

Clal Insurance Enterprises Holdings Ltd.

Periodic Report for 2017

March 22, 2018



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

The binding version of the report is in the Hebrew language

only.

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Part A

Description of the Corporation's Business

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

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

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

This report, with respect to the aforementioned insurance, pension and provident business operations, was prepared in accordance with the Control of Insurance Business Regulations (Particulars of Report), 1998, and in accordance with the circular of the Commissioner of Capital Markets, Insurance and Savings dated January 20, 2014 regarding the description of the corporation's business in the periodic reports of insurance companies, as updated on January 1, 2018 (the "Commissioner's Circular"), which applied the aforementioned Securities Regulations, with certain adjustments which apply to insurance companies, including the specification of details different from those specified in the Securities Regulations.

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

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

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

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

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

1. Introduction

1.1. Description of the Company's business affairs for the year ended December 31, 2017

This Part A provides a description of the Company's business as of December 31, 2017, and the development of its business affairs during 2017 (the "**Reporting Period**"). The report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, and in accordance with the circular of the Commissioner of Capital Markets, Insurance and Savings at the Ministry of Finance dated January 20, 2014, regarding the description of the corporation's business affairs for insurance companies, as updated on January 1, 2018. See the remark on this subject in the introduction to the report (page 4).

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

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

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

1.2. Index

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

1.2.1. General

IDB Development -	IDB Development Corporation Ltd.
Bank Hapoalim -	Bank Hapoalim Ltd.
Bank Discount -	Israel Discount Bank Ltd.
USD -	US Dollar
The Financial Statements -	The Company's financial statements as of December 31, 2017
HaClal HaRishon -	HaClal HaRishon Ltd.
The Commissioner -	The Commissioner of Insurance / the Commissioner of the Capital Markets, Insurance and Savings Authority
The Corporation or the Company -	Clal Insurance Enterprises Holdings Ltd.
The Insurance Law-	The Control of Financial Services (Insurance) Law, 1981.
The Companies Law-	The Companies Law, 1999

The Pension Advice Law -	The Control of Financial Services Law (Pension Advice, Marketing and Clearing System), 2005
The Insurance Contract Law -	The Insurance Contract Law, 1981
The Securities Law -	The Securities Law, 1968
The Provident Funds Law -	The Control of Financial Services (Provident Funds) Law, 2005
Long-term savings -	Life insurance, pension, provident and study funds
Clalbit Finance -	Clalbit Finance Ltd.
Clalbit Systems -	Clalbit Systems Ltd.
Clal Insurance -	Clal Insurance Company Ltd.
Clal Credit Insurance -	Clal Credit Insurance Ltd.
Clal Health -	Clal Health Insurance Company Ltd. (formerly "Aryeh Israeli Insurance Company Ltd." ("Aryeh")) (merged into Clal Insurance)
Clal Provident -	Clal Provident Ltd. (liquidated company, merged into Meitavit Atudot)
Clal Finance -	Clal Credit and Financing Ltd.
Clal Pension and Provident Funds -	Clal Pension and Provident Funds Ltd. (formerly Meitavit Atudot - Pension Fund Management Company Ltd. ("Meitavit Atudot"))
Canaf -	Canaf - Clal Financial Management Ltd.
Accounting Solvency Regime -	As defined in insurance circular 2018-1-3.
Economic solvency Regime -	The provisions of insurance circular 2017-1-9.
Atudot Havatika -	Atudot Pension Fund for Workers & Self-Employed Workers Ltd. (formerly Shevach)
IDB Group -	IDB Development and companies under its control
Clal Group or the Group -	The Company and companies under its direct and/or indirect control
NIS -	New Israeli Shekel
Investment Regulations -	The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Managing Companies and Insurers), 2012
Provident Fund Regulations -	The Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964

1.2.2. Terms

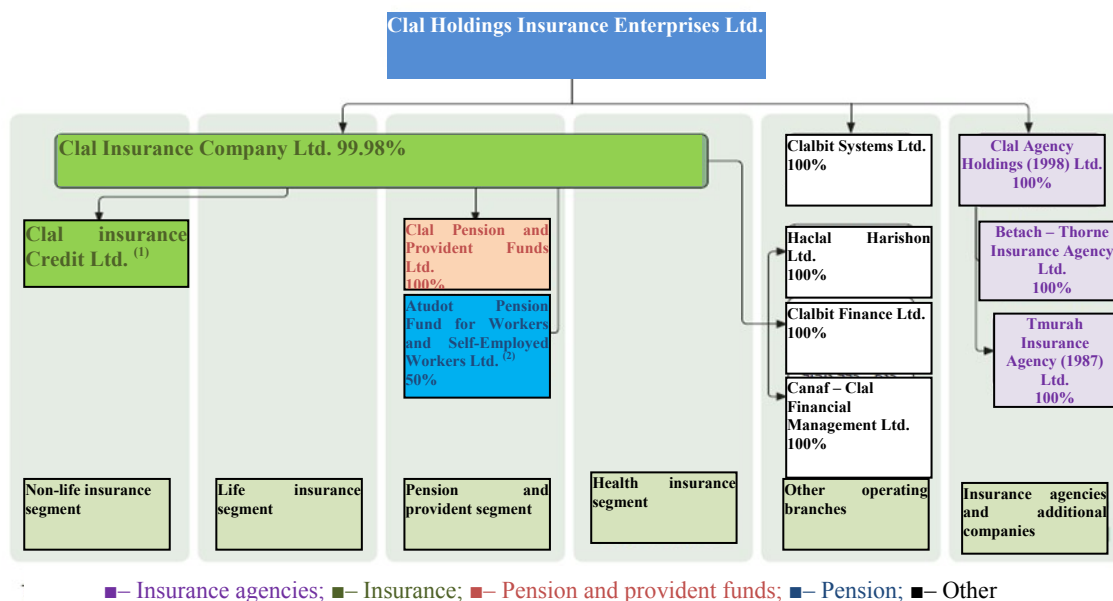
Designated Bonds -	CPI-linked government bonds issued by the state to insurance companies (of the "HETZ" type) and to pension funds (of the "Meiron" and "Arad" type), at interest and for a predetermined period.
Managers Insurance -	Trade name for a life insurance plan for salaried employees which has been approved as an insurance fund (annuity paying or non annuity paying).
Individual insurance -	Insurance prepared for individual policyholders - private individuals with whom the insurance company engages on an individual basis.
Investment-Linked / Profit Sharing Insurance -	An insurance plan according to which the insurance benefits to which the beneficiary is entitled are dependent on the returns generated by certain investments of the insurer.
Collective Insurance -	Insurance which is prepared by a certain policyholder for a group of people with shared characteristics, such as employees of an employer, members of provident funds, or members of a corporation.
Institutional Entity -	Insurer and managing company.
Insurance Premiums / Premiums -	The amount paid by the policyholder to the insurer with respect to the insurance contract, in consideration of the insurer's undertaking to pay, upon the occurrence of the insurance event, insurance benefits to the beneficiary.
Contributions -	The amount deposited by a member in a pension fund and/or provident fund.
Fees -	The total sum of all amounts which are added to net premiums to cover the insurer's expenses.
Managing Company -	A managing company of a pension fund or provident fund.
Underwriting -	The process of evaluating the risk and reaching a decision regarding whether to accept the risk to the insurance, and if so under what conditions / cost, in accordance with the Company's instructions and experience.
Financial Margin -	The financial margin in guaranteed return policies is based on actual income from investments in the reporting year, less the guaranteed rate of return for the year times the average reserve for the year in the various insurance funds. The financial margin in investment-linked contracts is the total amount of fixed and variable management fees. The financial margin does not include additional income of the Company which is collected as a proportion of the premium (such as management fees from deposits), and is calculated before deducting investment management expenses.

Net Surplus Revenues -	An accounting recording method which is used in “long tail claim” branches, in which the profit cannot be recognized in the years proximate to the insurance year. In these branches, net surplus revenues are recorded in the balance sheet item until the revenue is recognized. A deficit is recorded upon its creation. (See Note 3(d)2(b)4.3 to the financial statements).
Net Premiums -	Insurance premiums without fees.
Accrual -	The total sum of amounts accrued in a pension fund and/or provident fund and/or insurance fund which are credited to their members / policyholders.
Retention -	The part of the insurance which the direct insurer keeps, and which is not covered by reinsurance.
Insurance Benefits -	Amounts which are required for payment in accordance with an insurance contract, upon the occurrence of an insurance event.

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

2.1. Diagram of holdings

Presented below is a diagram illustrating the structure of the Company's primary holdings¹, as of March 6, 2018:



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

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

The Company's primary shareholders as of March 1, 2018² are IDB Development, which holds, to the best of the Company's knowledge, primarily through a trustee, as specified below, approximately 39.79% of the Company's shares (and approximately 39.39% at full dilution³)⁴ and Bank Hapoalim holds, to the best of the Company's knowledge, approximately 9.47% of its shares (and approximately 9.38% at full dilution).

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

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

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

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

³ "At Full Dilution" - The holding rate, at full dilution, was calculated as of March 1, 2018 (the "Calculation Date") based on the theoretical assumption of the exercise of all warrants which are allocated in the name of employees from the 2013 plan (as of the publication date of the report - 777,329 warrants), all warrants allocated on behalf of employees according to the 2015 plan (as of the publication date of the report - 311,889 warrants) when the price of the Company's stock on the stock exchange reaches a price at which, according to the terms of the warrants plan, an automatic exercise will be implemented, and subject to the adjustments specified in the 2013 plan, in the 2015 plan, and in the agreements regarding allocation to offerees.

⁴ It is noted that IDB Development pledged approximately 4.98% (approximately 4.92% at full dilution) of the Company's shares in favor of the holders of the bonds (Series K) which were issued by IDB Development. For details, see Note 1(b)(3)(b) to the financial statements.

- 2.2.2. In accordance with the Commissioner's requirement, IDB Development transferred, on August 21, 2013, approximately 51% of the issued share capital and voting rights of the Company which are held by IDB Development (hereinafter: the "**Means Of Control**") to Mr. Moshe Terry, who serves as the trustee for IDB Development, for the purpose of activating the authorities which are vested in him by virtue of the means of control, in accordance with the provisions of the deed of trust. In parallel, an irrevocable power of attorney was submitted to Mr. Terry (which was updated and signed on January 6, 2015), with respect to the control shares, for the purpose of exercising the authorities which are available by virtue of the control shares. For additional details, see Note 1b(1) to the financial statements.
- 2.2.3. In accordance with the Commissioner's letter dated December 30, 2014, IDB Development was required to formulate an outline for the sale of the control of the Company until June 2015, where the final date for the signing of an agreement for the sale of control was by December 31, 2015, and insofar as an agreement would have been signed by the foregoing date, the period for the receipt of the required authorizations and for the completion of the transaction would have been by June 30, 2016. According to the letter, the minimum holding rate for the purpose of holding control of the Company as of the present date amounts to 30% of the means of control. On January 7, 2016, IDB Development announced that the Commissioner had notified it that, in accordance with the letter dated December 30, 2014, and due to the fact that IDB Development has not met the dates specified therein, a terminating event has effectively occurred, as defined in the Commissioner's letter, and as a result, beginning on January 7, 2016, IDB Development and the trustee will be required to work towards the sale of the control shares, at a rate of no less than 5% every 4 months. As of the present date, IDB Development has sold 15% of the control shares in swap transactions.

For additional details regarding the process involving the sale of control and the sale of the control shares, including regarding legal proceedings which are being conducted on the matter, see Notes 1(b)(2) and 1(b)(3) to the financial statements.

2.3. **Description of the Company's business affairs and the general development of the Company's business affairs**

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

Insurance activity

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

Clal Insurance began operating in Israel in 1962, as a government insurance company under the name "Yovel Israel Insurance Company Ltd." (hereinafter: "**Yovel**").

In 1978, Yovel was acquired by Clal (Israel) Ltd., and its name was changed to Clal Insurance Company Ltd. Over the years, Clal Insurance acquired and merged various insurance companies, including Ararat Insurance Company Ltd., Elite Insurance Company Ltd., Eitan Insurance Company Ltd., and Aryeh Israeli Insurance Company Ltd., and also acquired insurance portfolios in Israel. In 1992, Clal Insurance acquired a part of the insurance portfolio of the insurance company "HaSneh", as well as the insurance portfolio of the insurance company "Tzur Shamir". Subsequently, insurance companies which had been acquired by Clal Insurance were merged into it, including Ararat, Elite, Eitan and Aryeh. The aforementioned acquisitions and mergers contributed to Clal Insurance becoming one of the largest insurance groups in Israel.

In 1998, Clal Insurance acquired the Israeli Clal Insurance Company Ltd., whose name was changed to Clal Credit Insurance Ltd. For additional details regarding the shareholders agreement in Clal Credit Insurance, see section 10.17.2 below.

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

Pension and provident funds

In the long-term savings segment, in the pension and provident branches, the Group operates through Clal Pension and Provident Funds, and holds a managing company of an old pension fund which manages an actuarially balanced pension fund, through Atudot Havatika, which is held by Clal Insurance and Bituach Haklai Central Cooperative Society Ltd., in equal parts.

The development of Clal Pension and Provident Funds is described below:

In 2004, Clal Insurance acquired Meitavit Pension Fund Management Company Ltd. (hereinafter: "**Meitavit**"), a company specializing in the management of new pension funds, and in 2006, merged it with Atudot Pension Fund (1996) Ltd., and changed its name to Meitavit Atudot.

In 2007, provident funds of Discount Bank and provident funds of Bank Hapoalim, which were partly held jointly with KGM Central Provident Fund of the Histadrut Employees Ltd., were acquired by the Group.

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

With respect to Atudot Havatika - in 2007, the management of Atudot Havatika was transferred from S.B.H. Pension Fund Management Ltd. (50% of which was acquired by Clal Insurance in 2005) to Atudot Havatika. Atudot Havatika is currently held by Clal Insurance and Bituach Haklai Central Cooperative Society Ltd., in equal parts. Atudot Havatika received, during the reporting year, investment management services from Canaf.

2.4. **Material changes in the Company's macro-economic environment during the reporting year**

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

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

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

2.5.1. **General**

2.5.1.1. **Expected changes in the control of the Company**

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

2.5.1.2. **Rating**

For details regarding the rating of Clal Insurance and Clalbit Finance, see Note 25(e) to the financial statements. For details regarding the possible implications of the rating reduction with respect to Clal Insurance and Clalbit Finance on the Company's goodwill, see section 10.16(c)(7) below.

2.5.1.3. **Low interest rate environment**

For details regarding the strengthening of the insurance reserves in a low interest rate environment, and its impact of the discount rate in life insurance, see Note 39(e1)(d) to the financial statements.

2.5.1.4. **Capital regime**

For details regarding the provisions of the economic solvency regime which entered into effect on June 30, 2017, see Note 16(e)(3) to the financial statements and Part B of the Report - Board of Directors' Report, section 3.2.3.

2.5.1.5. **The Company's shelf prospectus**

In April 2017, approval was received from the Israel Securities Authority for an extension of the Company's shelf prospectus by 12 months, until April 22, 2018.

2.5.2. **Human capital and organizational structure**

2.5.2.1. **Collective agreement**

On July 4, 2017, a new collective agreement (the "**Agreement**") was signed between the Company's subsidiaries: Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems, Clal Finance and Canaf (hereinafter: the "**Companies**") and the Histadrut New General Federation of Labor and the employee committee in the Group. The agreement extended the first collective agreement which was signed in the Group (on January 2, 2014) for a period of 4 years, from January 1, 2017 to December 31, 2020, subject to the agreed-upon changes, including a voluntary retirement program. For additional details, see section 10.7.3

below, Note 24(d) to the financial statements and Part B of the Report - Board of Directors' Report, section 3.1(f).

On November 13, 2017, the Histadrut announced that it is the representative employee organization for the employees of HaClal HaRishon. Following the aforementioned announcement, the managers are conducting negotiations towards the signing of an annex to the collective agreement in accordance with the Collective Agreements Law, 1957. For additional details, see section 10.7.3 below.

On February 26, 2018, IDB Development, the Histadrut New General Federation of Labor, and the Group's employee committee signed an agreement (the "**Agreement**"), according to which a bonus will be paid to the employees of the Company's group, upon the fulfillment of one of the following cases: (A) An agreement for the sale of the control of the Company will be signed and effectively (and irrevocably) completed, by way of the sale of IDB Development's entire holdings (approximately 39.8% of issued capital) in the Company, as a single unit; or (B) A permanent and unconditional permit for control is given to Mr. Eduardo Elsztain, the controlling shareholder of IDB Development, by the Commissioner, with respect to all of IDB Development's current holdings in the Company, whereby IDB Development holds all of its current holdings in the Company (the "Control Permit"). The agreement will expire on the date when IDB Development's holding rate in the Company falls below its current holding rate in the Company, as stated above (approximately 39.8%).

In accordance with the agreement, the bonus will be paid by IDB Development or by the Company (insofar as the payment of the bonus is approved by the competent organs and institutions in the Company). According to the terms of the agreement, the total amount paid by IDB Development in connection with the payment of the bonus will not exceed, in any case, NIS 80 million (plus employer's taxes, insofar as any apply to this amount) (and insofar as the bonus amount is paid by the Company, the payment amount will not exceed a total of NIS 120 million, plus employer's taxes which apply to this amount).

On February 26, 2018, IDB Development reported that the Board of Directors of IDB Development had approved the agreement. There is no certainty that any of the conditions for the payment of the bonus, as specified in the agreement, and as noted above, will be fulfilled.

The Company is not a party to the aforementioned agreement, and at this stage, is unable to estimate its effects on it, which depend, inter alia, on the fulfillment of the suspensory conditions for the implementation of the agreement, and on the implications which it may have on the Group and on the labor relations therein.

2.5.2.2. **Changes in company management**

On March 7, 2018, Mr. Izzy Cohen, who has served as the CEO of the Company and of Clal Insurance since November 1, 2012, announced his intention to conclude his tenure as CEO of the Company and of Clal Insurance. His tenure is expected to conclude in June 2018. The Board of Directors resolved, on March 11, 2018, to appoint a committee to search for and recommend a new CEO for the Company, led by the Chairman of the Board, Danny Naveh, which will include directors in the Company and in Clal Insurance (the "Search Committee"). The search committee will determine the work arrangements and the criteria for the selection of CEO candidates, will interview the candidates, will evaluate their suitability, and will submit its recommendations to the Board of Directors.

On January 1, 2017, the long term savings division was divided in a manner whereby the management of the shared division was split, and Mr. Yaron Shamay was appointed as the Life Insurance Division Manager, while Mr. Avi Rosenbaum was appointed as the Pension and Provident Funds Division Manager.

In October 2017, Moshe Arnst, the Headquarters Division Manager, announced his intention to conclude his position in the Company. The termination date of his employment will be in 2018, on a date which will be coordinated between the Company and Mr. Arnst.

On January 1, 2018, the Company's customers unit was established, and Mr. Daniel Cohen, Health Division Manager, was appointed, in addition to his position as the Health Division Manager, also as Customers Unit Manager.

In January 2018, Mr. Benny Gurevitz, CEO of Clalbit Systems and information systems administrator, announced his intention to conclude his position in the Company. Mr. Gurevitz is expected to conclude his position on May 1, 2018. Mr. Adi Kaplan has been appointed in his place, and will begin in the position on that same date.

2.5.2.3. **Changes to the organizational structure**

Long term savings division

As specified in Note 43(e)(1) to the financial statements, beginning on January 1, 2017, the Company split the long-term savings division into two separate divisions: the life insurance division, and the pension and provident funds division, led by Mr. Avi Rosenbaum, for the purpose of providing a separate business focus for each of the segments, in light of the significant regulatory changes which have taken place in recent years.

Customers

Beginning in January 2018, a customers unit was established which concentrates, under one roof, the Group's direct activities vis-à-vis customers on behalf of the business, non-life insurance, health, life insurance and pension and provident divisions.

2.5.3. Regulatory reforms

In recent years in general, and in the reporting year in particular, significant regulatory reforms were promoted and are being promoted in the various insurance and savings branches, primarily including reforms which are intended to directly or indirectly reduce premiums and management fees, through the use of various regulatory tools. Worthy of note, inter alia, was the establishment of a default pension fund by the Commissioner as a means of reducing management fees, the intervention in the terms and tariffs of loss of working capacity products, the significant change to the tariffs of compulsory insurance, the changes to the terms and tariffs of health products, through an effective reduction of the maximum limit for approved tariffs and with respect to the coverage part, without determining in advance the update mechanism for tariffs, during the insurance period. The regulatory intervention creates changes in the engagement structure and in the reciprocal relationships between institutional entities, agents, employers and customers, in a manner which could affect the ability of institutional entities to link their income to their expenses, and could impose on them significant operating expenses and reduce their profitability. The application of some of the reforms began during the reporting period, while others are expected to be applied in the future and/or are in various stages of regulatory process or discussion. At this stage, it is not possible to estimate the full impact of the steps which are being implemented in the insurance and pension market in Israel. The entire set of applied and proposed changes, the intervention in tariffs, management fees and sale processes, the operational burden due to the pace, scope and complexity of the regulatory changes, and the need to implement adjustments to the automation systems and work processes, have implications on the business model in the branch, and currently affect and will continue to affect the insurance market in Israel in the coming years, and the profitability thereof, including, inter alia, the value of new business (VNB) which will be sold, the embedded value with respect to branch operations, and the solvency ratio in accordance with the economic solvency regime which was applied during the reporting period. For additional details, see Part B of the report - board of directors' report, section 3.2.3.

The information presented on all matters associated with the regulatory changes constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report. These changes, and the actual implications thereof, may differ from the forecast, including, inter alia, in light of the uncertainty involving their occurrence, and involving all of their implications, which are dependent, inter alia, on the conduct of distributing entities, distributing entities and policyholders, and on the reciprocal relationship between the various reforms.

2.5.4. Long term savings segment

2.5.4.1. **Reforms in the segment**

In recent years, the Commissioner has promoted reforms in regulation in the long term savings segment. For details regarding the aforementioned reforms, see section 6.2 below. As part of the above, the Company continued or began implementing, during the reporting year, significant reforms, including, inter alia, the members and policyholders data cleansing project (in accordance with the provisions of the circular regarding the cleansing of members' data in institutional entities); The clearing house activity and the operational interface between employers and institutional entities on all matters associated with all matters pertaining to in provident funds (in accordance with the provisions of the Control of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014); Regarding increased deposits to pension products, following regulatory changes; Consolidation of inactive accounts in pension funds; The creation of default pension funds and preparation for the process of choosing the pension fund which will serve as the default pension fund by the employer; Changes to the compensation structure of agents following the legislative amendments involving the payment of commissions without linkage to the management fees which are collected from customers, and non-payment of commissions to license holders with respect to pension products regarding which a pension marketing process was not performed, and the launch of loss of working capacity policies in accordance with the circular "guidelines with respect to loss of working capacity insurance plan". For details, see sections 6.1.3 and 6.2.1 to 6.2.6 below, and section 10.8.3.1 below.

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

During the reporting period, and as part of the Company's strategy in recent years to upgrade its long-term savings systems, the Boards of Directors of the Company and of Clal Insurance approved a resolution in principle to continue expanding the process of upgrading the automation systems, in the life insurance segment in Clal Insurance, further to the significant adjustments and improvements which were implemented in recent years, for the purpose of upgrading and handling the core systems in life insurance, as part of the "road map" project. As part of the above, a decision was reached to conduct an evaluation regarding the feasibility of converting the ALIS system into the BariNet system, which is used in the health insurance segment, while performing the required adjustments. It is hereby clarified that approval for the actual systems upgrade is subject to discussion and to approval in the aforementioned boards of directors and/or to feasibility evaluations, and there is no certainty that such approvals will be received. The aforementioned systems upgrade process involves a significant investment, which is distributed over several years, further to the significant investments which the Company has already made in the automation of the long-term savings systems in recent years.

2.5.4.3. **Replacement of provident funds operator**

In January 2017, the provident funds and study funds which were operated by Bank Hapoalim and Dov Sinai were transferred to the operation of Bank Leumi le-Israel and Leumi Capital Market Services Ltd. (hereinafter, jointly: the "**Bank**") (excluding the "Bar" provident fund, which was transferred to the operation of Bank Leumi in the first quarter of 2018). For additional details, see Note 43B(3) to the financial statements.

2.5.5. Non-life insurance segment

2.5.5.1. **Reforms in the motor insurance segment**

During the reporting year, the Commissioner advanced several significant reforms in the non-life insurance segment. In the compulsory motor insurance branch, the Commissioner continued to advance a reform involving an update to compulsory motor insurance tariffs, whose impact began in 2016, and continued in 2017 as well. For additional details, see section 7.1.1.1c(1) below. During the reporting year, an amendment to the consolidated circular entered into effect regarding the

method for settlement and handling of water damages claims in the apartment insurance sub-branch. For additional details, see section 7.1.1.4(a) below.

