded value

2.1 General

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

Embedded value also does not take into account the effect of regulatory changes which occurred after the end of the reporting year.

2.2 Handling of risks

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

As part of the committee's consultation with foreign consultants, as stated above, the committee, jointly with the consultants, began formulating a methodology which will reflect the fact that, effectively, surplus returns on the risk-free interest rate can be assumed, in light of the fact that investments can be made in non-marketable assets against non-liquid insurance liabilities, and therefore, an addition or premium can be assumed on the risk-free interest rate which is appropriate for marketable assets ("non-liquidity premium"), according to the conventional practice regarding EV reports around the world, and in additional areas in the

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global insurance industry. The adjustment of the risk-free interest rate to the "non-liquidity premium" is expected to result in an increase of embedded value. As at the publication date of the report, the Committee has not yet formulated detailed and final recommendations, and therefore, it is not possible to give expression to the "non-liquidity premium" in this report.

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

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2.3 Economic assumptions

2.3.1 Returns, discount interest and inflation:

The future returns and discount rate were determined according to the CPI-linked risk-free interest rate yield curve. The risk-free interest rates (spot) as of the end of 2015 are:

At year end	Interest rate	At year end	Interest rate	At year end	Interest rate
2016	0.45%	2026	0.77%	2036	1.41%
2017	0.41%	2027	0.86%	2037	1.44%
2018	0.22%	2028	0.95%	2038	1.48%
2019	0.10%	2029	1.02%	2039	1.51%
2020	0.14%	2030	1.09%	2040	1.54%
2021	0.23%	2031	1.16%	2041	1.56%
2022	0.32%	2032	1.22%	2042	1.59%
2023	0.43%	2033	1.27%	2043	1.61%
2024	0.54%	2034	1.32%	2044	1.63%
2025	0.66%	2035	1.37%	2045	1.65%

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

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2.3.2 **Taxation**

- Tax rate applicable to financial institutions:

Year	2015	2016	2017	2018	2019	2020	2021 +
Tax rate	37.58%	37.18%	37.18%	37.18%	37.18%	37.18%	37.18%

- Capital gains tax (included in the aforementioned tax rates)

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

Year	2015	2016	2017	2018	2019	2020	2021 +
Capital gains tax rate	17.75%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%

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

2.4 Demographic and operational assumptions

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

2.4.1 **Demographic assumptions**

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

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2.4.2 **Operational assumptions (expenses)**

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

2.5 Calculation method

2.5.1 **Adjusted net worth (ANW)**

Adjusted net worth is based on the Company's equity, as published in the Company's financial statements as of December 31, 2015, after a number of adjustments which include its reduction in the amount of the deferred acquisition costs according to the balance on the balance sheet, less the reserve for deferred tax in respect of them, with the addition of the revaluation to fair value of assets which overlap the business operations that are included and presented in the financial statements at cost, net of tax. Additionally, the value of insurance portfolios which were acquired at value was deducted, net of tax in respect of them, as well as the balance of goodwill of the pension funds that were acquired at value in the Company's financial statements, without a tax deduction in accordance with the position of the tax authorities regarding the amortization of this asset. For details regarding the above adjustments, see the tables presented below in section 3.3.

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

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

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2.5.3 Required cost of capital ("CoC")

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

2.5.4 Value of new business ("VNB")

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

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

- All policies issued in 2015.
- New coverages issued in 2015 as an addition to the policies that were issued before 2015.
- Collective policies that were renewed in 2015.
- One-time premiums on existing policies which are not due to an increase in salary.
- New pension fund members who joined in 2015

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

2.6 Handling of options and financial guarantees

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

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

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

2.7.1 Adjustments to embedded value as of December 31, 2014 - this section includes corrections with respect to the opening data, including changes to methodology. during the reporting year, technical corrections were made to the model, with a total impact of approximately NIS 229 million to reduce the embedded value in insurance business operations. The adjustments which were implemented to the model, with respect to the opening data of pension business operations, had an impact of increasing embedded value by approximately NIS 78 million.

2.7.2 Changes in operational and demographic assumptions - as is done each year, the Company updates the assumptions used to estimate embedded value, inter alia based on new data regarding actual experience and changes in the projections made by Company management. During the reporting year, these changes resulted in an decrease of approximately NIS 502 million in embedded value. The aforementioned decrease was mostly due to an update to the assumption regarding morbidity and cancellation rates in insurance business operations, plus a decrease in the assumption regarding future management fees in pension business operations.