Along with the above, regulatory changes entered into effect with respect to the discount interest rate for National Insurance pensions, which are expected to affect the insurance amounts which the insurance companies are required to pay to National Insurance within the framework of subrogation claims submitted by the National Insurance Institute to insurers, within the framework of the compulsory and liabilities branches, and to increase them. For details regarding the possible impact of these changes on the insurance segments, see sections 7.1.1.1d(1) and 7.1.1.1d(2) below.

Additionally, during the reporting year, various regulatory directives were published which could affect the loss adjustment method with respect to motor property claims, including the draft insurance circular "amendment to the provisions of the consolidated circular - provisions in the motor property branch", as well as draft regulations regarding vehicle loss adjustment and prohibited influence on the judgment of vehicle loss adjusters. For additional details, see section 7.1.1.2(b3)(3) and (4) below.

2.5.6. Health insurance segment

2.5.6.1. **Reforms in the segment**

During the reporting year, a regulatory reform entered into effect in the international travel insurance segment, which affects the structure of insurance products in the segment. Additionally, during the reporting year, regulatory directives entered into effect which establish a new framework with respect to collective long-term care insurance policies (which are not for health fund members), and prevent the continued renewal of those insurance policies under the previous framework. During the reporting year, continued the Commissioner promoting reforms in the health insurance segment, including increased use of digital means for the purpose of submitting information to policyholders, with the aim of making the information regarding their insurance products more accessible. Additionally, further regulatory changes are expected which, as of the reporting date, have not yet been published as a final version, which primarily involve the calculation of claims in the long-term care insurance segment. For additional details, see sections 8.1.2(1)(b), 8.1.2(2) and 8.2f below.

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

For details regarding additional material regulatory changes which affected the Company's business affairs during the reporting year, see the operating segments and section 10.2 below.

3. **Operating segments**

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

3.1. **Long term savings segment**

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

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

The products in the segment primarily provide savings solutions for the retirement period (the "Savings"). Additionally, most of the products in the segment combine, or can combine, insurance coverages for various risks, including insurance coverage for cases of death, disability, loss of working capacity and critical illness (the "Risk"). (See section 6 below).

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

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

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

3.2. Non-life insurance segment

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

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

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

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

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

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

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

3.3. Health insurance segment

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

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

3.4. **Other activities**

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

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

The description of operating segments presented below is provided separately, excluding on matters pertaining to all of the Group's operating segments, which will be described together under section 10 below.

4. **Investments in the Company's capital and shares**

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

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

4.2. **Details of material over the counter transactions which were performed by interested parties in the Company with the Company's shares⁵, during the last two years:**

For details regarding the sale of 15% of the Company's control shares, which were held by the trustee, in accordance with the Commissioner's demand sell the Company's shares in accordance with the outline for the sale of the control of the Company, within the framework of three swap transactions which were performed by IDB Development, see Note 1(b)(3) to the financial statements.

5. **Dividend distribution**

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

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

A dividend distribution in the Company is affected by the ability of investee companies to distribute dividends, in light of their capital requirements, including those which apply to the insurance companies in the Group in accordance with the provisions for adoption of the Solvency II-based solvency regime, as described above, and also in light of their liquidity requirements. For details regarding the Commissioner's letter to the managers of the insurance companies, from October 2017, regarding the dividend distribution, see Note 16(e)(4) to the financial statements.

For details regarding the balance of profit, as defined in section 302 of the Companies Law, which are distributable as of the date of the report, see Note 16(c) to the financial statements. It is noted that the balance

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

of distributable profits is subject to additional restrictions, as specified in Notes 16(e) and 16(f) to the financial statements.

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

Part II - Description and Information Regarding the Company's Operating Segments6. Long term savings segment

On January 1, 2017, an organizational change was implemented, in which split the long term savings division into two divisions: the life insurance division and the pension and provident funds division. The Company views the life insurance, pension and provident operations as a part of the long-term savings operating segment, due to the similarity between the business characteristics of those operations.

6.1. **Products and services**6.1.1. Description of the operating segments and insurance coverages

The products in the segment primarily provide solutions for the retirement period to salaried employees and self-employed workers, private investment solutions and coverages in case of death, disability and loss of income due to loss of working capacity.

Life insurance products

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

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

Pension funds

Pension funds constitute a mutual insurance fund, and operate in accordance with regulations which may change from time to time. A pension fund member is entitled to receive, beginning on the retirement date, lifetime annuity payments, which are based on annuity factors which do not guarantee life expectancy, and the annuity may change from time to time, in accordance with the actuarial balance of the fund.

Old pension funds were closed to new members in 1995, who may join the new pension funds which were established in that year. There are two types of new pension funds: (a) comprehensive pension funds, which allow pension savings for old age annuity purposes, as well as death and disability insurance coverages. The comprehensive pension funds partially benefit from designated bonds, and deposits can be made to them up to the maximum limit set forth in law (see details in section 6.1.1.1 below); and (b) general (supplementary) pension funds, which do not benefit from designated bonds, and which are not subject to a maximum deposit limit. The general pension funds allow pension savings for the purpose of the old age annuity, and also allow the purchase of death and disability insurance coverage.

Provident funds

Provident funds provide savings solutions both for the long term (such as provident funds for severance pay and compensation to salaried employees) and for the medium term (study funds), without insurance coverages which are purchased directly from the from the managing company. A member is entitled to withdraw the amounts which have accrued in their favor in the provident funds, excluding study funds, in a one-time amount or as an annuity, in accordance with the period during which they deposited them. Monies which have accrued

in favor of a member in study funds are withdrawn in a one-time payment. For additional details, see section 6.1.1.1 below.

In accordance with the Control of Financial Services Law (Provident Funds) (Amendment No. 15), 2015 (hereinafter: "**Amendment 15 to the Provident Funds Law**"), beginning in November 2016, provident funds for investment were created, which are intended to allow a capital-based savings channel for individual funds, which included an incentive for the withdrawal of the funds which have accrued therein as an annuity during the retirement period. For additional details regarding provident funds and provident funds for investment, see section 6.2.1 below.

The provident fund branch also includes central provident funds, in which the member is the employer, where the deposited funds are intended to ensure the rights of its eligible employees.⁶ Beginning in 2011, it is no longer possible to deposit funds into central provident funds for severance pay, however, it is possible to transfer amounts from one central fund for severance pay to another central fund for severance pay, or to withdraw funds, subject to the provisions of the law. For details regarding provisions pertaining to restrictions on the management of central provident funds, which were received during the reporting year, see below.

Further to the products reform, according to which, beginning in 2011, it is no longer possible to deposit funds in central provident funds, in June 2017, the Tax Authority published an income tax circular on the subject of "accrued balances in central severance pay funds" (the "**Circular Regarding Balances in Central Funds**"), which replaced a circular from December 2016 on the same matter, on the subject of provisions regarding the calculation of "surplus in the central fund", the use thereof, and the transfer thereof to the employer, for the purpose of financing regular deposits to the severance pay component in personal provident funds of all of the employer's employees. In March 2018, an update to the aforementioned circular was published, in which the provisions of the circular regarding the use of the surplus in a central fund were postponed to March 31, 2019. The circular also determines provisions regarding the taxation of employers with central funds which do not have employees, and provisions regarding the regulation of ownership in central severance pay funds, in cases where there is a difference between the owner of the central fund and the employer of the employees for whom the amounts are deposited.

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

According to the Company's estimate, the provisions of the circular regarding balances in central funds are expected to result in significant withdrawals from central severance pay funds, together with the facilitation of the option for employees to liquidate central funds into personal funds, while increasing competition over the mobility of central funds between the entities, before their liquidation into personal funds. For details regarding the scope of managed assets in central provident funds which are managed by the Group, see Note 17 to the financial statements.

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

⁶ The central provident funds are primarily central provident funds for severance pay.

6.1.1.1. Presented below are the main distinctions between the current main products:⁷

	Life insurance	New comprehensive pension funds	Provident funds
Engagement type	A contractual undertaking between the insurer and the policyholder. The undertaking cannot be changed other than in accordance with the provisions of the policy.	The member is a member of a fund, which are operated and managed by the managing companies, in accordance with the provisions of their regulations . The regulations may change from time to time, and in general, the member's rights and obligations are determined according to the fund regulations, which are in effect as of the eligibility date.	
Insurance coverage ⁸	The insurance coverage can be adjusted to the customer's needs.	The insurance coverage is included in the provisions of the regulations, and can be adjusted as part of the options set forth therein, and additionally, supplementary insurance coverage can be acquired from the insurer.	The basic version does not include insurance coverage; however, the acquisition of insurance coverage from the insurer is possible. ⁹
Annuity factor ¹⁰	In all annuity-based policies which include an annuity factor, the annuity factor is protected against changes in life expectancy. Beginning in 2013, it is no longer possible to sell policies with guaranteed annuity factors, except to policyholders aged 60 or older. ¹¹	The annuity factor is not protected against changes in life expectancy. The annuity may change from time to time in accordance with the actuarial balance of the principal.	No underlying factor ¹²

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

⁸ Under the Control of Financial Services Regulations (Provident Funds) (insurance coverages in provident funds), 2012, it is currently possible to acquire from an insurer, within the framework of and out of the pension provisions, insurance coverage to cover risks of death, longevity for those over 60, risks of disability, and insurance coverage for release from the payment of premiums in case of disability, to members of pension funds, provident funds and insurance.

⁹ A managing company is entitled to market, to active members of the provident fund which it manages, insurance policies (as specified in footnote 8 above), after receiving an insurance corporation agent license. ⁸ As of the reporting date, Clal Pension and Provident Funds does not hold an insurance corporation agent license, and does not market to active members of provident funds which are managed by it, the aforementioned insurance coverages.

¹⁰ In new pension funds and annuity-based policies in life insurance, upon the withdrawal of funds by the member through an annuity, the savings amount is converted into a monthly annuity through division by a factor reflecting life expectancy (hereinafter: the "**Annuity Factor**"). In the pension funds and in collective life insurance policies which do not include a life expectancy guaranteed annuity factor, the annuity factor is determined proximate to the date when the annuity begins to be received.

¹¹ In general, beginning in 2013, annuity-based policies with annuity factors which include a life expectancy guarantee can be purchased only from age 60 (see section 6.2.4A below). Beginning in December 2015, investment-linked annuity-based policies which combine savings with annuity factors which include a life expectancy guarantee can be marketed to policyholders under age 60, who wish to transfer the aforementioned policies, provided that they purchased, from 1991 until December 31, 2013, policies with annuity factors which include a life expectancy guarantee. For details regarding the circular on the subject of the marketing of life insurance policies which include annuity factors that embody a life expectancy guarantee, see section 6.2.4a below.

¹² For details regarding the provisions of Amendment 13 to the Provident Fund Law, regarding the cancellation of the distinction between an annuity paying provident fund and a non annuity paying provident fund, and regarding the possibility of performing an annuity withdrawal also from a provident fund for savings, through a combination of a periodic withdrawal (annuity) and acquisition of longevity insurance coverage, see details in section 6.1.1.3 below.

	Life insurance	New comprehensive pension funds	Provident funds
Mutual insurance	None	A mutual insurance fund. The members' rights are affected, inter alia, by demographic data of all members in the fund, such as health condition and life expectancy. The actuarial assumptions are evaluated from time to time and affect the rights of all members and annuity recipients in the pension fund, which may change accordingly.	None
Designated bonds¹³	For details regarding guaranteed return policies which were issued by the end of 1990 only, see section 6.1.1.2 below.	Designated bonds at a rate of 30% of the total assets in the fund, which are associated, at various rates, to annuity recipients and to members of different ages. See details in section 6.1.1.2 below.	None ¹⁴
Management fees¹⁵	Rate of accrual and of deposits ¹⁶ , see details in Note 30 to the financial statements.	Rate of accrual and of deposits, see details in section 6.1.2.2 below.	Rate of accrual and of deposits ¹⁷ , see details in section 6.1.2.2 below.
Beneficiaries	Beneficiaries who are defined by the policyholder, in his discretion.	As specified in the regulations - mostly survivors.	Beneficiaries who are defined by the member, in his discretion.
Regulatory restriction on the deposit amount¹⁸	No restriction.	Up to 20.5% of twice the average salary in the economy.	No restriction.

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

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

¹³ For details regarding the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Fund), 2016, in connection with the scope of allocations of designated bonds to pension fund members of various ages, see section 6.1.1.2 below.

¹⁴ Excluding a limited number of guaranteed return provident funds backed by Accountant General deposits.

¹⁵ The foregoing does not include management fees and expenses of various kinds which are collected in all or some of the aforementioned products, for example, with respect to investment management expenses, policy factor or collection factor, etc.

¹⁶ In traditional policies and in policies of the "Preferred" (Meitav) type, there are no management fees as a rate of the deposits.

¹⁷ Study funds and central funds do not have management fees as a rate of the deposits.

¹⁸ Does not include reference to restrictions according to the terms of the products. Additionally, all of the pension products include a tax benefit up to the maximum limit set forth in the Income Tax Ordinance. For details regarding the amendment to regulation 19 to the Income Tax Regulations (rules for the approval and management of provident funds), 1964, regarding the restriction of the maximum limit to two and a half times the average salary in the market, and regarding the determination of a maximum limit for employer deposits with respect to the severance pay component, up to three times the amount of the average salary in the market, see section 6.2.2 below.

foregoing will henceforth be called "annuity paying provident fund" and "provident fund for savings", respectively¹⁹.

6.1.1.2. **The pension savings products differ from one another also regarding the way in which savings funds are invested**

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

- **Life insurance**

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

As of December 31, 2017, the holding of the designated bonds constitutes approximately 77% of total assets held against liabilities with respect to guaranteed return policies. Over the years, the Group redeemed, in accordance with the approval of the Ministry of Finance, some of the designated bonds, with the aim of realizing surplus returns. These funds were transferred to other investments. The Group cannot re-acquire designated bonds with respect to the part of the reserves which was redeemed by it, and as a result, the Group's exposure within the framework of the free investments increased. In accordance with the mechanism for settling of accounts which was determined vis-à-vis the Ministry of Finance, the holding of designated bonds will be decreased over the period of the guaranteed return policies; however, it will not be decreased below a rate of 50% of total assets held against liabilities with respect to guaranteed return policies.

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

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

- **Provident funds**

Since the mid-1980's, designated bonds²⁰ have not been issued for the provident funds, and the assets are invested in investments in accordance with the restrictions specified in the Investment Regulations.

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

- **Pension funds**

At present, the old and new comprehensive pension funds enjoy guaranteed returns on some of the assets of the fund which are backed by designated bonds, up to a maximum rate of 30% of the total assets. At any time when the rate of designated bonds decreases below 30% of total assets in the fund, the funds will be entitled to acquire designated bonds which bear real interest at an annual rate of 4.86%. However, the rate of designated

¹⁹ With respect to funds in capital-based insurance policies which were deposited before 2008 - these will be referred to as capital-based insurance funds. With respect to funds which were deposited in provident funds before 2008 - these will be referred to as provident funds for compensation.

²⁰ Excluding a limited number of guaranteed return provident funds.

bonds relative to members in the new pension funds which, prior to January 1, 2004, were already eligible for a pension, will amount to 70% of total assets. For details regarding the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Fund), 2016, in connection with the scope of the allocation of designated bonds which are intended for pension fund members of various ages, see this section 6.1.1.2 below.

Additionally, the State of Israel provides "compensation" to the old balanced pension funds, with respect to the reduction of the issuance of designated bonds, which was performed over the years, by guaranteeing the difference between the interest on the old bonds (5.57%) and 4% (1.57%) with respect to the assets which are not designated bonds, and are invested in the free market, and by guaranteeing the difference between the interest on the old bonds of the "Meiron" type (5.57%) and the interest on the new bonds of the "Arad" type (4.86%), with respect to the part of the assets which are invested in new designated bonds²¹.

Additionally, in May 2003, the Ministry of Finance announced that a safety buffer would be provided for the old funds in the arrangement, in order to protect the members and retirees of the funds in the arrangement against volatility in returns. In July 2012, the Ministry of Finance approved the application of the safety buffer also to the old funds which are not included in the arrangement, including Atudot Havatika. In January 2017, the Insurance Law was amended in a manner which formalized the provision of the aforementioned safety cushion.

Crediting of Returns in New Comprehensive Pension Funds Regulations

Further to the publication of the report of the task force to increase certainty in pension savings, which included, inter alia, recommendations to change the allocation of designated bonds to pension funds, in a manner which increased the scope of allocation of designated bonds to retirees, due to the high level of certainty which they require upon receipt of the annuity, and for senior savers who are approaching retirement age, as well as a recommendation to gradually decrease the scope of allocation of designated bonds to young savers, due to their expected long investment horizon, in March 2017, the **Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Fund), 2016** (hereinafter: the "**Designated Bond Return Regulations**"), were published. The aforementioned regulations include provisions regarding the method used to credit returns to members and retirees in a new comprehensive pension fund (the "**Designated Bonds Returns**"). As opposed to the situation which prevailed until the date of entry into effect the regulations, in July 2017, according to which the crediting of designated bond yields was done in a uniform manner for all members and annuity recipients in the fund, the regulations determine that a managing company will credit designated bond yields to members of a new comprehensive pension fund which it manages, in the manner specified below:

- (A) Annuity recipients - the crediting of designated bond yields to annuity recipients will be done according to the ratio between 60% of the total assets of the annuity recipient and the total fund assets which were invested in designated bonds.
- (B) Members aged 50 or older - the crediting of designated bond yields will be done according to the ratio of between 30% of the total accrued balances in the fund to members of this group, and the total fund assets which were invested in designated bonds.
- (C) Other members - the crediting of designated bond yields will be done according to the balance of returns in the fund which are due to the investment in designated bonds, after the crediting of returns to the two aforementioned groups.

²¹ This is true regarding the population of old fund members who joined the fund until December 31, 1994. Members of Dor Habenayim, who joined the old fund between January 1, 1995 and March 29, 1995, were given compensation at a reduced rate, through a similar mechanism.

The Designated Bond Return Regulations established a transitional provision according to which, until the end of 2023, the crediting of designated bond yields, both to members aged 50 or older, and to other members, will be as specified in section (c) above, in other words, after first crediting the designated bond yields, as stated above, to the Group of annuity recipients. It was further determined that the Commissioner will be entitled to increase the rate of crediting designated bond yields to annuity recipients in the fund, if he has found that the rate of crediting designated bond yields to members aged 50 or older, and to other members, exceeds half a percent relative to another fund, and that the aforementioned difference may disrupt the actuarial balance in the fund. Further to the above, in June 2017, a circular was published regarding rules for determining the method by which the Commissioner will evaluate and update the rate of crediting returns in designated bonds for annuity recipients in the funds, in the foregoing circumstances.

It is noted that the Designated Bond Return Regulations do not change the rate of bonds which a managing company of a new comprehensive pension fund is entitled to acquire, which will remain as 30% of the total fund assets²².

In December 2017, the Supreme Court dismissed a petition which was filed by the forum of pension savers in Israel and the Association of Investment Houses, which was joined by the insurance companies, against the Minister of Finance and others, according to which the issuance of designated bonds for the new pension funds only constitutes unlawful discrimination of the provident fund members and life insurance policyholders relative to the savers in new pension funds.

The entry into effect of the Designated Bond Return Regulations, and the allocation of designated bonds in accordance with age groups, may create variability in the allocation method of designated bonds between members who belong to the same age group in the various pension funds, may create preference for the pension products over other pension products, beginning from the stage near retirement age, and may also create preference for joining or transferring to certain pension funds, in accordance with the mix of ages of fund members. This trend may increase, particularly towards retirement age, and in light of the combined impact of these provisions together with the provisions regarding assumed returns in pension conversion factors for new pension funds, as specified in section 6.2.4b below, and the provisions of the circular regarding the discount on management fees for annuity recipients. On the other hand, this trend could be moderated, due to the fact that the acceptance of members at retirement age could create a negative preference for new members to join funds in which the rate of assets associated with annuity recipients is high, relative to other pension funds, as specified above.

Additionally, changes in the allocation of designated bonds, as stated above, may result in a competitive advantage with respect to the funds which are designated for the payment of annuities proximate to and after retirement age, relative to other pension products, increase the competition between the pension products and the other products, and amongst the pension products themselves, and could accordingly affect the management fees which will be collected.

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

²² Likewise, no changes will be made to the rate of designated bonds relative to members in the new pension funds which, prior to January 1, 2004, were already eligible for a pension, and which amounts to 70% of total assets.

regarding the possibility of transferring old age annuity recipients, and the conduct of competing entities, distributing entities and the choices of members and policyholders.

6.1.1.3. **Withdrawal of funds directly from provident fund for savings - Changes to pension savings products - Amendment No. 13**

In Amendment No. 13, a possibility was established for direct withdrawal of funds from a provident fund for savings, through a combination of an annuity (withdrawal of the accrued amount in payments from age 60), plus longevity insurance coverage which will be acquired from an insurance company, as opposed to the prior situation, according to which, in order to withdraw funds designated for annuity from a provident fund for savings, the funds should be transferred to an annuity paying provident fund. As of the publication date of the report, final directives have not yet been published regarding the direct withdrawal of monies from a provident fund for savings, and provident funds for savings have not yet begun directly paying annuities.

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

The information presented on all matters associated with the possible future implications of the directives regarding withdrawal from provident fund for savings constitutes forward looking information, which is based on the Group's estimates and assumptions as of the publication date of the report. Actual implementation may differ from the forecast, inter alia, in light of the final version of the supplementary draft circular on the subject, the conduct of competing institutional entities, the cross-effects of additional regulatory changes, including the Crediting of Returns in New Pension Funds Regulations, and the provisions of the circular regarding management fees for annuity recipients, and the preferences and conduct of members and policyholders.

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

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

6.1.2.1. **Life insurance branch**

a. Non-life

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

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

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

- **Collective insurance**

A collective insurance agreement is intended to provide insurance coverage in case of death or loss of working capacity, without a savings component, to groups which include over 50 policyholders among whom a shared connection exists. The agreement is subject to the Control of Insurance Business Regulations (Collective Life Insurance), 1993 (“**Collective Life Insurance Regulations**”), or the Control of Finance Services Regulations (Insurance) (Loss Of Working Capacity Insurance), 2006 (the “**Loss Of Working Capacity Regulations**”), as applicable, and is also subject to the Commissioner's circulars. A collective life insurance agreement is intended to provide insurance coverage in case of death, to which can be added insurance against accident, illness and disability risks, whereas the collective loss of working capacity insurance agreement is intended to provide insurance coverage in case of illness or accident, due to which the policyholder has lost the capacity to work.

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

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

The Company manages collective policies over many years. The Company worked, also during the reporting year, on the cleansing of policyholder data in collectives, and worked to change premiums in certain collectives, and to discontinue the engagement with other collectives, due to profitability considerations. For additional details, see Note 42(a)(a4)(2) to the financial statements.

- b. Details of the main insurance plans in the life insurance segment**

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

- **Insurance of the traditional type**

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

- o **Policy of the traditional pension type** - A policy in which most of the premiums are intended for the payment of a pension which will be paid on the date of retirement from work. The pension amount to be paid, and the premium amounts, are determined on the policy issuance date.
- o **Policy of the traditional savings type** - A policy in which all accrued premiums are paid as savings. The redemption value is determined on the policy issuance date, and is derived from the premiums.

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

Policies of the traditional type were the only products sold until 1982 as individual insurance, compensation for the self-employed and managers. Policies of the mixed and pension types continued being marketed as managers insurance until June 2001, and as individual insurance and as compensation for the self-employed until the end of 2003, in addition to other products which were sold in parallel.

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

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

The main characteristics of this product include:

- o The policy is divided into two components - after deducting expenses in a fixed amount, a certain percentage of the premiums is accrued as savings, and the balance of premiums is designated for the acquisition of insurance coverage in case of death, and as operating and marketing expenses (the "**Risk Component**"). Until the end of the 1990's, the original premium rate which was designated to savings in these policies was mostly 72%. From the beginning of 2000's, the rate designated to savings was originally, for the most part, 80% and higher. Over the years, changes have been made to the mix of components, as stated in some of the policies.
- o With respect to deposits which were made until 2000, the policyholder can choose, proximate to the annuity receipt date, whether to receive the accrued savings as a capital payment or as a pension, according to the annuity factor which was determined in the policy on the policy acquisition date. With respect to deposits which were made beginning in 2000, the policyholder was required to choose, on the acquisition date, between a deposit to: (A) A capital policy or a capital annex which was attached to the fixed-payment policy - in which it was possible to designate the accrued savings to a capital track, with no option for conversion to a pension payment; and (B) A fixed-payment policy, under which the accrued savings could be converted into an annuity payment based on an annuity factor with guaranteed life expectancy, which was determined on the policy acquisition date.
- o In policies marketed until 2000, policyholders who reached retirement age have the option to choose among several possible annuity receipt tracks. In all of the tracks, annuities are paid based on guaranteed annuity factors. Beginning in 2001, the policyholder is entitled to payment of an annuity with a guaranteed life expectancy annuity factor, throughout his entire lifetime, and in one track only where, in case of his death before payment to the policyholder of a minimum number of 240 monthly annuity payments, the balance of the annuities will be paid to the beneficiaries; Additionally, the policyholder has the option to choose additional tracks, under different conditions, for which the guaranteed life expectancy annuity factor is determined on the annuity receipt date, in accordance with the policy terms.

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

- **Insurance of the profile type**

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

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

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

- o In 2013, Clal Insurance adjusted the managers' insurance policy and the self-employed insurance policy of the “profile” type, which were marketed by it, to changes in the management fees, in accordance with the Management Fees Regulations, as specified in section 6.1.2.3 below. Additionally, in light of the annuity factor reform, beginning in January 2013, the option to sell new life insurance plans which include annuity factors which include a life expectancy guarantee was restricted to policyholders who have not yet reached age 60, as specified in section 6.2.4a below.²³In the circular regarding the mobility of guaranteed annuity factors, provisions were determined which allow the marketing, mobility and retention of investment-linked life insurance policies which combine savings, with guaranteed annuity factors, as specified in section 6.2.4a below.

For details regarding new products, see section 6.1.3 below.

Under the aforementioned profile policies, the default track involves the payment of an annuity with a guaranteed life expectancy annuity factor, throughout his entire lifetime, and in case of his death before payment to the policyholder of a minimum number of guaranteed monthly annuity payments (240 payments), the balance of the annuities will be paid to the beneficiaries. There are also alternative tracks to receive an annuity, as chosen by the policyholder. The annuity tracks and the annuity factors in those policies were determined on the retirement date, except with respect to policyholders who purchased the policy after age 60, and who chose an insurance plan with annuity factors which include a life expectancy guarantee.

²³ With respect to 2013, the Commissioner published a marketing permit, in which he permitted the marketing of life insurance contracts which include annuity factors which include a life expectancy guarantee, also from certain policyholders, for one year, in accordance with the conditions which were determined by him.

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

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

For details regarding the management fees which are collected in the main life insurance policies, see Note 30 to the financial statements.

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

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

The main risk coverages include:

- **Pure risk insurance - individual** - Life insurance in case of death, without a savings component. The plan guarantees to beneficiaries a predetermined insurance amount if the policyholder passes away during the insurance period. The insurance benefits are paid to beneficiaries as one-time compensation, or as a monthly amount for the period determined in the policy. In case of a risk plan which is intended to cover the balance of debt on a mortgage loan, the insurance amount is updated and the insurance benefits are paid to the irrevocable beneficiary, while the remainder, if any, is paid to the beneficiaries. Some types of risk insurance allow the policyholder to acquire life insurance in case of death, with no need for an advance medical underwriting process, where in such case, the insurance coverage in the first three years of the insurance period is with respect to death due to accident only, and in the subsequent period, with respect to death for any reason.
- **Loss of working capacity insurance** - An insurance plan which combines monthly compensation, at a rate of which generally does not exceed 75% of the policyholder's salary, subject to certain underwriting restrictions in case of a salary increase. The insurance benefits are paid in monthly payments, commencing from the end of the waiting period, and for as long as the policyholder is incapable of working, but no later than the end of the insurance period. In addition to the monthly payments paid to the policyholder, the policyholder is released, in general, from premium payments and they are paid by the insurance company for as long as the policyholder is incapable of working, but no later than the end of the insurance period ("**Release**"). For details regarding the circular regarding "guidelines regarding loss of working capacity insurance plan", which determine a standard and modular structure for a loss of working capacity insurance plan, see section 6.1.3 below.
- **Extension for the self-employed in loss of working capacity insurance** - A plan which extends the monthly payment for the self-employed, beyond the monthly compensation to which he is entitled within the framework of the standard loss of working capacity insurance plans, by way of compensation for expenses which he incurred during the period of his loss of working capacity, for a period no longer than 6 or 12 months, as chosen by the policyholder when buying the plan.
- **Critical illness insurance** - For details regarding the sale of critical illness insurance, see section 8.1.2(1c) below.

- **Accidental death insurance** - An insurance plan which guarantees the payment of a one-time amount in case of death due to an accident.
- **Accidental disability insurance** - An insurance plan which guarantees payment of a one-time amount in case of disability due to an accident.
- **Supplementary disability pension insurance** - Loss of working capacity insurance for a pension fund member which is intended to expand the insurance coverage which is given according to the pension fund regulations, in cases where there is no eligibility for payment of a disability annuity according to the pension fund regulations, such as in case of loss of working capacity, or with respect to the qualification period specified in the pension fund regulations. For details regarding the supplementary coverage to pension funds, in accordance with the circular regarding "guidelines regarding loss of working capacity insurance plans", and a clarification which was published on the matter, see section 6.1.3 below.

6.1.2.2. Pension funds and provident funds branches

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

During the reporting year, no mergers of provident funds and of investment tracks in provident funds were performed. As of the reporting date, the provident funds and investment tracks which are managed by Clal Pension and Provident Funds include the following:

Fund name	Investment tracks	Income tax authorization number	Fund type	
Clal Tamar	Age-dependent investment model ²⁴	Track for persons aged 50 or less	9651	Personal provident fund for compensation and severance pay and provident fund for savings
		Track for persons aged 50 to 60	9652	
		Track for persons aged 60 or older	9653	
	Bonds up to 25% stocks	253		
	CPI-linked bonds	124		
	NIS	592		
	Stocks	127		
	Short term NIS	128		
	Bonds	117		
Halacha	1533			
Bar Gemulim fund	Bar A - guaranteed return	539	Guaranteed return provident fund	
	Bar C	263	Personal provident fund for compensation and	

²⁴ New investment tracks which were opened on January 1, 2016, in accordance with the circular "investment tracks in provident funds".

Fund name	Investment tracks	Income tax authorization number	Fund type
			severance pay
Clal Study Fund	General	456	Study fund
	Short term NIS	1351	
	CPI-linked bonds	1348	
	Stocks	1350	
	Bonds	2115	
	Halacha	1534	
Clal Provident for the Future	General	7988	Provident fund for investment
	Bonds	7989	
	Government bonds	7990	
	Stocks	7991	
	Bonds maximum 15% stocks	7992	
	Short term NIS	7993	
	Halacha	7994	
General fund for severance pay	239	Central severance pay fund	
Hadas	684		
Clal - employer severance pay	241		
Clal Barzel - central fund for severance pay	152		
Clal Provident central fund for severance pay	443		
Almog severance pay	219		
Clal Provident central track-based fund	614		
Central provident fund for sick pay	892		Central fund for sick pay
Clal budgetary	1284	Central fund for participation in budgetary pension	

Presented below are details regarding managed assets, contributions, net accrual, ratio of management fees from assets and ratio of management fees from deposits of the pension funds and provident fund which were marketed by the Group's member companies in 2017:

		Managed assets as of December 31, 2017 (NIS in thousands)	Contributions in 2017 (NIS in thousands)	Net accrual in 2017 (NIS in thousands)	Average rate of management fees from assets in 2017	Average rate of management fees from deposits in 2017
Pension Fund Atudot Havatika		10,084	233,259	(52,399)	0.29%	3.32%
New pension funds	Clal Pension	50,178,494	5,454,538	3,157,107	0.25%	2.52%
	Clal Pension supplementary	1,486,009	247,747	194,924	0.48%	0%
Provident funds for compensation and severance pay		23,070,937	394,488	(2,079,758)	0.53%	0.16%
Provident funds for investment		101,810	102,536	99,216	0.57%	-
Study funds		7,510,248	1,103,161	(184,131)	0.71%	-
Other²⁵		2,936,741	1,439	(509,957)	0.59%	-
Total		85,294,323	7,537,168	625,002		

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

²⁵ Includes central provident fund for severance pay, central provident fund for participation in budgetary pension and provident fund for sick pay.

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

		Managed assets as of December 31, 2016 (NIS in thousands)	Contributions in 2016 (NIS in thousands)	Net accrual in 2016 (NIS in thousands)	Average rate of management fees from assets in 2016	Average rate of management fees from deposits in 2016
Pension Fund Atudot Havatika		9,330,327	241,656	316,912	0.29%	3.57%
New pension funds	Clal Pension	43,423,171	5,162,497	5,250,109	0.26%	2.79%
	Clal Pension supplementary	1,194,678	232,721	220,978	0.44%	-
Provident funds for compensation and severance pay		23,642,290	513,214	(1,099,799)	0.57%	0.3%
Study funds		7,226,954	1,099,972	298,978	0.75%	-
Other²⁶		3,263,660	3,670	(405,723)	0.58%	-
Total		88,081,080	7,253,730	4,581,455		

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

²⁶ Includes central provident fund for severance pay, central provident fund for participation in budgetary pension and provident fund for sick pay.

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

		Managed assets as of December 31, 2015 (NIS in thousands)	Contributions in 2015 (NIS in thousands)	Net accrual in 2015 (NIS in thousands)	Average rate of management fees from assets in 2015	Average rate of management fees from deposits in 2015
Pension Fund Atudot Havatika		9,013,415	248,442	910,153	0.31%	3.58%
New pension funds	Clal Pension	38,173,062	4,684,120	4,807,980	0.26%	3.22%
	Clal Pension supplementary	973,700	188,376	182,009	0.54%	-
Provident funds for compensation and severance pay		24,342,699	389,080	(1,509,017)	0.64%	0.31%
Study funds		6,863,053	1,090,700	355,758	0.83%	-
Other²⁷		3,638,658	3,709	(726,265)	0.65%	-
Total		83,004,587	6,604,427	4,020,618	-	-

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

6.1.2.3. Management fees and expenses in the various products

- 1) Presented below are tables describing the rate of maximum management fees in the different main products²⁸, in accordance with the legislative arrangement, including the Control of Finance Services Regulations (Provident Funds) (Management Fees), 2012 (hereinafter: the "**Management Fees Regulations**"):

²⁷ Includes central provident fund for severance pay, central provident fund for participation in budgetary pension and provident fund for sick pay.

²⁸ The foregoing does not include management fees and expenses of various kinds which are collected in some of the life insurance policies, for example, including with respect to the management of investment portfolios, the policy factor or collection factor, etc.

Life insurance

Pension product	Maximum annual management fees
Investment-linked life insurance plans which were marketed until the end of 2003, of the "traditional" and "preferred" types ²⁹	Fixed management fees up to 0.6% of the accrual + variable management fees up to 15% of the real returns which were achieved, less fixed management fees. In case of loss, the insurance company is not entitled to the variable management fees, until the cumulative loss specified in the policies has been recouped. ³⁰
Investment-linked life insurance plans which were marketed from January 1, 2004 until the end of 2012, in funds recognized as insurance funds	2% of the accrual + 0% of the deposits, or a lower rate of the accrual and a higher rate of the deposits (according to an approved mix - where the management fees from deposits are between 0% and 13%)
Investment-linked life insurance plans which were marketed from August 2007 until the end of 2012, and which are not recognized as insurance funds	
Investment-linked life insurance plans which were marketed since January 2013	Up to 1.05% of the accrual (plans which were marketed in 2013 - up to 1.1% of the accrual) + up to 4% of the deposits
Annuity recipients	Up to 0.6% of the accrual.

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

Pension funds

Pension product	Annual management fees beginning in 2014
Balanced old fund	According to specific permits which were given by the Commissioner
Comprehensive new pension fund	Up to 0.5% of the accrual + up to 6% of the deposits
General (supplementary) new pension fund	Up to 1.05% of the accrual + up to 4% of the deposits
Annuity recipients in comprehensive pension fund	Up to 0.5% of total assets held against the fund's liabilities to all annuity recipients ³¹
Annuity recipients in general pension fund	Up to 0.6% of total assets held against the fund's liabilities to all annuity recipients ³²

²⁹ "Profile" policies which were sold until 2003 included a different pricing mechanism.

³⁰ See Note 3(n)3(a) to the financial statements.

³¹ Excluding assets held against liabilities of the fund, to those who were entitled to an annuity or disability annuity before January 1, 2004.

³² With respect to assets held against liabilities in the fund for all annuity recipients who began receiving annuities before January 1, 2013 - at a rate which will not exceed 2% per year.

Provident funds³³

Pension product	Annual management fees beginning in 2014
Personal provident fund for compensation and severance pay and provident fund for savings	Up to 1.05% of the accrual + up to 4% of the deposits
Central provident fund	Up to 2% of the accrual (without management fees from deposits)
Study funds	Up to 2% of the accrual (without management fees from deposits)

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

- With respect to policyholders and members with whom contact has been lost - the institutional entities are entitled to collect management fees at a rate of up to 0.3% of the accrual, or the rate which is collected in the policy or in the member's account, as applicable, on the date when contact was lost, whichever is lower.³⁴
- The minimum annual management fees in provident fund accounts, which are not insurance funds, to which deposits were made before the 2008 tax year, amount to the higher of either: (A) The rate of the accrued balance in the member's account, as specified in the above tables, or (B) An amount which will not exceed NIS 6 per month (CPI-linked), in all of the member's accounts. For the provisions of the circular regarding the withdrawal of funds from small accounts in provident funds, which are expected to result in a reduction of the Company's revenue from management fees, see section 6.2.6 below.

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

In June 2014, a circular was published regarding the provision of discount in management fees with respect to annuity recipients in new pension funds (hereinafter: the "**Circular Regarding The Provision Of Discounts In Management Fees To Annuity Recipients**"), in which it was determined, inter alia, that a discount in management fees which was given to an annuity recipient member will be given throughout the entire annuity payout period, and it was further determined that a discount in management fees which was given to an old age annuity recipient will also apply to their survivors, if any.

In September 2017, an amendment was published to the circular regarding management fees in pension savings instruments, which regulated the method for provision of discounts on management fees in pension savings products. Within the framework of the aforementioned amendment, the ability of an institutional entity to raise the cost of management fees for members was reduced, inter alia, by extending the minimum period for the provision of a discount on management fees, from two years to five years; and the exceptions which allow an institutional entity to raise the management fees for members during the aforementioned minimum period were reduced. Additionally, the reporting obligations of institutional entities regarding the rate of management fees were expanded. In general, the provisions of the amendment will apply to discounts on management fees which will be given starting April 2018.

³³ Excluding guaranteed return provident funds, in which the management fees are determined in accordance with the provisions of the regulations.

³⁴ With respect to a member who has been found, who is not a deceased member - the institutional entity is entitled to collect, retroactively, additional management fees, in a manner whereby the management fees which will be collected with respect to the period beginning from one year after the date when contact was lost, until the date when the member was found, will be at a rate of up to 0.5% of the accrued balance in the member's account (instead of 0.3%).

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

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

For details regarding the management fees which were collected by the Group's member companies in the various products in the years 2015 to 2017, see section 6.1.2.2 above, and Note 30 to the financial statements.

2) Expenses in connection with investment management

The Amendment to the Control of Finance Services Regulations (Provident Funds) (Direct Expenses Due To Performance Of Transactions), 2008 determine the types of expenses which can be charged to members, and apply a cumulative quantitative annual restriction of 0.25% of the assets on the amount of expenses which can be charged to the members, with respect to some of the expense items which are included in the Expense Regulations. For details regarding the **Draft Amendment to the Control of Financial Services Regulations (Provident Funds) (Direct Expenses Due to Performance of Transactions), 2017** (hereinafter: the "**Regulations**"), which was published by the Ministry of Finance in December 2017, see section 10.5.5.3 below.

The total amount of expenses which are collected from members constitutes an additional component of the effect on returns for customers in the various savings products, and also constitutes an additional component for comparison between the competing entities, and as a result, affects the competition in the branch.

6.1.3. New products

- **General:**

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

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

- As part of the circular regarding investment tracks in provident funds from February 2015, and the amendments thereto from September 2015 and August 2016, provisions were determined regarding default age-adjusted investment tracks (for details, see section 6.2.5 below).
- Clal Insurance performed adjustments in accordance with the circular regarding investment tracks in provident funds, including, inter alia, opening age-dependent investment tracks and specialized tracks, and updated the investment policy. In January 2017, changes to profit sharing policies of the traditional and preferred types entered into effect, which were prepared as part of the adjustments to the aforementioned circular regarding investment tracks. After the reporting year, Clal Insurance decided to add investment tracks for old age annuity recipients, as chosen by the annuity recipients.
- In September 2016, a **circular was published on the subject of "guidelines regarding loss of working capacity insurance plan"** (hereinafter: the "**Guidelines Circular**"), which determined a standard and modular structure for loss of working capacity insurance plans. According to the guidelines circular, the plan structure includes basic loss of working capacity coverage (hereinafter: the "**Basic Coverage**"), to which riders can be added which allow expansion of the basic coverage, as

chosen by the policyholder. The guidelines circular specifies conditions which may and may not be included in the basic coverage, as well as terms which can be added to the annexes.

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

Beginning in September 2017, the Company was allowed to extend the insurance period in collective loss of working capacity insurance policies which were marketed before the date of the circular's entry into effect, due to the conclusion of the collective policy before the approval of a collective policy which corresponds to the guidelines circular, and the marketing of individual loss of working capacity policies was permitted to policyholders entitled to continuity (who were previously insured under a collective policy).

During the period from August 2017 to November 2017, the Company did not market loss of working capacity insurance plans, in accordance with the guidelines circular, excluding personal continuity policies for those who were previously covered under a collective policy. During the period when the marketing of loss of working capacity policies, under the previous framework, was prohibited, the marketing of life insurance plans (savings and risk of death, within the framework of managers' insurance) also decreased significantly relative to the months which preceded the discontinuation of such sales, due to the fact that the loss of working capacity product constitutes a supplementary product thereto; however, in an annual perspective, the discontinuation of marketing did not have a negative effect on the Company's sales, relative to previous years.

In November 2017, the Company began marketing loss of working capacity insurance plans, as stated above, within the framework of managers' insurance policies. The Company intends to work to complete the adjustment of all of the loss of working capacity products according to the provisions of the guidelines circular during 2018, subject to the Commissioner's approval.

Further to the guidelines circular, in December 2017, **the Commissioner's letter to the managers of institutional entities** was published, in which it was clarified that it is prohibited to sell loss of working capacity policies with respect to the part of the salary which overlaps with the salary layer for which the member has coverage in the pension fund. With respect to the overlapping salary layer, as stated above, supplementary insurance coverage can be marketed to the member beyond the disability coverage which exists for the member in the pension fund (hereinafter: "**Pension Fund Umbrella**"). Subsequently, in February 2018, a draft amendment to the guidelines circular was published, in which it was proposed to establish supplementary provisions with respect to the scope of coverage which will be included in a pension fund umbrella, and the expansions which can be offered thereunder. In accordance with the draft, the provisions regarding the pension fund umbrella will not apply to members of old pension funds.

Additionally, in February 2018, a draft circular was published regarding the marketing of loss of working capacity insurance plans, in which it was proposed to determine that an institutional entity, license holder or insurance agent must investigate, before selling a loss of working capacity insurance plan, through the clearing house, whether the insurance applicant already has loss of working capacity coverage. It is further proposed that loss of working capacity coverage will only be marketed to policyholders whose income is not covered by existing loss of working capacity coverage. Provisions were also determined with respect to the information which is required to be provided to the insurance applicant in connection with an expansion of loss of working capacity coverage, to the definition of a specific occupation.

At this stage, in light of the fact that these products were launched during the reporting year, and are long term products, it is not possible to estimate the implications of the guidelines circular, and the additional directives which are proposed on the matter, as specified above, insofar as they become binding directives. The effect of the above may be determined over time, and will be affected, inter alia, by the scope of insurance coverage which was expanded in the new loss of working capacity product, relative to the previous product, and the pricing method thereof, as will be determined over time, due to the effect of the provisions regarding the pension fund umbrella coverage, with respect to the expanded loss of working capacity coverage which pension fund members can purchase before, and the pricing thereof, and in accordance with the effect of the entire set of aforementioned changes, over time, on expenses, on the number of new members joining these products, including by way of cancellation and replacement of previous products, and on their profitability, in consideration of, inter alia the reinsurance which was expanded in order to hedge against those risks, due, inter alia, to the effect of this product on the economic equity ratio of Clal Insurance.

- Following the circular regarding principles for the phrasing of insurance plans, and following the Commissioner's position regarding principles regarding the phrasing of insurance plans, the Company worked, including during the reporting year, to correct and adjust its products according to the circular, and the provisions of the aforementioned position paper. Most of the Company's activities towards adjusting the aforementioned products concluded in 2016; however, such activities continued during the reporting year, in light of the amendment to the circular regarding provisions for the phrasing of insurance plans from March 2017.

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

c. Comprehensive pension fund - "Clal Pension"

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

During the reporting year, no amendments were made to the regulations of the comprehensive fund.

After the reporting year, in January 2018, an amendment to the regulations entered into effect, which was added to the fund "basic investment track for annuity recipients" and "religious investment track for annuity recipients", which are intended for annuity recipients beginning on January 1, 2018, in accordance with the provisions of the circular "provisions regarding the management of new pension funds". For details, see section 6.2.4b below.

For details regarding the standard regulations of the comprehensive fund, which is scheduled to enter into effect in June 2018, see section 6.1.1.2 below.

d. General pension fund - "Clal Pension supplementary"

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

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

After the reporting year, in January 2018, an amendment to the regulations entered into effect, which was added to the fund "basic investment track for annuity recipients", which is intended for annuity recipients beginning on January 1, 2018, in accordance with the provisions of the circular "provisions regarding the management of general pension funds". For details, see section 6.2.4b below.

e. Old pension fund - Atudot Pension Fund for Workers & Self-Employed Workers ("Atudot Havatika")

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

Changes in provident fund regulations during the reporting year:

During the reporting year, no amendments were made to the regulations of the provident funds.

After the reporting year, in February 2018, an amendment to the regulations of the provident funds "Clal Tamar" was approved, in which the standard investment policy of the general investment track was changed to a combined specialized track "bonds up to 25% stocks".

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

The issue of social security in Israel is comprised of a compulsory layer, which is managed by the state, and beginning in 2008, an additional compulsory layer which is managed by institutional entities, within the framework of the Compulsory Pension Ordinance, which pertains to all salaried employees in the market, and requires employers to deposit, on behalf of their employees, funds with respect to the compensation and severance pay component, according to the rates specified in the Compulsory Pension Ordinance, within the framework of the comprehensive pension arrangement which was determined as the default arrangement, or within the framework of an insurance fund for annuities, which includes coverage in case of death and disability.

In the extension order regarding the increase of pension deposits (for details, see section 6.2.2 below), it was determined that, beginning in July 2016, employers will be obligated to deposit, on behalf of their employees, funds with respect to the compensation and severance pay component, on the effective salary of their employees, as defined in the employee's agreement, and no less than the salary which is required in accordance with the Compulsory Pension Ordinance.

For details regarding the determination of compulsory pension for the self-employed in the market, in which an obligation was imposed on the self-employed to effect payments to an annuity paying provident fund, according to their income amount, see section 6.2.2 below.

There are also deposits in the optional layer, which are due to employees' and employers' provisions which constitute a beneficial arrangement, and deposits of self-employed members beyond the legal obligation. The aforementioned optional layer includes deposits at a rate or in an amount which exceed those required by law, as well as deposits to savings channels, some of which do not receive tax benefits, or receive reduced tax benefits.

6.1.4.1. Life insurance branch

Trends in supply and demand: During the reporting year, pension was the main pension product which was marketed by the institutional entities to the general public, further to the ongoing trend in recent years, of regulatory encouragement of deposits to pension products, such as the partial backing of designated bonds to secure returns up to a rate of 30%³⁵, the determination of pension as a default product within the framework of the Compulsory Pension Ordinance, additional regulatory changes, including the factor reform, which reduced the differences between pension products and insurance products with respect to the annuity factors, despite

³⁵ For details regarding the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Fund), 2016, in connection with the scope of allocations of designated bonds to pension fund members of various ages, see section 6.1.1.2 above.

the advantages which remain for insurance products. For additional details, see section 6.1.1.2 above and sections 6.2.2 and 6.2.4 below.