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

A. Expected returns on value in force at the end of the previous period - this expected income is based on the real rate of return (above the CPI) which

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was expected at the start of the year (2015), including margins above the risk-free interest rate which were expected to be received.

B. Projected adjusted return on equity - income from projected investments from assets held against adjusted equity. This projected income is based on the rate of real returns (above the CPI) which was projected at the start of the year, for the same year, according to the Company's estimate.

C. Profit expected to transition from value in force to adjusted net worth in 2015 - In 2015, the projected profit for 2015, which is based on updated operational and demographic assumptions, is expected to transition from the portfolio's value in force to net adjusted worth. Beyond that of projected profits from the value in force component to the adjusted equity component of EV, does not affect total embedded value. According to the method for determining adjusted net worth, this profit does not include the effect of the DAC amortization.

2.7.4 The effect of deviations from the operational and demographic assumptions in 2015 - Due to the nature of circumstances, actual experience regarding the claim rates, cancellation rates, expenses, etc., were different during the period than the current assumptions used to calculate embedded value. These deviations also affect profits expected to be received after the reporting year (and therefore, also value in force), and profits expected to be received during the reporting year itself (and therefore on adjusted net worth The effect of the deviations is presented in this section separately from value in force and separately from adjusted net worth, respectively. In 2015, the main deviations were in adjusted net worth in insurance business operations, and in value in force in pension business operations. In insurance business operations, claim payments and expenses were higher than expected, which resulted in a reduction of adjusted net worth. In pension business operations, the real increase in current deposits which were paid during the year was higher than the expected rate of increase in salary, which resulted in an increase in value in force. This section also includes the effect due to the several factors, each of which in its own right is immaterial in the Company's estimate,

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and which includes, inter alia, changes to existing insurance policies, reinsurance terms or commission agreements with agents.

2.7.5 Profit from new business - embedded value does not include the value that is expected to be added from new business sold in the future. Therefore, this section presents the addition to embedded value at the end of the previous period, due to the sales of new insurance policies throughout the year, and the joining of new members to the pension funds. The addition is divided into the actual effect from new business on profits in the period itself (presented under adjusted net worth) and expected profits from new business in the future (and presented under value in force). The increase in profit from new business sold throughout the year was due to the increase in the scope of sales of insurance and pension business.

2.7.6 Development expenses not included in EV - includes the presentation of the effect on actual profits during the year of exceptional expenses which were not included in embedded value, but rather were attributed to future sales. There were no expenses which were not included in EV during 2015.

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

2.7.7 Profit from special items - In 2015, there was no profit or loss from special items.

2.7.8 Effect of inflation in 2015 - this section includes the effect of inflation during the reporting year (decline of 0.9%) on the opening balance of embedded value, and is presented separately on the component of value in force and separately on the component of adjusted net worth.

The effect of the value in force component is primarily due to the policies’ linkage to the CPI, and to the linkage of most flows in the model, a fact which affects the

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decrease in value in force, up to the entire CPI rate. The effect on the adjusted net worth components is due to the charging of returns in the amount of the CPI on assets backing adjusted net worth, net of tax. The effect on real returns above the CPI is presented in the other sections.

2.7.9 Profit or loss resulting from deviations from economic assumptions the 2015 and from changes in economic assumptions after the reporting year - this section include three components:

A. The effect on value in force, as a result of changes in economic assumptions which are based on market interest rates at the end of the previous year, and the economic assumptions based on the market interest rates at the end of 2015. These assumptions include the discount interest rate and the expected returns. Additionally, in 2015, the VAT rate was changed (from 18% to 17%), and accordingly, the tax rate which applies to financial institution was changed. The calculation of embedded value did not take into account the reduction of the corporate tax rate, due to the fact that this change passed through legislation after the reporting date.

B. The effect is due to the gap between actual returns during the year and the returns that were expected at the start of the year, including margins above the risk-free interest rate which were expected to be received. The effect of the aforementioned deviations is reflected in both components of EV:

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

2. In value in force - primarily due to the increase in profits expected to be received in the future, due to the balance of accruals in savings managed by the Company as of the end of

2015, which is greater than the original projection, due to the positive returns achieved by the Company on its investment in the reporting year.

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

2.7.10 Profit from non-included business operations - the total embedded value includes the Company’s entire equity, and therefore, part of the increase /decrease in equity is explained by profits/losses of operating segments which are not included in value in force. in the reporting year, comprehensive income due to non-included business operations amounted to approximately NIS 22 million, which includes financing expenses in the amount of NIS 80 million, after tax.

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

2.7.11 Equity movements - this section presents the change in embedded value due to the movement in equity, including the payment of dividends throughout the year. The movement in capital in Clal Insurance Company for 2015 amounted to a total of NIS 0.1 million.

2.7.12 Profit from pension business operations - the profit received by the Company from the pension segment. These profits from pension business operations, according the report, amounted to approximately NIS 24 million, after tax.

2.8 Sensitivity tests

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

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

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

2.8.3 The sensitivity with respect to the value of new business refers to changes from the end of 2015 and thereafter, and to the period from the time of the sale until the end of 2015.

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

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

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

2.8.7 Interest - the results of the sensitivity test include:

A. The effect of the change in interest rates used as the discount rate, and on the expected returns from investments of the Company’s assets and

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pension funds (save for investments in designated bonds, in which the returns may change), on the present value of future profits (PVPF).

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

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

2.8.9 Consolidation of inactive accounts in pension funds - Evaluates the impact of the consolidation of accounts for pension fund members who have a cleared account in one pension fund, and an active account in another pension fund. The impact of the scenario includes outgoing transfers of 50% of the scope of members who have cleared accounts in the fund, and the incoming transfers from members who have cleared accounts in other funds, in the amount of the outgoing transfers, combined with the decrease in management fees from accrual which will be collected from the aforementioned incoming transfers, relative to the average management fees in the fund. Naturally, it was assumed that an increase would occur in the scope of withdrawals of accounts which will be frozen in the future, as well as an increase in the rate of expenses due to the expected decrease in the number of members.

2.8.10 Default fund - Evaluates the impact of the entry of an additional pension fund for policyholders who were not given a choice in the selection of provident funds, which may reduce the management fees collected by the Company from policyholders before retirement age.

2.8.11 Impact of uniform health products - evaluation of the impact of the entry into effect of the uniform health products reform on the current portfolio, in a manner whereby the cancellation rates in the portfolio will increase by

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approximately 20%, combined with an increase in morbidity of 10%, due to selective cancellations of healthy policyholders.

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2.9 Review of the embedded value report

The embedded value report as of December 31, 2015, and the value of new business for the year then ended, as well as the sensitivity tests with respect thereto, and the analysis of the movement in embedded value, were reviewed by the accounting firm Kost, Forrer, Gabay and Kassierer (Ernst & Young).

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

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3 Results

3.1 Embedded value as of December 31, 2015

NIS millions	EV with respect to included business operations in life and health insurance	EV with respect to pension fund management business operations	Adjustment for consolidation in respect of pension fund management business operations in the Company's EV *	Total EV for life and health insurance and pension fund management business operations
Adjusted net worth (see table 3.3 below)	3,774.5	386.9	(744.5)	3,416.9
Present value of future profits, net of tax	5,371.8	3,974.6	-	9,346.4
Net of required cost of capital	(238.4)	(28.2)	-	(266.6)
Embedded value	**8,907.9**	**4,333.3**	**(744.5)**	**12,496.7**

* Comprised of the value of managing companies of pension funds and goodwill with respect thereto, as included in the equity of Clal Insurance Company, in the amount of NIS 172.3 million, plus the equity of managing companies, in the amount of NIS 572.2 million (see tables 3.3.b and 3.3.c).

3.2 Value of new business for with respect to sales in 2015

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

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For comparison purposes, presented below is the value of new business of sales in 2014, as published in the embedded value report as of December 31, 2014:

NIS millions	VNB with respect to included life and health insurance business	VNB with respect to pension fund management business	Total VNB with respect to life and health insurance and pension fund management operations
Value of new business before required cost of capital (for 2014)	379.5	180.1	559.6
Required cost of capital in respect of new business	(12.4)	(2.4)	(14.8)
Total value of new business	**367.1**	**177.7**	**544.8**

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3.3 Adjustment between adjusted net worth and equity in the reports

Table 3.3 A - Clal Insurance Company: insurance business operations

	NIS millions
Equity (Company balance sheet as of December 31, 2015)	4,401.9
Revaluation of assets overlapping included business operations and presented in the financial statements at cost, to fair value net of tax.	214.1
Net of deferred acquisition costs (DAC for the balance sheet)	(1,309.3)
With the addition of the deferred tax reserve, and tax benefits, with respect to DAC	468.1
Net of the value of the acquired insurance portfolios and goodwill in respect thereof, as included in equity, net of tax	(0.3)
Adjusted net worth with respect to included business operations	**3,774.5**