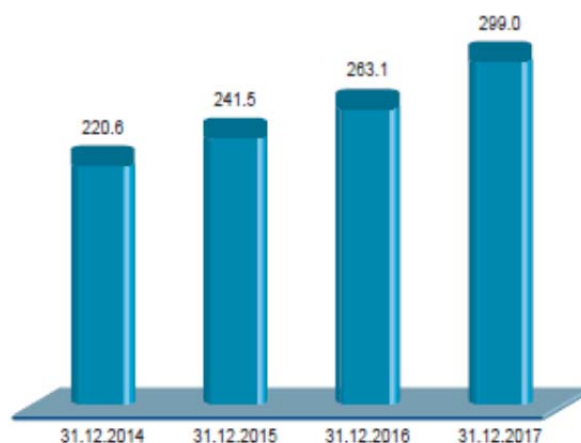
Following the annuity factor reform, in 2013, the option to acquire insurance policies with annuity factors which include a life expectancy guarantee was canceled, except for customers aged 60 or higher. As a result, during the current reporting year as well, the scope of new sales of life insurance policies was low relative to scope of acquisitions of pension products, as compared with the period before the factor reform. However, during the reporting year, a significant increase occurred in the scope of additions to life insurance products combined with savings, relative to the years after the implementation of the reform. Additionally, during the reporting year, an increase occurred in the demand for risk products, primarily with respect to risk products which are sold through pension savings.

- **Scope of activities:** In accordance with the Commissioner's publications, assets in the life insurance branch in the Israeli insurance market as of December 31, 2017, amounted to approximately NIS 369.6 billion, of which NIS 299 billion were assets in the new life insurance portfolio (investment-linked policies), as compared with NIS 332.7 billion as of December 31, 2016, of which NIS 263.1 billion were assets in the new life insurance portfolio, i.e., an increase of approximately 11.1% in total assets, and an increase of approximately 13.6% in the assets of the investment-linked policies.

As of December 31, 2017, assets in the new life insurance portfolio which are managed by Clal Insurance amounted to approximately NIS 77.8 billion, of which approximately NIS 60 billion of assets in the new life insurance portfolio (investment-linked policies), as compared with approximately NIS 72.7 billion as of December 31, 2016, of which approximately NIS 54.9 billion of assets in the new life insurance portfolio. In other words, an increase of approximately 7.0% in total assets, and an increase of approximately 5.5% in assets of the new life insurance portfolio.

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

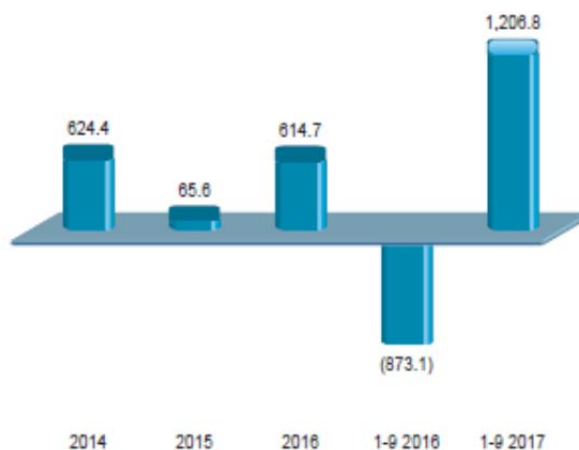
**Development of assets in the market in the new life insurance portfolio (profit sharing policies since 1991)
In the years 2014-2017
NIS in Billions**



- **Profitability:** In accordance with the Commissioner's publications, total comprehensive income before tax from insurance business operations in the life insurance market in the first nine months of the reporting year amounted to approximately NIS 1,206.8 million, as compared with loss of approximately NIS 873.1 million in the corresponding period last year.

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

**Total comprehensive income before tax in
life insurance
2014 to September 2017
NIS in millions**



The cumulative results of the insurance companies in the Israeli insurance market in the life insurance branch in the first nine months of 2017 were primarily influenced by the increase in investment income, due to increased returns in most capital market investment channels, and due to the effect of the low interest rate environment on liabilities to policyholders, in some of the life insurance policies. Following the high capital market returns and the impact of the consumer price index, during the reporting year, variable management fees were collected in investment-linked policies of the preferred type and in traditional policies. Total management fees (variable and fixed) which were collected in the market in the first nine months of 2017 amounted to approximately NIS 2,648 million, as compared with a total of approximately NIS 1,748 million in the corresponding period last year.

Significant changes in the interest rate environment which occurred in the fourth quarter of 2017 significantly affected the Company's cumulative results in the life insurance branch during this period, relative to the first nine months of 2017. For additional details regarding the profitability of the life insurance branch in the fourth quarter of 2017, see Part B - board of directors' report, section 3.1.1.1.

The market for life insurance products in the first nine months of the reporting year was characterized by a certain increase in the redemption rate. For details regarding the redemption rate of life insurance policies in the Group during the reporting year, see Part B of the report - board of directors' report, section 3.1.1.1.

The structure of policies marketed beginning in 2004 resulted in a situation whereby the margin in those products was lower than the products which were marketed in previous years. For details regarding the management fees in new policy which were sold since 2013, and the cancellation of the annuity factors, see section 6.2.4a below.

Liabilities with respect to lifetime payout annuities, regarding policies which are in effect, for which annuities have not yet been withdrawn, are calculated, inter alia, in accordance with the projected life expectancy, and according to the probability of the annuity in policies which are in effect. In recent years, the Company has identified an increase in the annuity realization rate, over the withdrawal of savings funds in a capital amount,

in addition and in parallel to the existing increase, in recent years, in life expectancy. During the reporting year, no significant change has occurred in the realization rate of annuity recipients. For details regarding the management fees in the different products, see section 6.1.2.3 above.

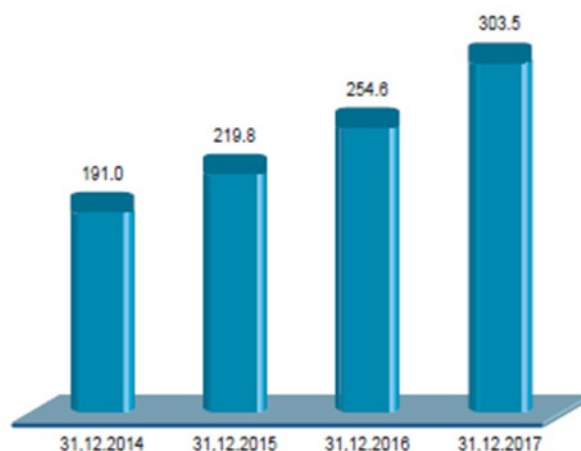
For the Company's financial information in the life insurance branch, see also Note 20 to the financial statements.

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

6.1.4.2. Pension funds branch

- **Trends in supply and demand:** As stated above, over the years, the state has encouraged pension savings in the annuity paying channel through a transition from capital products to annuities (the "**Products Reform**"). In recent years, this has been reflected in the products reform, which canceled the possibility of depositing to the capital track. The fact that some of the investments in pension funds are backed by designated bonds, and the Compulsory Pension Ordinance, in which it was determined that the default option, so long as the policyholder has not chosen otherwise, is to join the pension fund, the annuity factor reform, in which the option of policyholders to sell new life insurance plans with annuity factors which include a life expectancy guarantee was restricted, as well as the creation of default funds and the increased crediting of designated bond yields to annuity recipients in pension funds, is creating a preference among customers, in recent years, for the annuity paying product which is purchased within the framework of the pension fund, despite certain advantages offered by insurance products over the pension products. During the reporting year, the trend of preference for pension products over insurance and provident products continued, and pension products continued being the leading pension product marketed in the market. However, as stated above, during the reporting year, and primarily towards the end of the reporting year, an increase was apparent in the scope of additions to life insurance products combined with savings.
- **Scope of activities:** In accordance with publications issued by the Commissioner, the scope of accrued assets in the new and general pension funds in the pension market as of December 31, 2017 amounted to approximately NIS 303.5 billion, as compared with approximately NIS 254.6 billion in the corresponding period; i.e., an increase of approximately 19.2%. The increase in the scope of accrued assets was primarily due to the returns on managed assets, the increase in the number of members and the increase in deposits as a result of the extension order regarding the increase of pension deposits (for details, see section 6.2.2 below), and the increased sales of pension products. The share of the comprehensive and general pension funds in the Group out of the total market for comprehensive and general pension funds, as of December 31, 2017, amounted to approximately 17%, similarly to 17.5% in the corresponding period. The net accrual in the market for comprehensive and general pension funds with respect to deposits during the reporting year amounted to approximately NIS 29.1 billion, as compared with NIS 26.8 billion in the corresponding period.

**Development of assets in the new and general
pension funds market
In the years 2014-2017
NIS in billions**



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

The intense competition in the pension market, which increased by due to regulation, is reflected in discounts on management fees to members. For details regarding provisions in connection with the increased competition in the pension savings market, and the implications thereof, see section 6.2.3 below. For details regarding the scope of assets, accrual and average management fees, see section 6.1.2.2 above.

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

The amendments to the Provident Funds Law, with respect to the consolidation of inactive accounts, and the default fund circular (see sections 6.2.3(a) and 6.2.3(d) below), resulted in a significant decrease of the profitability of the pension branch, and may result in an additional decrease in 2018.

- **Customers:** During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.3 below.
- In the old pension funds branch, no change occurred in supply and demand, in light of the fact that these funds are closed to the joining of new members.

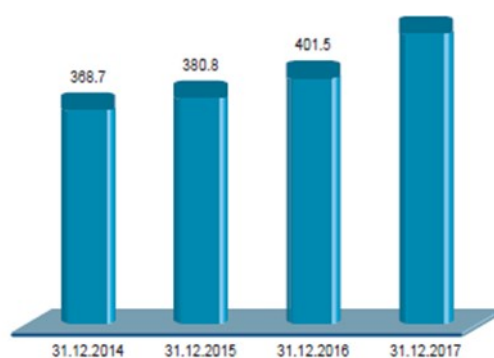
6.1.4.3. Provident funds branch

- **Trends in supply and demand:** The demand for provident products, which are primarily savings products only, focused primarily on the transfer of existing accruals between the various institutional entities, through competition over management fees and returns. However, the creation of the provident funds for investment at the end of 2016 and in the beginning of 2017 resulted in the entry of new funds into the branch. For additional details, see section 6.2.1 below.
- **Scope of activities:** In accordance with the Commissioner's publications, the total assets in provident funds in the provident fund market amounted as of December 31, 2017 to approximately NIS 447.5 billion, as

compared with approximately NIS 401.5 billion as of December 31, 2016, an increase of approximately 11.5%. This increase was due to the capital market increases during the reporting year, plus net positive accrual of approximately NIS 20.1 billion, which resulted in an increase of approximately NIS 46 billion in the funds of provident funds in the market.

As of December 31, 2017, the scope of provident fund assets managed in the Group constitute approximately 7.5% of total assets in the provident fund market, as compared with approximately 8.5% as of December 31, 2016.

**Development of assets in the provident
fund market
In the years 2014-2017
NIS in billions**



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

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

- **Profitability:** Profitability in the provident funds is based, inter alia, on the difference between the management fees charged by the managing companies, and the actual rate of expenses. The management fees are affected by the competition on the market, the scope of accrued assets and returns in the managed assets, as well as regulatory changes. During the reporting year, a decrease in management fees continued, which led to an amortization of goodwill in Clal Pension and Provident Funds.
- **Customers:** During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.4 below.

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

According to the Group's estimate, life insurance policies, pension funds and provident funds may serve as alternative products to one another, in light of the fact that they are long term savings products, which confer entitlement to tax benefits, and in which insurance coverages can be combined. Following the regulatory changes which have taken place in recent years, the uniformity between the various products has increased, as reflected, inter alia, in the structure of management fees, in the ability to sell insurance coverages to members and in the absence of guaranteed annuity factors. According to the Group's estimate, the pension product will continue being the leading product in the market, inter alia, in light of the Compulsory Pension Ordinance, the compulsory pension for the self-employed Law, the provisions in connection with default funds and the existence of designated bonds. On the other hand, the impact of various regulatory changes whose adoption in the initial stages, and the preferences of customers and distributing entities, may result in the strengthening of all or some of the alternative products.

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

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

6.1.5.1. Life insurance branch -

In accordance with the Commissioner's publications, during the reporting year, the Group was the second largest group in the life insurance branch, in accordance with the scope of managed assets, as defined by the Commissioner. From 2013 up to and including 2015, it was not possible to transfer insurance policies with annuity factors which include a life expectancy guarantee and investment-linked policies which were sold before June 2001, as well as insurance policies with annuity factors which include a life expectancy guarantee which were sold from June 2001 to 2013, and whose policyholders are under age 60, while maintaining the factors which were represented therein. Following the publication of the circular regarding the mobility of guaranteed annuity factors, beginning from the end of 2015, it is possible to transfer these policies while maintaining the factors represented therein; however, in 2016 and in the reporting year, these provisions had no impact on the Group's institutional entities, and competition was not commenced over these policies. In light of the aforementioned changes in the provisions with respect to the mobility of life insurance policies, and with respect to other life insurance policies, it is not possible to predict the scope of retention of life insurance policies in the future, which is dependent, inter alia, on the conduct of competing institutional entities, preferences of policyholders and members, the conduct of distributing entities, and the regulatory directives which will be in effect on the relevant date.

Additionally, the fact that the annuity-paying insurance policies which were sold in the past and which include annuity factors which include a life expectancy guarantee have a relative advantage over the pension funds with respect to the period after retirement age, due to the fact that they are not subject to regulatory provisions and do not include a mechanism for actuarial balance, and on the other hand, to changes in the allocation of designated bonds for annuity recipients or for members in ages near retirement in the pension funds, if any, may affect the share of the insurance branch in the pension savings market.

Additionally, the creation of an additional savings product, "provident funds for investment", as specified in section 6.2.1 below, led to a decrease in the sales of all individual savings products, and of the individual savings products of Clal Insurance in particular.

The Draft Transfer of Funds Regulations, in a manner which results in the cancellation of the current restriction on the transfer of funds by those who began receiving an old age annuity, insofar as it will be approved (for details, see section 6.2.3(b) below), may result in competition, in the future, over life insurance policies during the period after the receipt of the annuity. At this stage, it is not possible to predict the scope of the effect that the aforementioned amendment will have, if and insofar as it will be approved.

6.1.5.2. **Pension funds branch -**

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

The Company's share in the pension branch is affected, and is expected to be significantly affected, by the establishment of a default fund, in light of the rate of management fees which are collected thereunder, and their direct and indirect effects on the competition in the market, including the effect of the amendment to the default fund circular regarding the shortening of the transition period for the intake of members, according to the current default arrangements with respect to maximum management fees, as specified in section 6.2.3(a) below; by the transfer of funds from inactive funds to active accounts, in accordance with the provisions of amendment 13 to the Provident Funds Law; by the provisions which were published regarding the clarification with respect to the pension marketing process, pertaining to the non-payment of commissions to a license holder for a pension product regarding which a pension marketing process was not performed, as specified in section 10.8.3.1 below; and by the impact of the changes in the allocation of designated bonds on age groups, between the various pension funds. For details, see section 6.1.1.2 above.

6.1.5.3. **Provident funds branch -**

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

The study funds differ from the other pension savings products due to the fact that they provide the possibility for medium term savings, which grants eligibility for tax benefits. The Company's share in the study fund branch will be affected, inter alia, by the competition between the institutional entities, which will be affected by the returns of the study funds, the variety of investment tracks, management fees, and the service which will be given to members.

The Company's share in the provident fund branch may be affected, with respect to the study funds and the annuity-paying provident funds, also by the provisions of the default fund circular (for details, see section 6.2.3(a) below), and by the provisions with respect to the possibility of direct withdrawal of monies from a provident fund for savings, through a combination of an annuity plus longevity insurance coverage which will be acquired from the insurance company. For details, see section 6.1.1.3 above.

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

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

The activity in this segment is subject to the provisions of the law which apply to insurers, pension funds and provident funds which are active in the segment - including the Insurance Law, the Provident Funds Law, the Pension Advice Law and the Provident Fund Regulations - and subject to and in accordance with the Commissioner's directives which are published from time to time. Prior to the enactment of the Provident Funds Law, provident funds and pension funds were approved and managed in accordance with the Provident Fund Regulations, which still regulate certain matters which were not regulated in the Provident Fund Law and regulations enacted pursuant thereto.

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

The activity in this segment requires a license, in accordance with the Insurance Law and the Provident Funds Law, and is overseen by the Capital Markets, Insurance and Savings Authority in the Ministry of Finance. Insurers and managing companies of pension funds and provident funds in the Group are required to receive a license from the Commissioner. A managing company of provident funds which manages a pension fund is required to receive an insurer license in accordance with the Insurance Law, and the aforementioned insurer license will be considered as a managing company with respect to each provident fund which is managed by it. A managing company to which an insurer license has been given, as stated above, is currently entitled to manage all types of provident funds, excluding insurance funds. A managing company may manage one comprehensive new pension fund (which is entitled to designated bonds), a new general pension fund (which is not entitled to designated bonds), and an old pension fund and provident funds.

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

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

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

To the best of the Company's knowledge, in accordance with the weighing of the information which is published on the Commissioner's website, the scope of holdings of the IDB Group³⁶ in the long term savings segment as of December 31, 2017 is approximately 13.8%.

For details regarding the restrictions which were imposed on IDB by virtue of the Concentration Law in connection with the appointment of joint directors in the Company and in the Group's institutional entities, and in connection with its ability to hold the control of Clal Insurance or to hold the means of control therein, beginning in December 2019, see section 10.2.3 below, and Note 1(b)(4) to the financial statements.

Clal Insurance has an insurer license. For details regarding the permit for control of the Group's institutional entities, see Notes 1(b)(2) and 16(e)(5) to the financial statements. Clal Pension and Provident Funds and Atudot Havatika have an insurer license in the pension insurance branch, in accordance with the Insurance Law, and Clal Pension and Provident Funds has approvals for the management of the provident fund which are managed by it.

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

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

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

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

6.2.1. Provident funds for investment

In June 2016, Amendment No. 15 to the Provident Funds Law was published, which pertains to the creation of an additional savings product - "provident fund for investment", which is intended to allow a capital savings track for individual funds, and which includes an incentive for the withdrawal of funds accrued therein as an annuity during the retirement period. A provident fund for investment allows the depositor to withdraw funds which will be deposited therein at any time, without tax benefits on the deposit, while paying capital gains tax only when withdrawing the funds. 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. It was further determined that the total payments which a member will be entitled to deposit in a provident fund for investment will not exceed NIS 70,000 per year. In October 2016, the standard (uniform) regulations for provident funds for investment were published.

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

Long term savings for children

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

In September 2016, the **National Insurance Regulations (Long-Term Savings for Children)-2016** were published, in which it was determined that the National Insurance Institute will deposit the long-term savings amount for the child, as stated above, in a provident fund for investment under the name of the child (hereinafter: the "**Savings Fund for Each Child**"), or in a trust account in a bank, out of the list of funds and banks with which the state will engage. It was further determined that if the parent has not chosen a provident fund or bank for the purpose of depositing the monthly savings amount of their child, the monthly savings amount will be deposited, by default, in a provident fund which will be chosen by way of a permanent round among all of the provident funds which are on the aforementioned list, or a bank account (for a child who is at least 15 years old on January 1, 2017). In accordance with the Regulations, it will be possible to transfer the funds which have been deposited in the funds of "savings for each child" to other provident funds with whom the state will engage. In November 2016, standard (uniform) regulations of provident fund for investments were published, with respect to long-term savings for children. Clal Pension and Provident Funds did not participate in the selection process of managing companies that will manage the provident funds for savings for each child, which was conducted by the Ministry of Finance.

The provident funds for investment constitute, beginning from their launch in late 2016, an alternative for alternative investment channels (such as bank deposits, management of securities portfolios, mutual funds and individual savings policies which are managed by insurance companies, including by Clal Insurance), and the creation thereof may increase the deposits to provident funds of this kind, at the expense of other channels. Additionally, the provident funds for investment may constitute an alternative for high wage earners, instead of the deposit to a pension plan with respect to salary exceeding the recognized deposit limit. Additionally, the establishment of provident funds for investment (as well as the establishment of savings funds for each child) led to the entry of additional entities into the provident funds market, and as a result, it may result in increased competition in the market, and in effects on the amount of management fees which are collected in alternative products.

In January 2017, Clal Pension and Provident Funds launched a provident fund for investment named "Clal Provident for the Future". The Company's market share in the accruals of the provident fund for investment during the reporting year was of an immaterial scope. For details regarding the scope of managed assets in the fund "Clal Provident for the Future", see section 6.1.2.2 above.

The information presented on all matters associated with the possible future implications of the creation of provident funds for investment constitutes forward looking information, which is based on assumptions and estimates made by the Group, as of the reporting date. Actual implementation may differ from the forecast, and is largely dependent upon variables such as changes in the capital market and interest rates, changes in interest in long-term savings products, the conduct of competing entities, including investment houses and banks, the conduct of distributing entities, and the preferences and choices of members.

6.2.2. Changes in pension deposits

Compulsory layer - pension deposits

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

Since 2008, by virtue of the Compulsory Pension Ordinance, an obligation applies to prepare comprehensive pension insurance with respect to all salaried employees in the economy. In accordance with the Compulsory Pension Ordinance, the guaranteed salary is the actual salary, but no more than the average salary in the economy. The rates of salary which are required to be insured increased gradually, and currently amount to 17.5%.

Extension order regarding the increase of pension deposits

As part of **Amendments 12 and 16 to the Provident Funds Law**, which entered into effect in 2016, provisions were established, inter alia, regarding a prohibition forbidding employers from making the deposit rates out of the salary of an employee, which it is required to deposit to the provident fund (including the rate of the salary which is paid to acquire loss of working capacity insurance out of the employer's funds) conditional upon a deposit to a certain fund or to a fund of a certain type. However, the adoption of the provisions of the extension order regarding the increased pension deposit rates (see below) will not be considered as an employer's stipulation, as stated above.

In May 2016, the Minister of the Economy signed an extension order which applies, to all employees and employers in the economy, most of the provisions of the general collective agreement which was signed in February 2016 and amended in April 2016, between the Representation of Business Organizations and the Histadrut New General Federation of Labor, in which it was agreed that the employer's rate of deposits will be uniform for all pension products, and it was also agreed to increase gradually the rate of minimum deposits to all employees and employers in the economy, in a manner whereby, beginning on January 1, 2017, these amounted to a rate of 6% for the employee's compensation component, 6.5% for the employer's compensation component, and 6% for the severance pay component (hereinafter: the “**Extension Order Regarding The Increase Of Pension Deposits**”). It was further determined that the employer's payment, as stated above, will include the acquisition of loss of working capacity coverage for the employee, however, in any case, the employer's provisions to the compensation component will not fall below 5% of the effective salary, and the employer's total costs with respect to the compensation component and the loss of working capacity coverage will not exceed 7.5% of the effective salary. “Effective salary” means the salary with respect to which deposits are made, in accordance with the employee's agreement, and no less than the guaranteed salary in accordance with the extension order for compulsory pension.

Amendment to Regulation 19 of the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964

In February 2018, an Amendment to the Income Tax Regulations (rules for approval and management of provident funds), 1964, was published in the Official Gazette, in which Regulation 19 was amended in a manner which regulates the restriction which requires transfer of all deposits with respect to the compensation component beyond 5% to the same insurer, in order to allow the member to choose another provident fund to transfer the increase in deposits (hereinafter: the “**Amendment to Regulation 19**”).

Amendment to the Income Tax Ordinance

In November 2015, an amendment to the Income Tax Ordinance (the “**Amendment to the Income Tax Ordinance**”) was approved, according to which: (1) the tax limit from which the employers' provisions to pension savings for employees are tax exempt was reduced, from four times the average salary in the economy, to two and a half times the average salary in the economy; and (2) the allowable deduction with

respect to expenses for the acquisition of loss of working capacity insurance was also reduced, in a manner which will apply only to the acquisition of insurance for income in the amount of two and a half times the average salary in the economy, instead of four times the average salary in the economy, as was the practice prior to the amendment.

Changes with respect to severance pay funds

The Economic Efficiency Law (Legislative Amendments to Achieve Budgetary Goals for Budget Years 2017 and 2018), 2016 (hereinafter: the "**Economic Efficiency Law**") includes an amendment to the Income Tax Ordinance, in a manner whereby only the employer's deposits with respect to the severance pay component, up to a maximum limit of NIS 32,000 (an amount which is updated in accordance with the increase of the average market salary), will not be recognized as taxable income at the time of the deposit (hereinafter: the "**Maximum Limit**"); Employer's deposits with respect to the severance pay component above the limit will be subject to the withdrawal rules which apply to the severance pay funds, in other words, if they are withdrawn other than as annuities - they will be subject to capital gains tax only, and if they are withdrawn as annuities - they will be tax exempt; A capital bonus with respect to retirement, in the amount set forth in law, will not be taxed on the work departure date if it remains in the provident fund for annuities.