Table 3.3 B - Managing companies of pension funds

	NIS millions
Equity (Company balance sheet as of December 31, 2015)	572.2
Revaluation of assets overlapping included business operations and presented in the financial statements at cost, to fair value net of tax.	-
Net of deferred acquisition costs (DAC for the balance sheet)	(282.5)
With the addition of future tax benefit with respect to DAC	97.2
Adjusted net worth with respect to included business operations	**386.9**

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

	NIS millions
Adjusted net worth with respect to long-term insurance policies (life insurance and health insurance) from table 3.3 A above.	**3,774.5**
Less deferred acquisition costs (DAC for the balance sheet) with respect to pension operations recorded in the Company's balance sheet	(282.5)
With the addition of the deferred tax reserve, and tax benefits, with respect to DAC	97.2
Net of the goodwill of managing companies of pension funds included under equity	(172.3)
Adjusted net worth of Clal Insurance in consideration of pension management business operations	**3,416.9**

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

Table 3.4.1 - Insurance business operations (NIS in millions)

Change in EV of insurance business operations	See section	Adjusted net worth	Value in force	Embedded value
Embedded value as of December 31, 2014		**3,557.5**	**5,382.8**	**8,940.3**
Adjustments to embedded value as of December 31, 2014	2.7.1	-	(229.4)	(229.4)
Adjusted embedded value as of December 31, 2014		**3,557.5**	**5,153.4**	**8,710.9**
Operating profit from value in force as of December 31, 2014:				
Change in operational and demographic assumptions	2.7.2	(124.9)	(326.6)	(451.5)
Forecasted real returns	2.7.3	89.9	216.3	306.2
Comprehensive income expected to be transferred from value in force to equity in 2015	2.7.3	508.7	(508.7)	-
Effect of the deviations from operational and demographic assumptions during 2015 and other changes	2.7.4	(46.3)	2.2	(44.1)
Total operating profit from from value in force as of December 31, 2014		**427.4**	**(616.8)**	**(189.4)**
Profit from new business	2.7.5	(242.5)	695.9	453.4
Development expenses not included in EV	2.7.6	-	-	-
Operating profit according to embedded value		**184.9**	**79.1**	**264.0**
Profit from special items	2.7.7	-	-	-
Effect of inflation during 2015	2.7.8	(20.0)	(46.3)	(66.3)
Profit from deviations from economic assumptions in 2015 and from changes in economic assumptions	2.7.9	5.5	(52.8)	(47.3)
Total profit based on embedded value - with respect to included business operations and capital		**170.4**	**(20.0)**	**150.4**
Profit from pension operations	2.7.12	24.1	-	24.1
Profit from non-included business operations	2.7.10	22.4	-	22.4
Total profit based on embedded value - including all of the Company's business operations		**216.9**	**(20.0)**	**196.9**
Movements in equity	2.7.11	0.1	-	0.1
Embedded value as of December 31, 2015		**3,774.5**	**5,133.4**	**8,907.9**

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Table 3.4.2. - Pension business operations (NIS millions)

Change in EV of pension business operations	See section	Adjusted net worth	Value in force	Embedded value
Embedded value as of December 31, 2014*		**297.3**	**3,352.2**	**3,649.5**
Adjustments to embedded value as of December 31, 2014	2.7.1	-	77.6	77.6
Adjusted embedded value as of December 31, 2014		**297.3**	**3,429.8**	**3,727.1**
Operating profit from value in force as of December 31, 2014:				
Change in operational and demographic assumptions	2.7.2	-	(50.7)	(50.7)
Forecasted real returns	2.7.3	12.9	152.9	165.8
Comprehensive income expected to be transferred from value in force to equity in 2015	2.7.3	89.6	(89.6)	-
Effect of the deviations from operational and demographic assumptions during 2015 and other changes	2.7.4	(26.3)	239.3	213.0
Total operating profit from from value in force as of December 31, 2014		**76.2**	**251.9**	**328.1**
Profit from new business	2.7.5	(80.5)	277.6	197.1
Development expenses not included in EV	2.7.6	-	-	-
Operating profit according to embedded value		**(4.3)**	**529.5**	**525.2**
Profit from special items	2.7.7	-	-	-
Effect of inflation during 2015	2.7.8	(1.9)	(34.1)	(36.0)
Profit from deviations from economic assumptions in 2015 and from changes in economic assumptions	2.7.9	(12.4)	21.2	8.8
Total profit based on embedded value - with respect to included business operations and capital		**(18.6)**	**516.6**	**498.0**
Profit from non-included business operations	2.7.10	8.2	-	8.2
Total profit based on embedded value - including all of the Company's business operations		**(10.4)**	**516.6**	**506.2**
Movements in equity	2.7.11	100.0	-	100.0
Embedded value as of December 31, 2015		**386.9**	**3,946.4**	**4,333.3**