Compulsory pension for the self-employed

The Economic Efficiency Law, which was passed in December 2016, includes provisions which primarily include the imposition of an obligation on the self-employed to make payments to an annuity paying provident fund, according to the determined rates, in accordance with their income (hereinafter: the "**Compulsory Pension For The Self-Employed Law**"). According to the law, beginning in 2017, the deposit obligation applies to self-employed persons whose income exceeds half of the average salary in the economy, and does not apply to income beyond the average market salary. The Compulsory Pension for the Self-Employed Law also includes provisions regarding the provision of the possibility to withdraw a part of the amount which has accrued in favor of the self-employed person, in case of his unemployment, in accordance with the terms and dates which will be determined in the regulations. Further to the above, in March 2018, a proposed regulation document was proposed, which is expected to be reflected in the future in draft regulations which will be published, with respect to the dates and conditions in which a self employed member who is unemployed will be entitled to withdraw funds from the provident fund, by non-annuity methods.

The Compulsory Pension Ordinance resulted in an increase in deposits of members to the pension funds, and the Compulsory Pension for the Self-Employed Law resulted in increased provisions of the self-employed into pension funds, including as a result of the increase in the number of members, and as a result, in an increase in the management fees collected by the managing company. On the other hand, the scope of salary for which the social provision is required is relatively low, and the aforementioned deposits are accompanied, in parallel, by an increase in operating expenses. Additionally, the positive impact of the Compulsory Pension Ordinance, together with the Compulsory Pension for the Self-Employed Law, was moderated due to the provisions of regarding the consolidation of inactive accounts in pension funds (including mobility through joining) and the creation of default funds. The reduction of the maximum limit for deposits with respect to the severance pay component, which, if withdrawn as an annuity, will be tax exempt, in accordance with the provisions of the Economic Efficiency Law, did not result in any significant change in deposits to pension products. Even the reduction of the maximum limits regarding the tax exemption, in accordance with the amendment to the Income Tax Ordinance, may result, in the future, in a decrease in the deposits to pension savings by those earning a salary higher than the limit, however, during the reporting year, there was no significant decrease in such deposits. The entry into effect of the extension order regarding increased pension deposit rates, and amendment 16 to the Provident Funds Law, resulted in an increase in deposits for pension products in the market, including for products managed by the Company, and as a result, in an accelerated increase in the scope of managed assets, which increased the Company's income from management fees on the one hand, and on the other hand increased the operating costs with respect to new policies which were opened for the increased part of the deposits, at low premiums. This increase may be moderated in the future, in light of the

effects of the amendment to Regulation 19, which primarily involves the possibility for the saver to split the deposits with respect to the compensation component, to more than one institutional entity.

The information presented on all matters associated with the possible implications of the Compulsory Pension for the Self-Employed Law, the Extension Order Regarding Pension Deposit Rates, and the Economic Efficiency Law, constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report. Actual implementation may differ significantly from the forecast, and is largely dependent upon, inter alia, on the following factors: the conduct of distributing entities, the conduct of competing institutional entities, the preferences of members and policyholders, the provisions regarding increased competition, the implications of the amendment to Regulation 19, and the reciprocal effects with the provisions regarding default funds and the provisions regarding the consolidation of inactive accounts in pension funds.

6.2.3. Increased competition in the pension savings market and prevention of conflict of interests

Further to the previous reforms, including the mobility reform, which expanded the possibility of transferring the savings funds between the various pension products (the “**Mobility Reform**”), and with the aim of improving the market, and the competition and transparency therein, improving the quality and price of offered products, allowing pension savers to better tailor the products to their individual needs, and simplifying the process of reaching decisions, in recent years, provisions and regulations were published, inter alia, as follows:

A. Default pension fund

In July 2016, an amendment was published to the **circular 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, as well as provisions regarding the conditions applicable to such provident funds (hereinafter: the “**Default Fund Circular**”). In the circular, it was determined that managing companies of provident funds may not allow the depositing of an employer's payments with respect to an employee who has not filled out a joining form, and will not allow the addition of such employees to a provident fund, unless one of the following two conditions has been fulfilled:

- (1) The provident fund is one of two pension funds, each of which will constitute a chosen default fund as chosen by the Commissioner in a competitive process (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. In the selection of the default pension funds, preference will be given to pension funds whose market share is less than 5%.
- (2) A provident fund is a 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, and in which the criteria will include service level indicator, returns and management fees. The default fund will be chosen for a period which will not exceed 5 years. Additionally, a managing company which is, or whose related party is, a provider of services to employers and/or markets to the employer's employees 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**”). In the default fund circular, it was determined that the default agreement which is in effect as of the publication date of the circular will remain in effect until the end of the agreement period, or until March 31, 2019, whichever is earlier. In December 2017, an amendment to the circular regarding default funds was published, in which it was determined that the default agreement which was in effect until the publication date of the circular, where the rate of management fees which were determined therein is not the maximum rate of management fees prescribed in law, will remain in effect until the end of the agreement period or until March 31, 2018, whichever is earlier, (instead of March 2019) (hereinafter: the “**Circular Regarding Default Funds**”). During the reporting year, the Company stopped accepting new

members from whom management fees are collected at the maximum rate, when it does not have the default agreements.

In August 2016, two pension funds were chosen to serve as chosen default funds, and the management fees which will be collected by them at a rate of 1.31% of the deposits and 0.01% of the accrual in one fund, and at a rate of 1.49% of the deposits and 0.001% of the accrual in the other fund.

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

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

In August 2016, the **Draft Control of Finance Services Regulations (Provident Funds), (Transfer of Funds between Provident Funds), 2016** (hereinafter: the "**Draft Amendment to the Transfer of Funds Regulations**") were published, in which it is proposed to amend the Control of Financial Services Regulations (Provident Funds) (Transfer of Funds Between Provident Funds), 2008. The main proposed amendments include the cancellation of the current restriction against the transfer of funds by persons who have begun receiving an old age annuity; cancellation of the current restriction which prohibits the transfer of funds of members who have debit balances to provident funds, due to a loan which was given to the member; provision of the possibility to transfer funds from one provident fund for investment to another provident fund for investment; shortening of the periods for the transfer of funds between provident funds; prohibition against the currently available possibility of canceling the transfer of funds after a detailed, signed and completed application has been submitted to the receiving fund.

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

C. Lifting of operational barriers

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

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

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

Beginning in December 2013, all license holders are obligated to contact the pension clearing house before consulting in order to receive information regarding policyholders and members with respect to the pension products which are owned by them (and beginning in January 2016, license holders are entitled to receive such information through the clearing house only). Additionally, the obligation to submit a power of attorney for the receipt of information regarding an insurer from all entities must be done through the pension clearing house only, and in parallel the option was created to transfer to a license holder data regarding the customers and pension products which are owned by them, from the institutional entities, through a holdings interface.

³⁷Beginning in June 2014, private savers can perform actions through the pension clearing house. Beginning in April 2017, license holders are obligated to transfer requests for the performance of actions (which were defined) through the pension clearing house, unless they work through a designated system of the institutional entity. For the sake of implementing the aforementioned provisions, a circular gradually entered into effect which determined a uniform structure for the transfer of information and data in the pension savings market, which will be used by the various entities in the market.

In accordance with the update to the uniform structure circular from December 2017, beginning in May 2019, funds will be transferred between the various institutional entities and the various products, and requests for fund transfers will be performed within the framework of the pension clearing house only, through the mobility interface, which regulates the fund transfer processes between the various institutional entities and the various products.

Additionally, the uniform structure circular, which determines a structure for uniform records which is intended for use by the institutional entities, license holders and additional information consumers in the pension savings segment, as part of the various business actions which are performed between them (hereinafter: the “**Uniform Structure Circular**”), including the implementation of an employers interface, holdings interface, events interface³⁸ and severance pay balance interface, through which requests are submitted. Additionally, in accordance with the draft update to the events interface, insofar as it will be accepted, in April 2018, the application of the severance pay interface is expected to be expanded to include also policyholders and members who will have the opportunity to receive information regarding the balances of severance pay, through the license holder.

In December 2017, a circular was published regarding the handling of information quality inquiries, which sets forth provisions with respect to the method of handling and concluding the handling of inquiries regarding quality of information, which are received from the pension clearing house - inquiries involving the up-to-date status, reliability or completeness of the information which was transferred from the institutional entity through the clearing house, or regarding the non-completion of the performance of an action through the clearing house. The circular determines, inter alia, timetables for responding to inquiries regarding information quality, provisions with respect to the identification of systemic deficiencies and the learning of lessons, as well as provisions with respect to the establishment of a designated interface for the submission of information quality inquiries through the clearing house. The provisions of the circular regarding the handling of information quality inquiries will enter into effect gradually, beginning in September 2018.

In March 2018, a circular was published regarding the establishment of an obligation to use the clearing house, with respect to the transfer of information between institutional entities, in order to locate funds which are registered under the name of a member who is not making deposits, as part of the consolidation of accounts when joining a pension fund.

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

³⁷ The holdings interface determines the data regarding the customer and the pension products owned by it which the institutional entity is required to transfer to the license holder.

³⁸ The events interface is an interface which reflects all of the requests that are received by the Company from the clearing house, regardless of whether they are requests of the policyholder himself, or requests submitted through a license holder. The interface includes the details of information which the license holder is required to submit to the institutional entities, in order to allow, in the future, the computerized intake and production of pension products, and the details of information which will be transferred for the implementation of changes to the pension products which are held by the customers, or to the relevant data regarding the management of pension products on behalf of customers.

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

Further to the standard structure circular, in August 2014, the **Control of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014** (hereinafter: the "**Payment Regulations**") were published, which regulate the operational interface between employers and institutional entities, on all matters pertaining to deposits in provident funds (hereinafter: the "**Employers Interface**"). The regulations define rules with respect to the method and date of performance of employers' payments to pension products for their employees. The institutional entity is required to send feedback to the employer regarding the deposits to the fund on dates which were determined in the regulations. The adoption of the provisions regarding the employers interface was applied gradually to employers, and as of the publication date of the report, it applies to employers of 20 or more employees. The Payment Regulations also apply to employers who employ up to 5 employees, but determine that, upon the fulfillment of the rules specified therein, the employer is entitled not to report within the framework of the employers interface.

In November 2017, a circular was published regarding the method for depositing of payments to provident funds (hereinafter: the "Circular Regarding The Payment Deposit Method"), to which were transferred the provisions which were set forth in the Payment Regulations³⁹, under which provisions of the Payment Regulations were enacted, inter alia, with respect to the reporting requirement which applies to employers; Cancellation of the possibility to receive funds through checks; a reporting requirement for employers through the creation of a "personal employer account" on the Company's website, and definition of the details required for inclusion therein; an obligation to transmit reports and notices to policyholders and employers in the cases and by the dates specified in the circular; and a provision regarding the deferral of the application of the provisions regarding the employers interface, with respect to employers of 5 to 20 employees as of February 2019.

D. Consolidation of inactive accounts in pension funds

Amendment 13 to the Provident Funds Law included, inter alia, a provision stipulating that, when a new member joins a new pension fund, and so long as the member has not requested otherwise, the savings funds which are available to him in inactive accounts in other new pension funds, will be transferred to the new pension fund which he intends to join, while maintaining continuity of insurance, and with the aim of creating savings in management fees and improving the member's control of the management of their savings funds. The amendment also established a mechanism for the consolidation of funds, as stated above, with respect to the existing inventory of funds which were managed in inactive accounts (hereinafter: "**Inactive Inventory**"), which was applied in several steps which were performed during the reporting year, in accordance with the transitional provision on the matter from June 2016.

Further to the above, supplementary arrangements were published within the framework of a circular from September 2016, regarding the addition to a pension fund or provident fund, which regulate, inter alia, the consolidation of accounts with respect to members who join after the handling of inactive inventory.

In September 2017, a circular was published on the subject of "**consolidation of existing accounts in new pension funds - temporary order - additional implementation**", which determined provisions regarding the additional implementation of the consolidation of inactive accounts, similarly to the provisions regarding implementation which were determined in the circular with respect to inactive inventory, in an additional step which is expected to be performed by the end of March 2018, with respect to those who were inactive inventory which was added in the months October-November 2017.

³⁹ Excluding Regulation 11 of the Payment Regulations, regarding the determination of interest due to a delay in the depositing of funds by an employer, which was left under the authority of the Minister of Finance.

The provisions regarding the consolidation of inactive accounts in pension funds continue and will continue to affect, on all matters pertaining to the accruals of members who join pension funds, and where, as a result of their joining, the savings funds which are available to them will be transferred from inactive accounts in other new pension funds.

E. Disconnection of contact between distributors, employers and customers, and prevention of conflict of interests

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

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

As part of Amendment No. 12 to the Provident Funds Law, which entered into effect beginning with the salary for February 2016, provisions were established, inter alia, regarding a prohibition forbidding employers from making the deposit rates out of the salary of an employee, which it is required to deposit to the provident fund (including the rate of the salary which is paid to acquire loss of working capacity insurance out of the employer's funds) conditional upon a deposit to a certain fund or to a fund of a certain type. For details regarding provisions which restrict the implementation of the provisions of Amendment No. 12 to the Provident Funds Law, as stated above, see section 6.2.2 above. The right was also established for the employee to choose, at any time, a license holder for the receipt of pension marketing services, pension advice or the performance of actions with a pension product.

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

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

For details regarding the Commissioner's position paper regarding the obligations of license holders, from April 2017, see section 10.8.3.1 below.

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

For details regarding the **Draft Control of Financial Services Regulations (Provident Funds) (Distribution Commissions), 2016** (hereinafter: the "**Draft Distribution Commission Regulations**"), in connection with an amendment to the **Control of Financial Services Regulations (Provident Funds) (Distribution Commissions), 2006**; regarding the Commissioner's position and the amendment to the Control of Financial

Services (Provident Funds) Law (Amendment No. 20), which pertain to the separation of commissions from management fees; for details regarding the industry-wide position of the Commissioner regarding the obligations of license holders; and for details regarding the clarification regarding the pension marketing process, pertaining to the non-payment of commissions to license holders for a pension product regarding which a pension marketing process was not performed, see section 10.8.3.1 below.

F. Unification of products and transparency

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

(1) Standard pension and provident fund regulations

As part of **Amendment no. 12 to the Provident Funds Law**, authorities were vested in the Commissioner to issue provisions with respect to the rights and obligations of provident fund members, which will be set forth in the regulations for all provident funds in the market. In this regard, in July 2015, the wording was published of the standard regulations for non-annuity paying provident funds (currently provident funds for savings), provident funds for compensation and personal provident funds for severance pay, and in September 2016, the wording of the standard regulations of provident funds for investment was published (and amended in December 2016), and in September 2016, a circular was published regarding provisions with respect to the rights and obligations of members in the regulations of new comprehensive pension funds (which was amended in January 2018), in which it was determined that the managing company will determine the wording of the regulations of the comprehensive pension fund which are managed by it, in accordance with a standard wording which was attached as an annex to the circular, unless it has received the Commissioner's approval for a deviation from that wording.

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

In accordance with the update from January 2018, the regulations of the pension fund "Clal Pension", in the wording of the standard regulations, are expected to enter into effect in June 2018.

(2) Guidelines for loss of working capacity

For details regarding the circular on guidelines regarding loss of working capacity insurance plan, which determines a standard and modular structure for a loss of working capacity insurance plan, see section 6.1.3 above.

(3) Interface for the identification of insurance products and retrieval of personal information

During the reporting year, a circular on the subject of "interface for the identification of insurance products", and a circular on the subject of "retrieval of personal information", entered into effect. The purpose of these circulars is to allow an accessible and simple internet interface for policyholders to identify their insurance products at all of the insurance companies, and to receive information regarding those insurance products on the insurance companies' websites.

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

- **Changes in profitability** - During the reporting year, the various regulatory changes involving increased competition had an impact on the scope of managed assets and on the Company's income from

management fees with respect to all of the Group's group long term savings products. For additional details, see Part B of the report - board of directors' report, section 3.1.1.

The future income from management fees and premiums in long term savings products depend, inter alia, on the conduct of policyholders and members, on the conduct of the capital market, and on the possible effects of changes in regulatory provisions, including the Commissioner's policy regarding the approval of tariffs and the reduction thereof relative to the different products, as reflected during the reporting year with respect to the loss of working capacity product. Thus, for example, the implementation of the changes specified below have resulted and/or may result, directly or indirectly, in a reduction of the Company's income from management fees, and in reduced profitability: creation of default funds, in accordance with the provisions of the default fund circular; consolidation of inactive accounts in pension funds, including the transfer of inactive balances; circular regarding mobility upon joining; and provisions in connection with regulations and standard insurance products (as specified below). The following provisions (and with respect to drafts, insofar as they will be published as binding texts) may result in a continuation of the trend of reduced profitability: the provisions of the circular regarding mobility of guaranteed annuity factors; the circular regarding the prohibition against stipulations in pension arrangements; the clarification regarding the pension marketing process when marketing for a pension product; the draft amendment to the Transfer of Funds Regulations with respect to annuity recipients; The draft amendment to the Distribution Regulations (for details, see section 10.8.3.1 below). On the other hand, the following provisions had a certain moderating effect on the trend described above: the establishment of provident funds for investment and the Compulsory Pension for the Self-Employed Law. For details regarding the average rate of management fees from premiums and from accrual which were collected during the reporting year, and the scope of managed assets, see section 6.1.2.2 above and Note 20 to the financial statements.

The entry into effect of the extension order regarding increased pension deposit rates and of amendment 16 to the Provident Funds Law, resulted in an increase in deposits for pension products in the market, including for products managed by the Company, and in an accelerated increase in the scope of managed assets, which increased the Company's income from management fees on the one hand, and on the other hand increased the operating costs in the policies, due to the production of policies at low premiums. This effect may also be moderate in light of the amendment to Regulation 19 of the Provident Fund Regulations, which was published as a binding regulation in February 2018, and which is also expected to increase competition over long-term savings products (see section 6.2.2. above).

For the possible implications of the draft distribution commission regulations, see section 10.8.3.1 below.

- **Competition** - Increasing transparency, removing operational barriers which delay money transfer processes between institutional entities, such as the creation of the pension clearing house, as well as the continued trend of consolidating long term savings products, which is reflected in the establishment of standard regulations for pension funds and provident funds, and the determination of guidelines for loss of working capacity products, and the unification of the method for collection of management fees in the various products, resulted in increased competition in the segment, while focusing the competition on management fees, returns, service and operation, and accordingly, may affect the scope of mobility between the various pension products, the scope of new sales, the retention and profitability of the current portfolio, including on all matters associated with the calculation of its embedded value. The provisions with respect to the cancellation of guaranteed factors, and regarding the provision of the possibility to sell insurance coverages and to withdraw an annuity and stipend for provident fund members, the trends described above.
 - The creation of the **default funds**, and the competitive advantages which are available to chosen default funds, have a significant sector-wide impact on the pension fund market. The provisions of the default fund circular, including in connection with the determination of management fees as a central criterion, resulted in a decrease in the average management fees collected in the annuity-paying provident funds and in the study funds on the market, in a change in the business model of business model, in harm to their profitability, and accordingly, may result in changes in the market shares of the current competitors. During the reporting year, these changes also had an effect on Clal Pension and Provident

Funds. For details regarding the average management fees which are collected by Clal Pension and Provident Funds, see section 6.1.2.2 above. For details regarding mobility from the Company's pension funds, see section 6.3.1 below, and for details regarding changes in the Company's market shares, see section 6.3.1 below. according to the Company's estimate, the provisions regarding the creation of default funds may affect the activities of insurance agents and their involvement in the relevant market, in a manner which could impose difficulties on the process of marketing pensions to members, and on providing service to them, could require employers to find alternative solutions to the default arrangements, and could have a corresponding effect on the managing companies. According to the Company's estimate, the clarification regarding the pension marketing process is expected to intensify this trend. Related party restrictions, which stipulated that a managing company which provides, or whose related party provides, monetary clearing services to the employer and/or provider of services involving the monitoring of fund deposits to the employer and/or marketer of supplementary insurance coverages to the employer's employees, may serve as a manager of a default fund only if it has offered the lowest management fee rate, may affect the competitive conditions of Clal Pension and Provident Funds within the framework of the business tenders. The selection of funds whose market share is less than 5% as default funds is expected to result in changes to the market shares of the pension funds.

The amendment to the default fund circular, which shortened the transition period with respect to default arrangements in maximum management fees, is expected to result, beginning in March 2018, in a significant decrease in the amount of default arrangements of employers which exist in Clal Pension and Provident Funds, and accordingly, to promote and accelerate the aforementioned implications, on all matters associated with employers who engaged in default arrangements, before the entry into effect of the default fund circular.

- o **The management fees calculator circular and the tariff reporting circular**, which are on the website of the Capital Market Authority, are intended to allow policyholders to compare among the management fee rates which are offered to new members in the various pension savings products and the offered products to those joining life insurance in case of death, resulted in increased transparency, and may in the future result in increased competition between the institutional entities in the segment.
- o **Consolidation of inactive accounts in pension funds** - As of the reporting date, the process of transferring funds from most of the inactive accounts to active accounts in pension funds has concluded. The aforementioned mobility resulted in a net reduction of the scope of assets managed in the pension funds of Clal Pension and Provident Funds, at a scope which is immaterial relative to the fund assets, while in parallel, it resulted in an increase in the funds managed in the active accounts which are managed by it. Additionally, the average rate of management fees with respect to funds which were received in the pension funds of Clal Pension and Provident Funds, through the consolidation of accounts, as stated above, was significantly lower than the funds which were transferred from it. The process of consolidating inactive accounts resulted in an increase in operating expenses in the short term, while on the other hand, it is expected to result in a decrease in operating expenses with respect to inactive accounts over the long term. The provisions regarding the consolidation of inactive accounts in pension funds are expected to continue have effects in the future, insofar as the foregoing relates to the mobility of accruals of members who join pension funds, and where, as a result of their joining, the savings funds which are available to them will be transferred from inactive accounts in other new pension funds.

The combination of the provisions with respect to the consolidation of inactive accounts in pension funds, with respect to members who join pension funds in the future, 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 and of growing funds, 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.

- o **The provisions of the circular regarding the provision of a discount on management fees to annuity recipients**, along with the provisions regarding the discount on annuity conversion factors in the new pension funds, may affect the competitive conditions in the pension funds market, including

with respect to the stage after the receipt of the old age annuity. Additionally, insofar as discounts on the management fee rate will be given in the future to pension fund annuity recipients, combined with an undertaking to provide discounts throughout the entire lifetime of the member and his survivors, may have a significant impact on the amount of management fees collected by Clal Pension and Provident Funds from annuity recipient members, and on profitability. As of the publication date of the report, Clal Pension and Provident Funds does not provide discounts to old age annuity recipients.

- o According to the Company's estimate, the entry into effect of the amendment to the **circular regarding the transfer of funds between provident funds**, and of the **draft amendment to the Transfer of Funds Regulations**, insofar as it will be accepted as a binding version, will result in the lifting of barriers to transfer which currently exist in the market regarding the transfer of funds between provident funds, particularly in the stage after the receipt of the annuity. Accordingly, the draft amendment to the circular regarding the transfer of funds, insofar as it will be approved, may result in a reduction of the management fees which are collected from old age annuities, an increase in the current handling expenses and changes to the demographic composition of annuity recipients, and may affect the reserves which are managed with respect to these policies, harm economic capital, and result in a significant decrease in profitability. However, at this stage, while the manner of implementation of the aforementioned mobility with respect to the annuity recipients is not yet known, and in light of the precedence and preliminary status of the proposed arrangement, the Company is unable to estimate all of its implications, which could be significant.

Additionally, the entry into effect of the aforementioned arrangements imposes difficulties on the institutional entities in performing retention activities, and may have implications on the amount of management fees, on the average period of time during which members or policyholders will remain customers of the Company, and on the increase of costs, including the Company's operating costs, commission rates paid to agents, and the Company's retention capability. In accordance with the aforementioned amendments, insofar as they will be accepted, there may be a significant impact on the Group's activities in the segment and/or on its future results, and it is expected to add to the pension funds which are transferable between the institutional entities, and to increase the competition in the segment.

- o **The draft circular regarding the withdrawal of funds**, insofar as it will become binding, is expected to simplify, increase efficiency and shorten the fund withdrawal process for members, in a manner which could impose difficulties on institutional entities in performing retention activities, and the Company is unable to estimate the full operational implications of the implementation of the draft circular, insofar as it will become binding.
- o **The circular regarding the mobility of guaranteed annuity factors** (for details, see section 6.2.4a below) may increase the competition with respect to investment-linked policies which can be transferred in accordance with the circular, and particularly, with respect to the policies which were sold beginning in June 2001. However, as of the date of this report, to the best of Clal Insurance's knowledge the aforementioned circular had no effect on the market and/or on the activity of Clal Insurance.
- o **The option to withdraw funds directly from provident funds for savings** (formerly "non annuity paying provident funds") and also by way of a stipend may provide the possibility to maintain funds in provident funds for savings which are managed by Clal Pension and Provident Funds, for lengthy periods, and may result in expansion of the mix of pension products in the market, and may result in an increase in sales of the pension savings products which are marketed by Clal Pension and Provident Funds. On the other hand, the aforementioned option is expected to increase the number of active players in the annuity payment segment, and increase the mobility and competition in the segment, including with respect to other products which are marketed by the Group. However, as of the date of this report, the foregoing had no effect on the activity of Clal Insurance, due to the absence of supplementary regulatory arrangements.