* Restated with respect to the inclusion of premium on shares

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Table 3.4.3 - Total pension and insurance business operations (NIS millions)

Change in EV of insurance and pension business operations	See section	Adjusted net worth	Value in force	Embedded value
Embedded value as of December 31, 2014		**3,233.8**	**8,735.0**	**11,968.8**
Adjustments to embedded value as of December 31, 2014	2.7.1	-	(151.8)	(151.8)
Adjusted embedded value as of December 31, 2014		**3,233.8**	**8,583.2**	**11,817.0**
Operating profit from value in force as of December 31, 2014:				
Change in operational and demographic assumptions	2.7.2	(124.9)	(377.3)	(502.2)
Forecasted real returns	2.7.3	86.5	369.2	455.7
Comprehensive income expected to be transferred from value in force to equity in 2015	2.7.3	598.3	(598.3)	-
Effect of the deviations from operational and demographic assumptions during 2015 and other changes	2.7.4	(61.0)	241.5	180.5
Total operating profit from from value in force as of December 31, 2014		**498.9**	**(364.9)**	**134.0**
Profit from new business	2.7.5	(323.0)	973.5	650.5
Development expenses not included in EV	2.7.6	-	-	-
Operating profit according to embedded value		**175.9**	**608.6**	**784.5**
Profit from special items	2.7.7	-	-	-
Effect of inflation during 2015	2.7.8	(16.3)	(80.4)	(96.7)
Profit from deviations from economic assumptions in 2015 and from changes in economic assumptions	2.7.9	1.0	(31.6)	(30.6)
Total profit based on embedded value - with respect to included business operations and capital		**160.6**	**496.6**	**657.2**
Profit from non-included business operations	2.7.10	22.4	-	22.4
Total profit based on embedded value - including all of the Company's business operations		**183.0**	**496.6**	**679.6**
Movements in equity	2.7.11	0.1	-	0.1
Total change in EV		**183.1**	**496.6**	**679.7**
Embedded value as of December 31, 2015 *		**3,416.9**	**9,079.8**	**12,496.7**

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

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3.5 Details regarding the difference between the change in adjusted net worth and net profit for the Company As of December 31, 2015

Table 3.5.1 - insurance business operations (NIS millions)

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

	NIS millions
Net profit attributed to Company shareholders	**464.9**
Items transferred through capital reserve	(210.4)
Comprehensive income after tax	**254.5**
Change in DAC before tax	(43.7)
Tax with respect to the change in DAC which is not included in value in force	17.8
Revaluation of assets by fair value, net of tax	(12.3)
Net change in value in force and goodwill recorded in the balance sheet	0.6
Movements in equity	0.1
Total change in adjusted net worth	**217.0**

Table 3.5.2 - Pension Business Operations (NIS millions)

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

	NIS millions
Net profit attributed to Company shareholders	**25.5**
Items transferred through capital reserve	(0.1)
Comprehensive income after tax	**25.4**
Change in DAC before tax	(55.4)
Tax with respect to the change in DAC which is not included in value in force	19.6
Revaluation of assets by fair value, net of tax	-
Net change in value in force and goodwill recorded in the balance sheet	-
Movements in equity and adjustment with respect to the merger of managing companies of pension and provident funds	100.0
Total change in adjusted net worth	**89.6**

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3.6 Sensitivity analysis with respect to life and health insurance business operations as of December 31, 2015

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

	See Item	Change in embedded value		Change in value of new business	
		NIS in millions	In %	NIS in millions	In %
Basic result		**8,908**		**453**	
Decrease of 0.5% in risk-free interest rate	2.8.7	(404)	(4.5%)	29	6.4%
Increase of 10% in general and administrative expenses		(299)	(3.4%)	(21)	(4.6%)
Relative increase of 10% in cancellation rates (including redemptions and settlements)		(406)	(4.6%)	(81)	(17.9%)
Increase of 10% in morbidity rates among policyholders	2.8.4	(83)	(0.9%)	(20)	(4.4%)
Increase of 10% in morbidity rates	2.8.6	(651)	(7.3%)	(53)	(11.7%)
Decrease of 10% in mortality rate of old age annuity recipients	2.8.5	(524)	(5.9%)	(1)	(0.2%)
Increase of 10% in annuity taking realization rates	2.8.8	(229)	(2.6%)	1	0.2%
Impact of uniform products in health insurance on current insurance portfolio	2.8.11	(346)	(3.9%)		