- o The creation of **provident funds for investment** constitutes an opportunity to increase the accrual of funds in pension and provident funds. However, during the reporting year, deposits to provident funds for investment, in the provident funds for investment which are managed by Clal Pension and Provident Funds, were made in an immaterial scope. The establishment of provident funds for investment was among the reasons which led, during the reporting year, to a reduction in deposits to individual products marketed by Clal Insurance.
- **Strengthening the status of employees and reducing dependence on agents -**
 - o The determination of the conditions under which a pension marketer may give, in parallel, operating services to an operating services and marketing services to its employees, affected the engagements and activities of agents, and particularly arrangement agencies, including arrangement agencies owned by the Group, where a large part of their activities are based on engagement through the employer, with respect to its employees, while boosting the status of operating entities. Additionally, the provision requiring the collection of payment from the employer with respect to the operating services which will be paid by it, resulted in increased competition over the provision of services to employers, and between the agents and other operating entities. The condition which stipulates that the provision of the agent's services in parallel to an employer and its employees, is subject to the condition that the employer will choose a default fund for employees who have not actively chosen a fund, in combination with the provisions of the default fund circular (see section 6.2.3(a) above), is expected to result in an additional increase in competition with respect to the management fees which will be offered to employees, as stated above.

For details regarding additional regulatory arrangements which affected the status of agents, see the chapter regarding marketing and distribution, section 10.8.3.1 below.

For details regarding the implications of the provisions of the law regarding increasing competition in the long term savings segment, relative to the agents fees, see section 10.8.3.1 below.

- **Operational preparations, transfer of information in the pension savings segment, the clearing house and the Payment Regulations -**
 - o During the reporting year, the clearing house continued growing its operations with respect to the transfer of information. The clearing house assists and increases the efficiency of fund clearing, lifts operational barriers and facilitates the transfer of funds between competing institutional entities, and the identification of those funds, and is expected to facilitate the joining of members and collection, and therefore, is expected to result, over the long term, in increased efficiency and increased competition, and in reduced dependence on marketing entities. The institutional entities in the Group prepared, in operational terms, and worked to implement the arrangements which were determined for the purpose of operating the clearing house, including in connection with the Payment Regulations.

According to the Company's estimate, over the long term, the provisions of the **Payment Regulations**, which were replaced by the **circular regarding the payment deposit method**, and the use of the employers interface and the regulation of the process for handling funds, will have positive effects, inter alia, in terms of the improvement of the information which is available in institutional entities with respect to the deposits of funds to them, and accordingly, are expected, over the long term, to increase the efficiency of the process of associating funds to policyholders and members, and to reduce the dependence on marketing entities. However, in the short term, as reflected in the market and in the Group's institutional entities, it resulted in a delay in the distribution of some of the deposits, particularly due to inconsistencies between the reports of employers and the policy data, and may brought up specific inconsistencies regarding which, at this stage, it is not possible to predict their cumulative implications, with respect to the relevant periods. The process of implementing the handling of the issue in the Company's systems resulted, during the reporting year, to an improvement in the

scope of pension monies which were received in the Company from employers and associated in the systems to members and policyholders, relative to the previous period; however, institutional entities in the Group are still in the process of implementing and addressing the issues which come up as part of the adoption of the circular regarding the payment deposit method. The adoption of the Payment Regulations also resulted in possible temporary delays in reporting to members, for the purpose of making direct contact with employers and operating entities, and in an increase of operating and automation expenses. The Company is working to reduce the aforementioned gaps, including through improvements to the automation systems and work processes. However, the entry into effect of the directive regarding the reporting requirement, on the level of the policyholder, insofar as it will enter into effect, as part of the employers interface (as opposed to the reporting on the level of each pension product), is expected to add operational difficulty to the association of the deposits to the various pension products of policyholders and members. For additional details in connection with the implications of the adoption of the employers interface and the provisions of the Payment Regulations, see Note 42(a4)(2) to the financial statements. It is noted that, in accordance with the Wage Protection Law, 1958, an amount which is owed by an employer to a provident fund, as defined in that law, with respect to the rights of the employee, or his replacement, towards the provident fund, is viewed as if it had been paid on time, unless the Regional Labor Court has decided that the arrears in the collection of the debt occurred for a reason which was not due to its negligence, or occurred under other circumstances which justify the provident fund's case, and subject to the right of indemnification which exists for the fund towards the employer, in accordance with the provisions of the law. Additionally, in accordance with the Payment Regulations, the provident fund will receive, from an employer who has not transferred payments to the provident fund on time, interest in arrears. There are difficulties in the interpretation of the provisions of the law, which intensify in light of the provisions of the Payment Regulations. The Company's responsibility for collecting debts from employers with respect to the aforementioned funds creates exposure for the Company in case of flaws in the collection process.

The information presented on all matters associated with the possible implications of the provisions of the law regarding increasing competition in the pension savings segment, including in connection with the Company's profitability, 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 manner of implementation of some of the provisions of the law, and the steps which will be taken by the member companies in the Group, including as regards dealing with the various provisions aimed at increasing competition in the market, and which may result in changes in the market shares and income of the Group's institutional entities; Their relationships with the distributing entities, agents, banks which have not yet begun advising regarding insurance products, and reinsurers; the conduct of competing institutional entities following the various reforms; the preferences of members and policyholders and their conduct with respect to their products; the conduct of employers and operating entities on their behalf; the implications of other reforms in the segment, and their impact together with the provisions regarding increased competition; and the complexity of the operational preparations with respect to the various provisions.

6.2.4. Annuity factor reform

Life insurance plans which were marketed until the end of 2012 by the insurance companies⁴⁰ include annuity conversion factors which include a life expectancy guarantee, which was determined in advance upon the acquisition of the upon the insurance, and which cannot be changed, even if the life expectancy increases beyond that which was predicted on the acquisition date (hereinafter: "**Longevity Insurance Coverage**") and

⁴⁰ For details regarding the marketing permit which the Commissioner published in 2013, see footnote 23 above.

“**Guaranteed Annuity Factors**”) A study prepared by the Commissioner indicated that life expectancy cannot be predicted, and that the future improvement in life expectancy and in additional factors reduce the ability of the insurance companies to deal with the risk inherent in the insurance coverage due to life expectancy, and may harm the ability of the insurance companies to fulfill, over the long term, the annuity payment liability (hereinafter: the “**Study**”). Due to the findings of the study, the Commissioner adopted the following measures:

A. Cancellation of the annuity factors in life insurance policies beginning in 2013

In November 2012, the Commissioner published a circular regarding annuity factors which include a life expectancy guarantee (the “**Circular Regarding Annuity Factors**”), in which the Commissioner established provisions which determine that, beginning on January 1, 2013, new life insurance plans which include guaranteed annuity factors can only be sold to policyholders who are at least 60 years old on the sale date, and subject to the restrictions specified in the circular regarding annuity factors.

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

Further to the circular regarding annuity factors, in December 2015, a circular was published regarding the marketing of life insurance policies with annuity factors which include a life expectancy guarantee (the “**Circular Regarding the Mobility of Guaranteed Annuity Factors**”), in which provisions were determined which allow the marketing, transfer and maintenance of investment-linked life insurance policies combined with savings with guaranteed annuity factors which were acquired from 1991 to December 31, 2013, regardless of the policyholder's age, while maintaining the annuity factors which were guaranteed in the original policy by means of a rider to longevity insurance coverage, which will be priced separately, in accordance with the provisions which were determined in the circular regarding the mobility of guaranteed annuity factors.

The annuity factors circular initially resulted in a change in the mix of the mix of pension products which were sold by the Group's institutional entities, in a manner which significantly reduced the marketing of pension insurance products, at the expense of growth in the marketing of pension products. During the reporting year, the high rate of retention continued in life insurance policies which were sold in the past, and which have annuity factors which include a life expectancy guarantee, and where the scope of withdrawals from insurance policies with guaranteed annuity factors remained low.

During the reporting year, the circular regarding the mobility of guaranteed annuity factors had no impact on the Company's products. The provision of the aforementioned option to transfer policies, insofar as it will be realized, will increase competition with respect to these products, and may have an impact on the Company's profitability and capital requirements, inter alia, due to the possible erosion of the current management fees in the aforementioned policies, a change in the scope of the life insurance portfolio managed by Clal Insurance, and an increase in the Company's operating expenses. Additionally, a negative impact is possible on the value in force, and accordingly, on the Company's economic equity. The Company's decisions regarding the sale and/or retention of policies with guaranteed annuity factors, which may be reached from time to time, in consideration of changing market conditions, are also expected to affect the reserves which are managed by it.

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

The information presented on all matters associated with the possible implications of the annuity factor reform constitutes forward looking information, which is based on assumptions and

estimates made by the Group as of the publication date of the report. The Company is unable to estimate the overall impact of the proposed changes on its financial statements and on its operations. Actual implementation may differ significantly from the forecast, due to the reasons specified above.

B. The Commissioner's letter regarding assumed returns in annuity conversion factors in the new pension funds and in life insurance policies (the "Commissioner's Letter") and the circular regarding provisions for the management of new funds

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

In light of the change to the mechanism for the calculation and update of annuities, as stated above, the Company adjusted the investment policy for annuity recipients.

For additional effects on the method for crediting of returns to members and retirees, which have implications, inter alia, on annuities which are paid from the pension fund, see section 6.1.1.2 above regarding the crediting of returns in new comprehensive pension funds.

The Company believes that the aforementioned amendments may result in increased competition in the market and in a reduction of management fees, also with respect to members who are close to the retirement stage, which will be reflected in transfers between the pension funds, and may also result in increased transfers of funds to pension funds from other pension products. Additionally, the implementation of the proposed mechanism for updating the annuities may have operational and automational consequences, in light of the effects of the implementation of the aforementioned mechanism on the possibility to provide discounts to annuity recipients, in accordance with the provisions of the circular regarding discounts on management fees for annuity recipients.

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

6.2.5. Investment tracks reform

In February 2015, a **circular regarding investment tracks in provident funds** was published, on the subject of the adjustment of the savings track to the member's unique characteristics (hereinafter: the "**Investment**

Tracks Circular⁴¹), which established rules for the creation of default tracks which are adjusted to the age of members in provident funds and to annuity recipients in provident funds which are not study funds⁴¹ and management of a limited number of specialized investment tracks, subject to the terms specified in the circular. Beginning in January 2016, new members are added to one of the default tracks as appropriate for their age, or to the annuity recipients track, as applicable, unless they have requested otherwise. Policyholders who began receiving annuities, and policyholders who are claims in process with respect to loss of working capacity for a period exceeding 24 months, are added to the annuity recipient investment track. Other members are entitled to join the default track⁴². Tracks which are not specialized tracks, default tracks or tracks for annuity recipients, were closed to the joining of new members.

In January 2017, an age-dependent investment model was opened for holders of managers insurance policies or profit sharing compensation for self-employed, which were marketed during the years 1992 to 2003 (inclusive). In these policies, the policyholder is entitled to choose to transfer to the age-dependent investment model. A policyholder, as stated above, who has a loss of working capacity claim in process for a period exceeding 24 months, or a policyholder who began receiving an annuity from that date, is added to the investment track for annuity recipients, according to the age-dependent investment model.

The institutional entities in the Group adjusted the current investment tracks in provident funds according to the provisions of the investment track circular.

The application of the investment tracks circular may have an additional impact on the pension savings segment in its entirety, inter alia, on all matters pertaining to the ability to compare returns between competitors, in light of the differences in returns between the managed tracks in the various companies, and between them and the general tracks, due to the variability between the choices of the institutional entities with respect to the investment management method within the framework of the age-dependent tracks and the track for annuity recipients, including in connection with the designation of the general track, which may be different, and the institutional entities. Additionally, policyholders' preferences regarding investment tracks, mostly with respect to policyholders to whom insurance policies were marketed before 2004, in which the management fees change in accordance with the returns of the investments, may result in changes to the Company's income from management fees, due to the possible difference in returns between the chosen tracks and the track from which the money will be transferred, and the effect of the returns on the accrual, from which the fixed management fees are derived.

The information presented on all matters associated with the investment tracks circular constitutes forward looking information. Actual results may differ from the estimated results, depending, inter alia, on the preferences of policyholders, the conduct of competing entities, the returns which will be realized in the various tracks, and their methods of presentation.

6.2.6. Others

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

Further to the provisions of the circular regarding data cleansing with respect to members' rights in institutional entities, which was published in November 2012, regarding data cleansing with respect to members' rights (institutional entities circular 2014-9-13) (the "**Circular**"), which obligated the institutional

⁴¹ The circular applies to all provident funds, except for certain funds which were excepted, including central provident funds, old funds, provident funds for sick pay, provident funds for holiday pay, provident funds for other purposes, guaranteed return insurance funds which were marketed before 1992, and life insurance policies which are not insurance funds.

⁴² With respect to insurance policies which are insurance funds which were marketed before 2004, the circular enters into effect on January 2017, 2017.

entity to cleanse the data which confer rights upon members, in order to ensure that the recording of members' rights in the information systems is as reliable, complete, accessible and retrievable as possible. The Group's institutional entities implemented, after the publication of the circular, in 2013, a gap survey with respect to the members and policyholders who manage policies and/or accounts in the Group's institutional entities, and also worked during the reporting year on the completion of a comprehensive process of data cleansing with respect to the systems in the long-term savings segment. In general, as of the publication date of the report, tasks involving the cleansing of data regarding accrued balances of policyholders have been completed, the Company credited amounts which were provided in the past in its financial statements to policyholders, and informed them of the changes to their rights. The institutional entities in the Group implemented, in their financial statements, provisions as required and in accordance with their estimates; however, they are continuing to perform data cleansing tasks with respect to members and policyholders, including with respect to additional gaps which are discovered from time to time, and at this stage, they are unable to estimate the full scope, cost, and complete implications of the aforementioned activities, inter alia, due to the complexity of the products, the fact they are long term products, and due to the multiplicity of automation systems in the segment, and their limitations.

For details regarding the Company's engagement with an outsourcing service provider for the purpose of adjusting the Company's IT systems for the performance of automated data cleansing operations and the introduction into the IT systems of the results of non-automated data cleansing operations, see Note 43(d)(2) to the financial statements.

- **Prohibition on money laundering**

In May 2017, the **Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Insurers, Insurance Agents and Managing Companies in Order to Prevent Money Laundering and the Financing of Terrorism), 2017**, was published (hereinafter: the "**Prohibition on Money Laundering Order**"), which entered into effect in March 2018. The order consolidates, under a single framework regarding institutional entities, The Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Insurers and Insurance Agents), 2001 and The Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Provident Funds and Managing Companies of Provident Funds), 2001. The main changes therein, relative to the old orders, include the expansion of the application of the order to a new general fund, provident fund for investment and provident fund for savings, and with respect to an annuity paying provident fund in certain cases. With respect to the reduction of the accrual threshold, deposits and withdrawals which require the performance of actions in accordance with the draft order; Determination of an obligation to perform a "know your customer" process upon engagement in a life insurance contract or upon the opening of a provident fund. In March 2018, a draft circular was published, which primarily includes the postponement of the application of the duty to conduct a "know your customer" process with respect to customers who were added to a pension product through pension advice which was given by a bank entity.

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

In February 2018, a **circular was published regarding the management of money laundering and terrorism financing risks in institutional entities** (hereinafter: the "**Circular Regarding the Management of Money Laundering Risks**"), which expands and imposes on the institutional entities additional obligations which were not included in the Prohibition on Money Laundering Order, and which primarily included the establishment of provisions with respect to the performance of orderly processes to identify and assess money

laundering and terrorism financing risks, and the adoption of measures to manage and mitigate them, in accordance with their relative intensity, including provisions with respect to the adoption of a policy regarding the management of money laundering and terrorism financing risks, which will be approved by the Board of Directors; The formulation of a risk assessment document, to include the identification and assessment of money laundering and terrorism financing risks in the institutional entity; The implementation of means to mitigate the risk of money laundering and terrorism financing; And the roles of the individual responsible for fulfilling obligations regarding the prohibition of money laundering and the prevention of terrorism in the institutional entity.

The Company believes that the Prohibition on Money Laundering Order, Amendment 19 to the Prohibition on Money Laundering Order, and the circular regarding the management of money laundering risks, may have certain implications on the sale process of insurance products, both within the framework of the direct sale channels, and through agents, inter alia, in light of the requirements of the order and their impact on the sale processes, both in light of the need to implement a process of learning about the customer prior to the sale process, and in light of the interpretation which will be given for the aforementioned obligations, with respect to the insurance companies, the insurance agents and the reciprocal relationship between them.

The information presented in connection with the prohibition on money laundering constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report. Actual implementation may differ significantly from the forecast, and is dependent, inter alia, on the operational preparations towards the adoption of the aforementioned provisions, and the interpretation which will be given for the provisions which apply thereunder in the future by the authorized entities, and on the conduct of customers, insurance agents and competing companies.

- **Provisions regarding mortgage term insurance plans**

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

As part of the draft circular regarding mortgage term insurance, provisions were established regarding the consent which is required from the insurance companies when increasing the loan amount or when extending the loan term, and regarding the obligation to notify the policyholder regarding the gap between the scope of the loan and the scope of the insurance coverage with respect thereto.

The draft circular regarding mortgage term insurance, insofar as it will become a binding circular, is expected to have extensive automational and operational implications with respect to the sale and management of mortgage term life insurance policies.

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

- **Withdrawal of funds from small accounts in provident funds**

Further to the amendment to the Provident Funds Law from August 2015, and to the supplementary provisions regarding the granting of a possibility to members who have accounts with an accrual balance in a provident fund for compensation, in an amount which does not exceed NIS 8,000, to withdraw funds from provident

fund with a tax exemption, in March 2018, an **amendment was published to the circular regarding the “withdrawal of funds from small accounts in provident funds”**, in which it was determined that managing companies will be obligated to send to members with small accounts, in which the accrued balance is more than NIS 50 and less than NIS 1,350 (and excluding the accounts of members with whom contact has been lost), a check by mail, and to establish provisions regarding the issuance of notice to members on the matter, in accordance with the circular, in light of the low response by the public to withdraw its funds from small accounts, and in light of the fact that the significance of the collection of minimum management fees will be to reduce the balances of small accounts to zero over time.

the aforementioned amendment is expected to result in a decrease of the Company's income from management fees. For details regarding the aforementioned effects on the value of goodwill of Clal Pension and Provident Funds in the Company's books, see Note 6(b)(1) to the financial statements.

The information presented on all matters associated with the possible implications of the amendment to the circular regarding the withdrawal of funds from small accounts in provident funds constitutes forward looking information, which is based on the Company's estimates and assessments, and actual results may differ significantly from the forecast, inter alia, due to the conduct of members.

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

6.3. **Competition**

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

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

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

The insurance products which do not receive tax benefits, such as individual policies or pension savings funds which became liquid, are products which also compete against other investment products which are also marketed by financial entities which are not entities overseen by the Commissioner, mostly including banks, portfolio managers and mutual funds.

Also provident funds for investment, whose marketing began sometime in 2016, and whose marketing is expected to increase in the coming years, constitute a substitute for alternative investment tracks, such as bank deposits, management of securities portfolios and for individual savings policies which are managed by insurance companies. For additional details regarding the provident funds for investment, see section 6.2.1 above.

The competition in the segment is focused on returns, including the existence or absence of guaranteed returns, in the amount of the management fees, in the insurance coverages, in the existence or absence of guaranteed annuity factors, in the service level, and in insurance solutions. During the reporting year, the competition in the segment increased, inter alia, as a result of the combined impact of the regulatory changes mentioned above and below, and the increased transparency, as well as the discount on management fees, the creation of

default pension funds, the increased trend of interchangeability between products of the same type from the different institutional entities, and the mobility between life insurance and pension, as well as the entire set of conditions which are determined in the significant transactions in the pension savings market.

In accordance with the Commissioner's publications, as of December 31, 2017, the Group is the fourth largest in the life insurance branch, the third largest in the pension fund branch, and the fifth largest in the provident fund branch, and in total, the Group is the third largest in the pension market, in accordance with the scope of managed assets, as defined by the Commissioner. It is noted that, during the last two years, a trend of encouragement and preference for entry and support of small players in the market has been evident, which was particularly prominent in the selection of default funds, and in provident funds for investment of the long term savings for children type.

The competition in risk and loss of working capacity products takes place between the various insurance companies, and is focused on tariffs, due, inter alia, to the significant similarity between the terms of the products (on this matter see, inter alia, the provisions of the guidelines circular, in section 6.1.3 above). For details regarding the lifting of competitive barriers regarding entry to the market, on all matters pertaining to the capital requirement, see section 10.3.1.2 below.

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

- **Compulsory pension** (for details, see section 6.2.2 above).
- **Circular regarding default funds and the creation of default funds** (for details regarding the circular and its implications, see section 6.2.3(a) above).
- **Products reform and the trend of unification between different products** - (for details and implications, see section 6.1.4.2 above).
- **Provisions regarding the consolidation of inactive accounts** (for details, see section 6.2.3d above).
- **Creation of provident funds for investment** (for details and implications, see section 6.2.1 above).
- **Clearing house and mobility reform** - In general, the mobility reform affects competition in the branch. The competition is reflected, inter alia, in management fees, returns and service. According to the Company's estimate, the mobility reform, which led to the lifting of the regulatory barriers and to the establishment of policies regarding the transfer of funds, exposed some of the pension products to transfers between the institutional entities, and therefore increases competition in the segment, including with respect to the Group's products. The clearing house facilitates the mobility processes, and therefore increased competition in the segment. For additional details, see Part B of the report - board of directors' report, section 3.1.1.

Presented below is information regarding the transfer of funds from and to the Company in the long term savings branch during the years 2015 to 2017:

2017

NIS in thousands	Company operation			Total
	Life insurance	Provident funds	Pension	
Transfers to the Company from other entities				
Transfers from other insurance companies	9,626	41,463	49,626	100,715
Transfers from pension funds	21,379	25,742	1,645,592	1,692,713
Transfers from provident funds	7,767	698,573	30,773	737,113
Total transfers to the Company	38,772	765,778	1,725,991	2,530,541
Transfers from the Company to other entities				
Transfers to other insurance companies	168,489	93,232	159,869	421,590
Transfers to pension funds	118,478	13,106	2,672,695	2,804,279
Transfers to provident funds	271,014	3,077,022	62,139	3,410,175
Total transfers from the Company	557,981	3,183,360	2,894,703	6,636,044
Net transfers	(519,209)	(2,417,582)	(1,168,712)	(4,105,503)

2016

NIS in thousands	Company operation			Total
	Life insurance	Provident funds	Pension	
Transfers to the Company from other entities				
Transfers from other insurance companies	7,242	37,077	41,260	85,579
Transfers from pension funds	7,633	11,177	875,912	894,722
Transfers from provident funds	7,589	1,025,698	18,533	1,051,820
Total transfers to the Company	22,464	1,073,952	935,705	2,032,121
Transfers from the Company to other entities				
Transfers to other insurance companies	89,297	64,406	65,874	219,577
Transfers to pension funds	120,052	24,009	789,736	933,797
Transfers to provident funds	161,558	1,826,781	11,112	1,999,451
Total transfers from the Company	370,907	1,915,196	866,722	3,152,825
Net transfers	(348,443)	(841,244)	68,983	(1,120,704)

2015

NIS in thousands	Company operation			Total
	Life insurance	Provident funds	Pension	
Transfers to the Company from other entities				
Transfers from other insurance companies	8,052	42,593	26,478	77,123
Transfers from pension funds	2,634	2,259	672,314	677,207
Transfers from provident funds	7,063	553,893	56,509	617,465
Total transfers to the Company	17,749	598,745	755,301	1,371,795
Transfers from the Company to other entities				
Transfers to other insurance companies	45,403	46,430	13,480	105,313
Transfers to pension funds	88,139	31,926	690,187	810,252
Transfers to provident funds	179,786	1,996,616	15,375	2,191,777
Total transfers from the Company	313,328	2,074,972	719,042	3,107,342
Net transfers	(295,579)	(1,476,227)	36,259	(1,735,547)

Transfers of funds from and to the Company are affected by various factors, including significant regulatory changes in recent years, such as the default fund circular, which led to the creation of default funds, and the provisions regarding the consolidation of inactive accounts in pension funds. For additional details, see sections 6.2.3(a) and 6.2.3(d), respectively. These changes primarily affected the pension branch and study funds. Such transfers are also affected, primarily in the provident fund branch, by differences in the returns which are achieved by the various entities. For details regarding the impairment of goodwill of Clal Pension and Provident Funds in the Company's books, see Note 6(b)(1) to the financial statements.

- **Publication of comparative benchmarks** - The Commissioner publishes, on the website of the Ministry of Finance, comparative figures with respect to returns and the risk indicators of provident funds, pension funds and insurance funds, information regarding the composition of investment assets and expenses which are deducted from members' assets with respect to the performance of investments, and statistical information regarding the claim settlement method and the time required to handle requests for withdrawal, transfer, transition between tracks and receipt of annuities, as well as comparative figures in connection with the service level indicator.

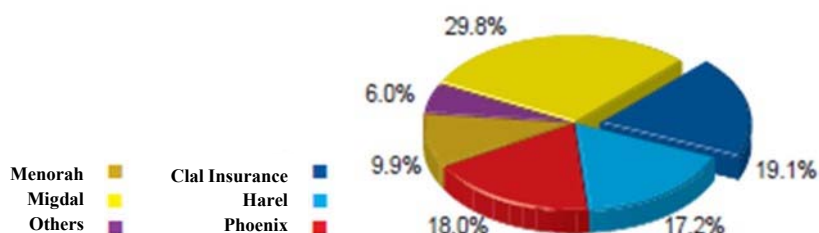
- Provisions of the **addition to insurance circular** (for details, see section 10.2.7 below).
- **Provisions of the circular regarding the management fees calculator and the circular regarding tariff reporting and the life insurance tariff calculator** - which are published on the website of the Capital Market Authority, are intended to allow policyholders to compare among the management fee rates which are offered to new members in the various pension savings products and the offered products to those joining life insurance in case of death, resulted in increased transparency, and may in the future result in increased competition between the institutional entities in the segment.

The information presented above with respect to the changes in the competition in the segment constitutes forward looking information, as defined in the Securities Law. This information is based on the Group's estimates as of the publication date of the report. Actual changes may differ significantly from the forecast presented above, due to various factors, which primarily include regulatory changes, changes in market conditions, the conduct of competitors and the choices of members, policyholders and distributing entities.

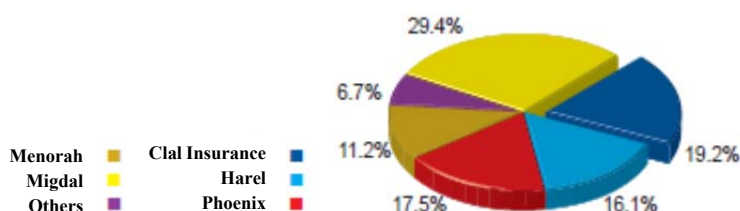
1) Life insurance branch

Approximately 94.0% of the life insurance market, in terms of gross premiums earned, is controlled by the five large insurance companies (Clal Insurance, Migdal, Harel, Menorah and Phoenix). According to the Group's estimate, Clal Insurance primarily competes against these insurers, against pension funds and against provident funds which provide alternative products. Clal Insurance also competes in the individual insurance segment.

Distribution of premium rates between insurance groups and companies in Israel in the life insurance branch as of September 30, 2017



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

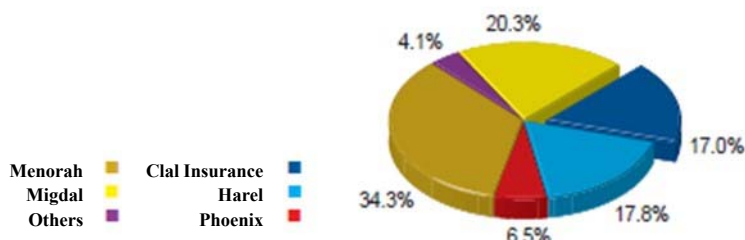


* The scope of premiums in the life insurance branch reflects the premiums which are paid with respect to all policies which are in effect and which were sold over the years, and changes therein do not necessarily indicate a change in supply and demand during the reporting year.

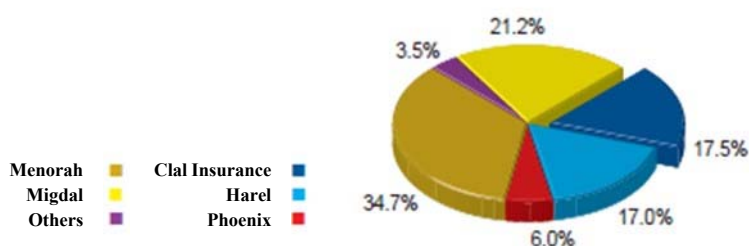
2) Pension funds branch

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

Distribution of asset rates in new pension funds between insurance groups and companies in Israel as of December 31, 2017



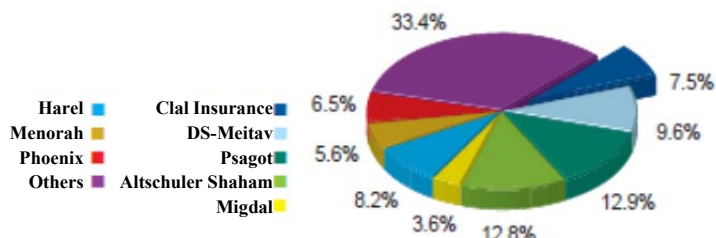
Distribution of asset rates in new pension funds between insurance groups and companies in Israel as of December 31, 2016



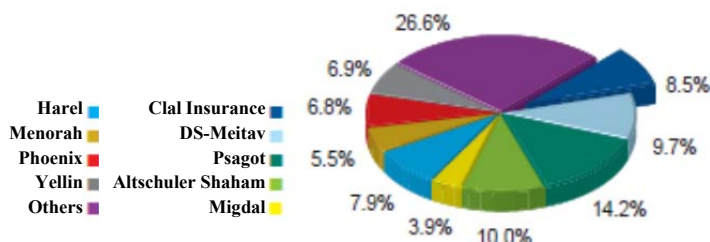
3) Provident funds branch

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

Distribution of scope of assets in provident funds between private entities and insurance groups in Israel as of December 31, 2017



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



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

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

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

- Synergy between the Group's member companies - provision of integrative solutions to customers in all long-term savings channels.
- Use of regulatory changes, including the mobility reform, the products reform, mandatory pension, and the annuity factors reform for customers aged 60 and over, and provident funds for investment, in order to be exposed to potential new customer segments and enroll them as customers.
- Increased operational efficiency - through the improvement of work methods and the improvement of automation systems. For details regarding the improvement of the automation and digitization system, see sections 10.10.3.2 and 10.10.3.3 below.
- Retaining customers in the existing portfolio and improving customer service – by activating designated units to handle an issue, creating designated service hotlines, including claims hotlines and employers' hotlines, while presenting a range of existing possibilities in the Group to the customer.
- Expansion of the customer base, both by expanding the distribution channels, including directly, and by increasing the sales volume, product types, and the scope of insurance coverage to existing customers.
- A professional and highly skilled investments unit, which aims to achieve maximum returns for policyholders and members, through informed risk management.
- Expansion of the distribution and marketing systems, both direct and through agents, by conducting sales promotion campaigns, improving service to agents, and recruiting new agents.
- Work vis-à-vis the pension advice units in the banks.
- Branding and positioning of the Group.
- Development of products and adjustment of product to the needs of customers and to changing market conditions, under the regulatory restrictions.

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

- Many years of experience in the life insurance and long term savings segment.
- The Group's reputation in the segment.
- Long term relationships with agents marketing the Group's products.
- Direct distribution network.
- The variety of pension products which are sold under one roof.
- Financial stability.
- Returns achieved on savings funds, as compared with the returns of competing entities.
- The service given by the Company to customers and agents, and the claim settlement method.
- Transparency and price - as part of the Commissioner's policy in recent years, significant reforms were promoted which involve the reduction of tariffs, transparency and increased competition. These reforms are affecting, and will continue to affect in the coming years, the long term savings segment and the profitability thereof. For additional details, see section 2.5.3 above.
- Competitive barriers - for details regarding the lifting of barriers to entry to the market, see section 10.3.1.2 below.

6.4. **Customers**

The main types of customers in the long term savings segment include: employers, members, individual policyholders, self-employed workers and collectives.

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

The Group markets, from time to time and in the ordinary course of business, to member companies of the IDB Group (as policyholders in collective insurance, as members in central provident funds and as employers depositing into pension savings for their employees), long term savings products. The Group's total income in the long term savings segment from member companies of the IDB Group, from premiums and contributions in the ordinary course of business, does not exceed 5% of the Company's total income in the segment in 2017. For the sake of caution, despite the fact that the IDB Group includes a large number of companies, all of the member companies of the IDB Group were addressed, for this purpose, as a single entity.⁴³

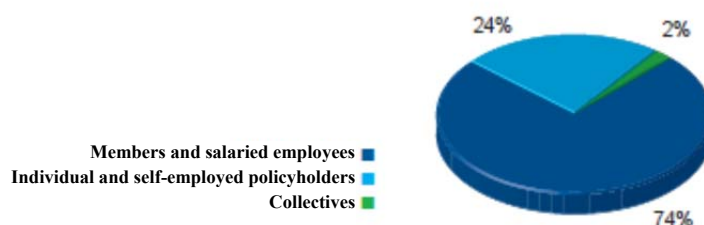
6.4.1. Distribution of Company customers in the life insurance branch by premiums in the years 2017 and 2016

Customer type	2017		2016	
	Gross premiums (NIS in thousands)	Proportion of total sales	Gross premiums (NIS in thousands)	Proportion of total sales
Members and salaried employees	4,109,823	74%	3,620,608	72%
Private and	1,334,622	24%	1,274,846	26%

⁴³ With respect to the reporting year, the evaluation also included Mr. Moshe Terry, who serves as the trustee for IDB Development for the purpose of exercising the authorities which are vested in him by virtue of the means of control.

independent policyholders				
Collectives	90,058	2%	103,159	2%
Total	5,534,503	100%	4,998,613	100%

Distribution of customers in the life insurance branch by gross premiums in 2017



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



6.4.2. Redemptions in the life insurance branch

In the life insurance branch, the redemption rate from the average reserve during the reporting year was 2.1%, as compared with 2.2 in 2016.

6.4.3. Distribution of the Company's customers in the pension funds branch by contributions for the years 2017 and 2016

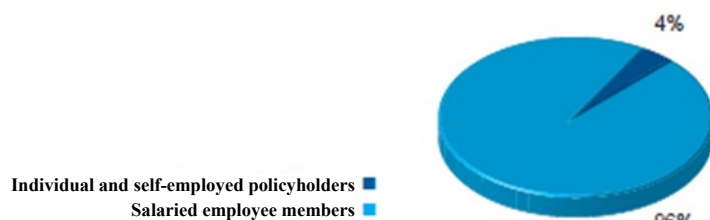
Customer type	2017		2016	
	Contributions (NIS in thousands)	Proportion of total sales	Contributions ⁴⁴ (NIS in thousands)	Proportion of total sales
Salaried employee members	5,449,412	96%	5,137,923	95%
Individual and self-	252,873	4%	257,295	5%

⁴⁴ The data for 2016 were restated.

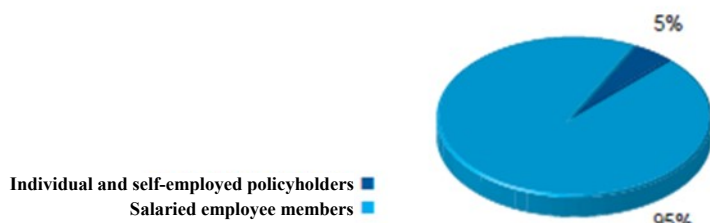
employed policyholders

Total	5,702,285	100%	5,395,218	100%
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Distribution of customers in the pension fund branch by contributions in 2017



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



6.4.4. Distribution of the Company's customers in the provident funds branch according to contributions in 2017 and 2016

2017

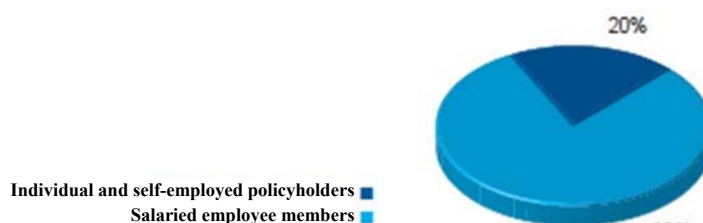
Customer type	Contributions and provident funds (NIS in thousands)	Central severance pay contributions (NIS in thousands)	Contributions / deposits to study funds (NIS in thousands)	Provident funds for investment (NIS in thousands)	Total contributions (NIS in thousands)	Proportion of total contributions (NIS in thousands)
Salaried employee members	283,579	1,439	992,712	-	1,277,731	80%
Individual and self-employed policyholders	110,909	-	110,449	102,535	323,893	20%
Total	394,488	1,439	1,103,161	102,535	1,601,624	100%

2016

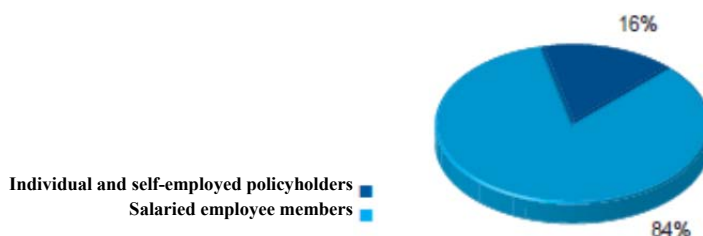
Customer type	Contributions and provident funds (NIS in thousands)	Central severance pay contributions (NIS in thousands)	Contributions / deposits to study funds (NIS in thousands)	Total contributions (NIS in thousands)	Proportion of total contributions (NIS in thousands)
Salaried employee members	283,579	1,439	992,712	1,277,731	80%
Individual and self-employed policyholders	110,909	-	110,449	323,893	20%
Total	394,488	1,439	1,103,161	1,601,624	100%

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

Distribution of customers in the provident fund branch by contributions in 2017



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



7. Non-life insurance

7.1. Products and services

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

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

Operations in property insurance are considered characterized by "short tail claims", due to the fact that the obsolescence period is only three years after the occurrence of the insurance event, and due to the fact that these claims are submitted, in most cases, during the insurance period. On the other hand, compulsory insurance and liability insurance are considered characterized as "long tail claims", due to the fact that the obsolescence period is seven years after the occurrence of the insurance event, and due to the fact that the insurance claim does not become obsolete so long as the third party claim against the policyholder has not become obsolete, and due to the extended period of time which passes between the date of materialization of the cause of action against the policyholder, and the date of the discovery and/or the filing date of the claim (inter alia, in light of the aforementioned obsolescence period) and/or due to the time period which is required to investigate the claim. In accordance with the Amendment to the Insurance Contract Law from March 2014,

the obsolescence period of claims for insurance benefits, in case of disability which was caused to the policyholder due to an illness or accident, will begin on the date when the policyholder earns the right to claim insurance benefits in accordance with the terms of the insurance contract. Therefore, personal accidents policies which include accidental disability coverage may also be considered as having "long tail claims".

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

7.1.1.1. **Compulsory motor insurance branch**

A. General

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

B. Special arrangements in the compulsory motor insurance segment

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

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

In light of the fact that, on the one hand, compulsory motor insurance is a legal obligation, while on the other hand, there is no obligation to insure all parties who request to acquire such insurance, by virtue of the Motor Vehicle Insurance Regulations (Residual Insurance Arrangement and Tariff Establishment Mechanism), 2001, the residual insurance arrangement was established, which covers individuals using motor vehicles who did not obtain insurance coverage directly from the commercial insurance companies (such as drivers with an insurance past indicating high risk, drivers with a history of license revocations, high risk vehicles such as motorcycles, all-terrain vehicles and/or additional vehicles which were rejected by the insurance companies). The residual insurance arrangement is based on co-insurance of all of the insurance companies operating in the compulsory motor insurance branch, according to which the aforementioned companies are required to participate in the residual insurance arrangement, and jointly bear its losses or profits, in accordance with their share in the total premiums in compulsory motor insurance (the "**Compulsory Market Share**"). The Group's share in the residual insurance arrangement as of the 2017 underwriting year amounted to a total of approximately 9.2%⁴⁵, as compared with a rate of approximately 8.9% in the 2016 underwriting year. For details regarding the impact of the residual insurance arrangement on the financial results of Clal Insurance, see Part B of the report - board of directors' report, section 3.1.2.

The insurance companies finance their share in the residual insurance arrangement by loading the residual insurance cost onto the other policyholders in compulsory motor insurance in the insurance company through avenues other than residual insurance. In accordance with the legislative

⁴⁵ The specified rate is a temporary rate which is based on the data for September 2017, as published by the Pool.

arrangement, the loading component which the insurance companies participating in the residual insurance arrangement are permitted to charge for the purpose of financing the cost of the residual insurance is at a rate which will not exceed a range of 5.5% to 6.5% of the cost of the pure risk of the insurer's compulsory insurance through avenues other than the residual insurance, in accordance with the Commissioner's Determination. Subsequently, in February 2017, a private draft law was proposed, in which it was proposed to determine that the loading component which is expected to finance the cost of motorcycle insurance will amount to a rate of 11% of the risk cost (hereinafter: the "**Proposed Law To Change The Loading Component For Motorcycles**");

In January 2018, a discussion was held regarding in the Supreme Court regarding Supreme Court Case 9609/16, which was filed by the "Pool" against the Commissioner, and in the hearing, the Commissioner's representative announced that, shortly before the hearing, the Proposed Law To Change The Loading Component For Motorcycles was brought up for discussion in the ministerial committee on legislative affairs, and received the support of the government, and accordingly, is expected to be promoted. Accordingly, the Court determined, at the request of the Commissioner's representative, that it will submit an update regarding the promotion of the legislative procedures, by April 2018. In January 2018, shortly after the hearing in the ministerial committee on legislative affairs, regarding the Draft Law To Change The Loading Component, the draft law passed the pre-reading, and in March 2018, as part of the discussion in the Knesset reforms committee, the committee decided to approve for the first reading the draft law, including a change such that the loading component will be 8.5% and not 11%, as initially proposed).

For additional details regarding the "cost of pure risk", see subsection 7.1.1.1(c)(3) below.

At this preliminary stage, before the publication of the final version of the Proposed Law To Change The Loading Component For Motorcycles, it is not possible to predict its impact on profitability, which depends, inter alia, on the binding wording of the legislation, if and insofar as it will be published, on the method for update of the tariffs of the "Pool", insofar as they will be updated, on the compulsory motor insurance tariff of Clal Insurance, as approved by the Commissioner, and on the conduct of competing entities and customers.

(2) **Karnit Road Accident Victims Compensation Fund**

Karnit Road Accident Victims Compensation Fund ("**Karnit**") is a corporation which was established in accordance with the RAVC law, for the purpose of paying compensation to eligible individuals in accordance with the RAVC law, who are unable to claim compensation from an insurance company, due to one of the following cases: (1) Injury caused by an uninsured vehicle; (2) Unknown insurer (such as "hit and run" accidents); (3) Insurer in liquidation proceedings, or for which an authorized manager has been appointed.

The funding of the fund is done through loading a rate of 1% of net premiums⁴⁶ on the holders of compulsory motor insurance policies. This amount is transferred by the insurance companies to Karnit.

(3) **Liability for the provision of medical services**

In accordance with a legislative amendment from 2009, in which the insurance liability for the provision of medical services which are included in the basket of services set forth in the Second

⁴⁶ Net (insurance) premiums - premiums which reflect the cost of risk, without external loading, such as expenses and commissions.

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

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

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

The insurance companies determine the premiums using variables which were approved by the Commissioner as variables which an insurer will be entitled to use for the purpose of determining the tariff (hereinafter: the “**Variables**”). The variables are intended to adjust the risk premium to the insured risk. Until April 2016, as specified below, 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 (the “**Pool Tariffs**”) which are published from time to time by the Commissioner (the “**Tariff Restriction**”).

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

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

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

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

The compulsory motor tariffs reform resulted, after neutralization of the offsetting effect of the consequences of the Winograd committee and the amendment to the Discounting Regulations (for details, see section 7.1.1.1(d)(2) below), in a significant reduction of the Pool's tariffs for private vehicles in 2016 and 2017, relative to previous years, and of the tariffs of other companies on the market, including Clal Insurance, relative to the average tariff, and with respect to some policyholders, despite the change for the worse in the underwriting results of compulsory motor insurance in the market, relative to the past.

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

The Company's estimate in connection with the compulsory motor tariff reform: The 2016 compulsory motor insurance circular and the 2017 amendment to the compulsory motor insurance circular, constitutes forward looking information, which is based on information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, inter alia, in accordance with the Commissioner's policy upon the approval of tariffs, the tariffs which will be determined for the Pool's in compulsory insurance, the conduct of competitors and customers, future underwriting results, and the impact of the Discounting Regulations.

(2) Maximum fees

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

(3) Databases

Statistical database -

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

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

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

Insurance fraud handling database -

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

D. National Insurance

(1) Subrogation rights of the National Insurance Institute

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

Further to the 2013 and 2015 legislative amendments to the National Insurance Law, an arrangement was determined according to which the third party which deducted, or which was entitled to deduct, any amount from the compensation which they are required to pay with respect to payments which the National Insurance Institute is entitled to claim from them, must report such amounts to National Insurance. The amendments further provide that insofar as the obligation will not be fulfilled on time, the obsolescence period with respect to subrogation claims by the National Insurance Institute will begin, from the date of receipt of the report, or from the time when the National Insurance Institute becomes aware of the proceedings being conducted between the entitled individual and the insurer, whichever is earlier, and in any case, the obsolescence period will not exceed the 15th year and the date of occurrence of the event for which the National Insurance Institute is obligated to pay the stipend. Additionally, approval was given to amend the National Insurance Law, in a manner which vests in the Commissioner the authority to impose financial sanctions on an insurer who has breached the reporting requirement to the National Insurance Institute.

According to the assessment of Clal Insurance, the legislative arrangement in connection with the claims which it settles, including by way of ruling, settlement or other payment, and regarding which the National Insurance Institute has grounds for subrogation claims, has affected and led to an increase

in subrogation claims from the National Insurance Institute, with respect to claims in the compulsory motor insurance branch and in the liabilities branches, which were settled by Clal Insurance in the past, relative to the situation which prevailed before the amendment to the legislative arrangement, and is also expected to affect, and to increase, future payments to the National Insurance Institute with respect to those claims, and also with respect to claims which will be settled in the future. The foregoing assessment with respect to the future is uncertain, and depends, inter alia, on the actual development of subrogation claims, on the scope of inquiries which will be received from National Insurance, on the scope of deductions which will actually be deducted by Clal Insurance from the insurance benefits and/or which it will be entitled to deduct, and on the factor which will be created between them and the subrogation claims, in accordance with the factual circumstances and the legal claims which will be investigated in each claim individually. The Company performed a provision in its financial statements in accordance with the information which is available to it as of the publication date of the report.

In January 2018, as part of the Economic Efficiency Law Memorandum (Legislative Amendments to Achieve Budgetary Goals for 2019), 2018 (hereinafter: the "**Economic Efficiency Law Memorandum**" or the "**Memorandum**"), a proposal was published to change the mechanism for the settling of accounts between the National Insurance Institute and the insurance companies, with respect to the subrogation right of the National Insurance Institute from the insurance companies in claims by virtue compulsory motor policies. The proposal includes a proposal to cancel the current specific subrogation arrangement mechanism, according to which the settling of accounts is performed separately with respect to each claim, and instead to determine that the insurer will submit to the National Insurance Institute, each year, a fixed annual amount to cover its liability with respect to all of the subrogation claims by virtue of compulsory motor policies (hereinafter: the "**New Subrogation Arrangement**" and the "**Effective Amount**"). It was further proposed that the insurer will be required to transfer the effective amount, each year, in accordance with the distribution which will be determined with respect to that year for compensation, and that the Minister of Finance will determine in the regulations, provisions regarding the method for determining of the effective amount. The effective amount will be determined, inter alia, based on the receipts which the National Insurance Institute is entitled to receive with respect to road accidents which occurred during the years 2010 and 2011, plus various updates set forth in the Economic Efficiency Law Memorandum, including, inter alia, updates regarding the discount interest rates. The actuarial tables which are published by the National Insurance Institute, the insurance risk in the compulsory motor branch, the rate of the increase in the amount of premiums which were collected in the compulsory motor branch, and the real increases in the pension amounts which are paid by the National Insurance Institute, pursuant to the National Insurance Law. The memorandum also includes provisions regarding the method by which the effective amount will be updated; The method for distribution of the effective amount between the various insurance companies; The date on which the insurance companies will pay the effective amount to the Institute. In accordance with the memorandum, it is proposed that the new subrogation arrangement will apply to road accidents which occur from January 2019 onwards. With respect to road accidents which occurred from January 2014 to December 2018, and regarding which, until January 2019, a claim or demand has not yet been filed by the National Insurance Institute. The Minister of Finance will determine, in the regulations, a comprehensive non-recurring amount which will be paid by the insurance companies to the National Insurance Institute with respect to the aforementioned claims or demands (hereinafter: the "**Non-Recurring Amount**"), and will determine the method for the distribution and division thereof among the insurance companies. With respect to road accidents which occurred before December 2018, and regarding which a claim or demand was filed by the National Insurance Institute by the end of December 2018, the current subrogation arrangement will continue to apply, unless the National Insurance Institute and the insurance company agree upon the payment of a total amount to cover the aforementioned demands or claims.