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3.7 Sensitivity analyses with respect to pension fund management business operations as of December 31, 2015

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

	See	Change in embedded value		Change in value of new business	
	Item	NIS in millions	In %	NIS in millions	In %
Basic result		**4,333**		**197**	
Decrease of 0.5% in risk-free interest rate	2.8.7	232	5.4%	21	10.6%
Increase of 10% in general and administrative expenses		(149)	(3.4%)	(10)	(5.0%)
Decrease of 1% in the salary increase rate		(199)	(4.6%)	(20)	(10.1%)
Relative increase of 10% in cancellation rates (including redemptions and freezes)		(315)	(7.3%)	(43)	(21.8%)
Consolidation of inactive accounts in pension funds	2.8.9	(569)	(13.1%)	(71)	(36.2%)
Default fund - decrease of 10% in management fees	2.8.10	(234)	(5.4%)	(44)	(22.4%)

Izzy Cohen
CEO

Ofer Brandt
Executive VP and Chief Actuary

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

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

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

May 30, 2016

Attn.: The Board of Directors of
Clal Insurance Company Ltd.
Dear Sir / Madam,

Re: Review of the Embedded Value Report as of December 31, 2015

A. At your request, we have reviewed the information which was prepared by Clal Insurance Company Ltd. (hereinafter: the "Company") regarding the embedded value as of December 31, 2015, the value of new business for the year then ended, as well as an analysis of the movement in embedded value and sensitivity tests with respect thereto, which refer to long term life and health insurance policies and pension fund management business operations (hereinafter: the "Embedded Value Report").

B. Our review included, inter alia:

1. Discussions and inquiries with the relevant entities in the Company, performance of analytical procedures with reference to the results presented in the embedded value report, and with reference to financial and other statistical information.
2. Comparison between the calculation results and the Company's financial information.
3. Comparison of the demographic and operational assumptions used to prepare the embedded value report, with the past experience in the Company and, relevant external information.
4. Evaluation of the correspondence of the methodology, assumptions and method of presentation used to prepare the embedded value report, to circular no. 2007-1-11 issued by the Insurance Commissioner, including the annexes thereto (hereinafter: the "Commissioner's Circular"). The Commissioner's circular adopted the rules and principles established in the report released by the joint committee of insurance companies and the Insurance Commissioner (hereinafter: the "Committee"), which worked with the accompaniment of consultants from Israel and abroad.

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

1. The methodology and assumptions described in the embedded value report fulfill, in all material respects, the provisions of the Commissioner's circular, subject to that stated in section d(3) below.
2. The disclosure method employed in the embedded value report fulfills, in all material respects, the provisions of the Commissioner's circular and the provisions specified in the "disclosure format" prepared by the committee, in coordination with the Insurance Commissioner. This "disclosure format" has not yet been published by the Insurance Commissioner as an addendum to the Commissioner's Circular.
3. Our review has not identified anything which would indicate that the demographic and operational assumptions presented to us during the report are not reasonable, based on the Company's past and present experience and management's projections regarding the future, subject to that stated in section d(2) below.
4. Our review has not found any information indicating that the embedded value in the amount of NIS 12,497 million, the value of new business in the amount of NIS 651 million, the sensitivity tests with respect thereto and the analysis of the movement in embedded value, have not been prepared adequately in accordance with the methodology and assumptions described in the embedded value report, and which were presented to us during the review.

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

1. The embedded value report was prepared based on assumptions that are the result of the implications of past experience regarding the future, within the Company's operating environment. Due to the nature of circumstances, due to the fact that these are long term estimates regarding the future, actual results are expected to be different from those prepared at the time when embedded value was calculated.
2. There is uncertainty with respect to the implications of the reforms on the long-term savings and health insurance branches. The calculation of embedded value does not take into account the possible effects of these reforms, as specified in section 1.5.2 of the embedded value report.

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3. Remarks, clarifications and qualifications with respect to the treatment of the risks described in section 1.5.3 of the embedded value report.
4. Embedded value also includes the embedded value of pension fund management business operations owned by the Company, the publication of which is not required in accordance with the directives issued by the Commissioner.

Sincerely,

Kost Forer Gabbay and Kasierer

Certified Public Accountants

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