In February 2018, within the framework of a hearing in the labor, welfare and health committee on the subject, it was decided that, within 30 days after the publication of the binding law, the Minister of Finance will enact regulations which will be presented to the committee for approval, which will include the effective amount and the non-recurring amount.

At this preliminary stage, before the insurance companies have received clarification regarding the method for calculation of the effective amount, before clarification has been given regarding the manner of use of the database which the Ministry of Finance and the National Insurance Institute relied upon for the purpose of determining the effective amount, before the possibility has been given for the insurance companies to evaluate the calculation method and the use of the different variables which resulted in the proposal of the effective amount by the Ministry of Finance and the National Insurance Institute, it is not possible to estimate the impact of the new subrogation arrangement, which depends, inter alia, on the binding version of the Economic Efficiency Law, on the new subrogation arrangement, on the amount which will be determined as the effective amount, on the amount which will be determined as the non-recurring amount, on the information which will be given to the insurance companies for the purpose of conducting a qualitative evaluation of the method used to determine the proposed effective amount which was specified in the proposal, according to the calculation of the Ministry of Finance and the National Insurance Institute, and the mechanism which will be determined regarding the division of the effective amount between the insurance companies, and its impact on possibly increased operational efficiency, due to the aforementioned mechanism.

(2) Interest rate for the discounting of National Insurance annuities

In June 2014, an inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd was appointed in order to evaluate 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), 1978 (hereinafter: the “**Discounting Regulations**” and the “**Winograd Committee**”). In June 2016, an amendment to the Discounting Regulations (hereinafter: the “**Amendment**”) was published which includes, inter alia, updates to the mortality tables and the discount rates which are used to calculate the aforementioned annuities.

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

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

The amendment to the Discounting Regulations entered into effect in October 2017, and from that point forward, significantly increased the average subrogation claim amounts which the insurance companies are required to pay to National Insurance within the framework of subrogation claims submitted by the National Insurance Institute to insurers, within the framework of the compulsory and liabilities branches (the “**Discounting Of Subrogation Claims**”). An increase in the amount of subrogation claims to National Insurance may be balanced, in the future, if and insofar as the deduction from the insurance benefits which are paid to policyholders increased accordingly, and the matter depends on the indirect impact of the amendment. Additionally, the amendment may indirectly affect court rulings regarding the discount interest rate which should be used to calculate compensation for future losses, also not within the framework of subrogation claims of the National Insurance Institute, in compulsory and liabilities insurance (“**Discounting of Future Damage Payments**”). This matter is pending for resolution by the Supreme Court, within the framework of a specific case which is being conducted against the “Pool”. In January 2018, the position of the Attorney General of Israel regarding the case of the “Pool” was filed with the Supreme Court (hereinafter: “**Attorney General's Position**”), in which the Attorney General informed the Supreme Court that a decision had been reached to establish an inter-ministerial committee to evaluate the issue of the discount rate in the tort compensation, for all of its implications, which will submit its conclusions within three months, while evaluating the manner in which the recommended arrangement will be implemented (hereinafter: the

“**Inter-Ministerial Committee for Evaluation of the Discount Rate**”). Accordingly, the Attorney General of Israel requested the Supreme Court to defer the hearing of the case of the “Pool” in the Supreme Court, until after the committee’s conclusions have been filed, and the updated position of the Attorney General of Israel has been submitted. In February 2018, the Supreme Court accepted the request of the Attorney General of Israel, and deferred the hearing for three months, based on the assumption and hope that the committee will conclude its work in the aforementioned period of time.

The Company estimated the total possible impact of the above, while giving weight to the uncertainty regarding the actual impact, and the manner of its occurrence, if any, and accordingly, increased the insurance liabilities. For additional details, see Part B of the report - board of directors’ report, section 3.1.2.

However, at this stage, before the scope is known of the impact of the amendment and of the Winograd committee’s recommendations, if any, on the discounting of future damage payments, before the Inter-Ministerial Committee for evaluation of the discount rate has submitted its conclusions, before the Attorney General of Israel has submitted an updated position regarding the case of the “Pool” at the Supreme Court, and before the Court has decided regarding the issue of the discount rate in tort compensation, it is not possible to predict the effect on insurance liabilities, which depends, inter alia, on the conclusions of the Inter-Ministerial Committee for evaluation of the discount rate, on the updated position which will be submitted by the Attorney General of Israel regarding the case of the “Pool” at the Supreme Court, and on the ruling which will be formulated regarding the discounting of future damage payments.

In light of the foregoing, the Company’s estimate in connection with the National Insurance annuity discount rate partially constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date, and regarding which, in light of the circumstances specified above, there is no certainty that it will take place.

E. Outline regarding light-heavy clearing

In accordance with the RAVC law, each insurer is required to compensate the passengers who were riding in a vehicle which was insured by it. The RAVC law further provides that, with respect to any person who was injured in an accident outside of the insured vehicles, in an accident in which several vehicles were involved, the various insurers will be liable (without proof of guilt), jointly and severally, and amongst themselves the insurers will bear the burden, in equal parts. In accordance with the RAVC law and the **Compensation for Road Accident victims Ordinance (Arrangements for Distribution of Burden of Compensation Between Insurers), 2001**, exceptions were made to the foregoing rule, which pertain to accidents between vehicles which are significantly different from one another, i.e., a motorcycle and another vehicle, or a light vehicle and a heavy vehicle. In these cases, the division orders determine the insurers’ “balance payments”, i.e., the indemnification which the insurers are entitled to receive from one another with respect to these accidents, for the purpose of balancing out the burden of payment between the insurers, in cases where the risk of the involved vehicles causing damage in a road accident is not clearly balanced. The Israel Insurance Association operates a clearing system which is intended, inter alia, to transfer payments automatically between vehicle insurers in compulsory motor insurance, in the event that the risk factors of the vehicles involved in the road accident are not clearly balanced. The outline manager has the authority to serve as an arbitrator in cases where disputes have arisen between the insurers, regarding the involvement of an insured vehicle in an accident. An exemption was given for the arrangement under conditions in accordance with approval for a restrictive arrangement given by the Antitrust Commissioner until August 2020. The conditions include, inter alia, the restriction of the system’s operations to the aforementioned purpose only, the operation of the system by an independent entity which is not related to the insurers, a prohibition against the transfer of information between the parties to the agreement, and giving the possibility for each insurer to join the system.

In June 2017, the Ministry of Finance published a draft order regarding compensation to road accident victims (division of the burden of compensation among insurers), 2017 (hereinafter: the “**Draft**

Amendment to the Division Order”), in which it is proposed to determine a transitional provision, for the period from July 2, 2017 to December 31, 2019, in which section 3 of the Road Accident Victims Compensation Law, 1975 will be amended such that, if an accident has occurred which involved one or more motorcycles, and one or more non-motorcycle vehicles, the insurers of the other vehicle will pay to the motorcycle's insurers 95% (instead of 75%, as currently set forth) of the compensation for physical injury which the motorcycle's insurers are required to pay due to the accident.

At this stage, it is not possible to predict the impact of the Draft Amendment to the Division Order, insofar as it will be published as a binding document, and the matter depends, inter alia, on the compulsory insurance tariffs which will be determined in the market, including the residual insurance tariffs with respect to motorcycles, changes to the loading component, if any (see section 7.1.1.1b(1) above), and the number of motorcycles which will be insured through compulsory insurance, and the scope of claims in which they will be involved.

7.1.1.2. **Motor property insurance branch**

A. General

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

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

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

B) Insurance for vehicles which is not included in the first category (such as trucks, motorcycles, buses, forklifts and all-terrain vehicles), the insurance policy for which is not subject to the terms of the standard motor property policy.

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

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

B. Special arrangements regarding the settlement of motor property claims

B1. Arrangement regarding loss adjusters

In order to increase efficiency and shorten claim settlement processes in motor property, and in accordance with the provisions which were determined in the consolidated circular which is published by the insurance companies out of the list of loss adjusters⁴⁷ (the “**List of External Loss Adjusters**”), at the policyholder's

⁴⁷ External loss adjusters include anyone who is not a home loss adjuster. Home loss adjusters are those who may have a conflict of interests due to a special connection with the insurer, such as in case of a loss adjuster who is an

request. In accordance with the provisions of the consolidated circular, a proposed repair or an assessment by an external loss adjuster who has been chosen by the policyholder out of the list of external loss adjusters (hereinafter: "**External Loss Adjusters**"), constitutes a proposed repair, or an effective assessment, and will be binding towards the party, subject to the right of the insurer and the policyholder to bring remarks towards external loss adjusters regarding technical matters. Additionally, the insurer and the policyholder have the option to appeal the assessment, in accordance with the arrangement set forth in the loss adjusters arrangement.

B2. Arrangement garages

In order to increase efficiency, reduce processing times and reduce prices involved in loss adjustment with respect to motor property claims, the Company engaged with "arrangement garages" with respect to the repair of partially damaged vehicles of policyholders (non-total loss). An arrangement garage is a garage which has engaged with the Company in a service provision agreement as an arrangement garage, in consideration of discounts which are given to the insurer (in replacement part prices and/or in work hour prices) and/or including an undertaking to make use of replacement parts which are provided by it to the insurer, and which can be obtained at a reduced cost relative to the "book price" on the market (hereinafter: "**Arrangement Garage**"). Clal Insurance allows its policyholders to choose the garage where the vehicle will be repaired; however, it offers to its policyholders various benefits, such as discounts on deductibles and/or the provision of alternative vehicles during the period of the repair, in order to incentivize the policyholders to have their vehicles repaired in one of the arrangement garages with which the Company has engaged. In 2016, Clal Insurance added a track for the comprehensive policy, called "Select Garages", which offers policyholders the option, on the date of the engagement, to undertake that upon the occurrence of an insurance event, the vehicle will be repaired in a garage which is included in the list of Select Garages which is published on the Company's website, and in exchange, the policyholder will receive a discount on premiums and additional benefits upon the occurrence of the insurance event. In January 2017, after a petition which had been filed with the Supreme Court on the matter was struck out for procedural reasons, the Association of Garages in Israel filed, together with Lahav - Bureau of Self-Employed and Business Organizations in Israel, an administrative petition and a motion for an interim order, against the Commissioner, the Chairman of the Economics Committee - MP Eitan Kavel, and against Clal Insurance, against the approval which was given for Clal Insurance by the Commissioner to market this insurance track. In May 2017, after, as part of the hearing regarding the petition, the petitioners' legal counsel considered the Court's remarks, the petitioners' legal counsel withdrew the petition, and it was struck out.

B3. Proposed reform regarding arrangement garages and the loss adjusters arrangement:

- (1) Joint letter from the Ministry of Transport and the Ministry of Finance regarding arrangement garages, the loss adjusters arrangement and the **Draft Vehicle Services Licensing Regulations (Vehicle Loss Adjustment), 2016** -

Further to discussions which were held between the Ministry of Finance and the Ministry of Transport (hereinafter, jointly: "**Ministries**"), in light of the proceedings regarding the enactment of the Licensing of Services and Professions in the Vehicle Branch Law (hereinafter: the "**Vehicle Services Licensing Law**"), in June 2016, a joint letter from the Ministry of Transport and the Ministry of Finance was sent, which was addressed to the Chairman of the Finance Committee, in which were specified the principles which the ministries intend to implement, including: cancellation of the companies' list of external loss adjusters and replacement thereof with a national list of loss adjusters, which will include all of the

employee of the insurance group; a loss adjuster whose income is 30% or more comprised of loss adjustment and other businesses with insurers from the insurance group; and a loss adjustment company in which the insurance group holds over 5% of the means of control.

licensed loss adjusters, excluding “home loss adjusters” on behalf of the insurance company; Determination of a provision stipulating that repairs may not be performed on a vehicle before approval has been given by the insurance company for the loss adjuster's report or for the appointment of a loss adjuster on its behalf; cancellation of the currently existing lists of loss adjusters, and expansion of the lists of arrangement garages for all garages which meet the requirements which will be determined by the ministries; the insurance companies will be required to publish conditions for recognition as an arrangement garage, and will allow each garage which meets those conditions to engage with them as an arrangement garage (hereinafter: the “**Statement Of Principles**”); the statement of principles further specifies that the ministries have agreed that the provisions and amendments to the regulations on the subjects specified above will be performed in consultation and in collaboration between them, and that an intra-governmental professional staff will be established, including representatives on behalf of the ministries (hereinafter: the “**Joint Staff**”), which will evaluate the implementation of the aforementioned principles, and will evaluate additional issues, including the imposition of supervision on the prices of the main replacement parts which are used in vehicle repairs following accidents, and its implications on the conditions for engagement with arrangement garages; the pricing of premiums; the differentiation in deductibles between policyholders who have their cars treated in arrangement garages and policyholders who have their cars treated in non-arrangement garages; as well as additional issues which will promote competition and contribute to increased professionalism, while protecting customers.

- (2) In August 2016, the **Draft Vehicle Services Licensing Regulations (Vehicle Loss Adjustment), 2016**, was published (hereinafter, in this section: the “**Draft Vehicle Services Licensing Regulations - Loss Adjustment**”), which regulates the activities of loss adjusters, and which refers, inter alia, to the pricing method per garage work hour by the loss adjuster, to the timing of the loss adjustment process (before the vehicle has been repaired), and to the prohibition against influence on the judgment of the vehicle loss adjuster by interested parties.
- (3) In February 2018, the Economy Committee passed the **Licensing of Services and Professions in the Vehicle Branch Regulations (Prohibited Influence on Judgment of Vehicle Loss Adjuster), 2017** (hereinafter: the “**Prohibited Influence on Judgment of Vehicle Loss Adjuster Regulations**”) were published, which address the definition of the prohibited influence on a loss adjuster by a license holder (garage), as defined in the law. The purpose of the regulations is to determine what constitutes a prohibited effect on the judgment of a vehicle loss adjuster, and which cases involve a permitted request to change a vehicle loss adjustment decision.
- (4) In August 2017, the Commissioner published a draft insurance circular on the subject of “Amendment to the provisions of the consolidated circular - provisions in the motor property branch” (hereinafter: the “**Draft Circular Regarding Garages and Loss Adjusters**”), which regulates the loss adjustment method in the motor property branch, with respect to the engagement with loss adjusters and with garages.

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

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

At this preliminary stage, Clal Insurance is unable to predict the overall impact of the draft circular regarding garages and loss adjusters the draft vehicle licensing services regulations - loss adjustment, and the prohibited influence on judgment of vehicle loss adjusters regulations, due, inter alia, to the fact that most of the directives are currently in regulatory processes which have not yet been completed, or which are in the preliminary stage of adoption / whose adoption has not yet commenced, and due to the fact that the entire set of proposed arrangements may have effects, in opposing directions, on the independence of judgment of the entities involved in the loss adjustment process in the motor property branch, and as a result, on loss adjustment costs.

C. Entitlement to information and disclosure in the motor property branch

C.1. Motor property database

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

The Israel Insurance Association and the clearing company received an exemption from approval of a restrictive arrangement from the Antitrust Commissioner, which is in effect until February 2021.

As of the publication date of the report, the motor property database includes information from all of the insurance companies which provide motor property policies in Israel, including Clal Insurance. Any insurer may join an arrangement (i.e., submit data to the database, and submit queries), or leave the arrangement, once per year, by giving advance notice of 90 days.

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

C.2. Motor property claims report

In February 2018, a draft amendment to the circular regarding the “Insurance Mountain” internet interface for the identification of insurance products, in which it is proposed to determine that the insurance companies will be required to report to the Insurance Mountain also the number of insurance events for which motor property insurance claims were filed by the policyholder or by a third party, in order to create a centralized claims report through the Insurance Mountain, and to simplify, for policyholders who are required by the insurance companies, for underwriting purposes, the process of presenting an authorization regarding the number of such claims, before joining the insurance (hereinafter: the “**Draft Regarding the Addition of Motor Property Claims Report Data to the Insurance Mountain**”).

According to the assessment of Clal Insurance, the draft regarding the addition of report data with respect to motor property claims to the “Insurance Mountain” is expected, if it becomes a binding circular, to increase the

reliability of data, to reduce fraud in the presentation of claims data, and to facilitate the process of joining insurance, and as a result, to increase competition.

The information presented on all matters associated with the addition of motor property claims data to the “Insurance Mountain” interface constitutes forward looking information, which is based on assumptions and estimates of Clal Insurance, as of the publication date of the report. Actual implementation may differ significantly from the forecast. At this stage, before the publication of the binding version of the amendment to the circular, it is not possible to estimate and predict the full implications, which depend, inter alia, on the final version of the circular, and on the conduct of competitors and customers in the market.

7.1.1.3. **Liabilities insurance branch**

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

- o **Coverage on an occurrence basis** - In these policies, the coverage is given for events which occurred during the insurance period, when the claim can also be filed after the end of the insurance period, subject to a statute of limitations.
- o **Coverage on a claims made basis** - In these policies, the coverage is given based on the filing date of the claim, in other words, for claims which were initially filed against the policyholder during the insurance period, even if the cause of action against the policyholder materialized before the insurance period start date, provided that it was created after a certain date which was specified in the policy.

The main insurance sub-branches in the liabilities insurance branch include:

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

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

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

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

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

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

- **Draft circular regarding the certificate of insurance -**

In February 2018, the Commissioner published a draft circular regarding certificates of insurance (hereinafter: the “**Draft Circular Regarding Certificates of Insurance**”), which is intended to establish provisions to arrange the conduct of insurance companies with respect to the issuance of certificates of insurance, and to dictate a binding text for the provision of such certificates. The draft circular determines, inter alia, that an insurance company will not issue an approval or an undertaking pertaining to the policy except in accordance with the provisions of the circular, and in accordance with the wording of the

approval which was attached as an annex to the circular. It was further determined that an insurance company or insurance agent will not change the wording of the annex, and that the certificate of insurance will not contradict the provisions of the insurance policy, and will not include provisions which are inconsistent with the provisions of the policy.

According to the Company's estimate, the draft circular regarding certificates of insurance, insofar as it will be approved as a binding circular, may increase the efficiency of, and improve, the system for the operation of the issuance of certificates of insurance in the Company, and result in uniformity and certainty on all matters associated with the scope of insurance coverage in accordance with the policy terms.

The estimate of Clal Insurance in connection with the provisions of the draft circular regarding certificates of insurance constitutes forward looking information, which is based on the information which is available to the Group as of the reporting date. Actual results may differ from the forecasted results, inter alia, due to the final wording of the certificate of insurance circular.

7.1.1.4. Other property and others insurance branch -

- For details regarding the draft circular regarding certificates of insurance, see section 7.1.1.3 above.

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

A. **Apartment insurance sub-branch**

- This sub-branch includes apartment, contents and structure insurance, in various plans, of which the primary one is a comprehensive apartment insurance plan. This sub-branch includes coverage for the policyholder's apartment against loss or physical damage which have been caused to the structure of the apartment or to its contents, due to risks which are specified in the policy. This policy is subject to the minimum terms which were determined within the framework of the **Addendum to the Control of Insurance Business Regulations (Contract Terms Regarding the Insurance of Apartments and the Contents Thereof), 1986** (hereinafter: the "**Standard Apartment Insurance Policy**"). The terms of the standard apartment insurance policy can only be amended in favor of the policyholder, and expansions can only be added to it with respect to the insured property and risks, the scope of coverage and the types of liability insurance which are associated with the residential apartment (such as third party liability insurance). The insurance is intended for residential apartments in the private sector.
- In January 2015, the Commissioner published an **Amendment to the Control of Insurance Business Regulations (Contract Terms Regarding the Insurance of Apartments and the Contents Thereof) (Amendment), 2015** (the "**Amendment to the Regulations**"). Within the framework of the Amendment to the Regulations, the wording of the standard apartment insurance policy was amended, beginning on July 27, 2015, inter alia, in a manner which expands the current coverages in the policy, some of which are compulsory coverages, while others are optional coverages, according to the policyholder's choice.
- In September 2017, an amendment to the consolidated circular on the subject of provisions regarding water damages in apartment insurance entered into effect (hereinafter: the "**Amendment To The Consolidated Circular Regarding Water Damages**"), in which it was determined, inter alia, that before engaging in an insurance contract, in cases where the insurance company has chosen the alternative of providing compensation to the policyholder by repairing the apartment, it must allow the policyholder to choose between repairs performed by a plumber chosen by the policyholder, and repairs of the damage performed by a plumber from the list of plumbers in the arrangement (hereinafter: "**List Plumber**" and "**List of Plumbers in the Arrangement**"); The insurance company is required to compile the list of plumbers in the arrangement according to the number of policyholders and the geographical region; The insurer is required to publish a summary grade of each list plumber, in accordance with the grades which were given to it by the policyholders; The insurer will be responsible, inter alia, for the quality of the repair and service given to the policyholder by the plumber in the list, for the availability of service and the conclusion of the repair within a reasonable period of time; The payment to list plumbers will be performed directly by the insurer

for each repair performed; and the option of including a restriction regarding the average claim amount in the contractual agreement between the arrangement plumber and the insurance company was prohibited. Clal Insurance is preparing for the entry into effect of the amendment to the consolidated circular regarding water damages, including by way of engaging in service agreements, and by way of updating the policy tariffs with respect to water damages.

According to the Company's estimate, at this stage, the amendment to the standard apartment insurance policy, in itself, has no significant impact on Clal Insurance, inter alia, in light of the method of preparations for the adoption of the standard, and in light of the combination of additional factors which affect the business results, e.g., the optimization of losing segments from the insurance portfolio, and the determination of a new tariff structure. However, the amendment to the circular regarding water damages is expected to result in a significant change in the claim settlement method with respect to cases of water damage in the apartment insurance sub-branch, in cases where the policyholder has chosen the alternative of providing compensation through repair of the apartment by a list plumber, inter alia, in light of the need to transfer the responsibility for settling water damage claims to the insurer, and in light of the expected increase in operating costs and in claim settlement costs.

The Company's estimate in connection with the amendment to the standard apartment insurance policy and the amendment to the consolidated circular regarding water damages constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, due to the preliminary nature of the adoption stages, due to the conduct of service providers, competing entities, distributors and customers, depending on the manner of development of actual claim settlement costs, and the policy prices which will be determined on the market.

B. Other property insurance sub-branch

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

C. Guarantees sub-branch-

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

The Company provides loans to accompany residential construction, along with sale guarantees, in collaboration with banks or independently. In the past, Clal Insurance also issued performance and quality guarantees; however, beginning in 2014, no new guarantees of this kind were issued, other than in exceptional cases.

D. Accident, illness and disability insurance sub-branch -

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

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

In February 2018, a **circular was published in amendment of the provisions of the consolidated circular regarding disclosure and reporting to policyholders in health insurance** (hereinafter: the "**Circular Regarding Disclosure And Reporting In Health Insurance**"). The provisions of this circular apply, inter alia, to personal accidents insurance policies of up to one year, which do not constitute insurance which has been prepared for a group of policyholders, due to their participation in a certain non-recurring event which is shared by the Group members, or due to their participation in a certain activity.

The Company is studying the implications of the circular regarding disclosure and reporting in health insurance, including as regards its operational implications, and the possibility of the focusing of short term personal accident insurance on insurance policies for one-time events, or for specific activities.

For additional details with respect to the circular regarding disclosure and reporting in health insurance, see section 8.2 below.

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

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

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

Activities in the credit and foreign trade risks insurance branch are performed through Clal Credit Insurance. Clal Credit Insurance is a company under the control of Clal Insurance, which holds 80% of its shares, where 20% of the additional shares are held by Atradius Participation Holdings B.V. ("**Atradius Group**"). An agreement is in place between the shareholders of Clal Credit Insurance, which formalizes the Group's business collaboration with Atradius Group as a strategic partner, and allows Clal Credit Insurance to insure credit transaction in many countries (the agreement between the shareholders, including the amendments thereto, shall hereinafter be referred to as: the "**Shareholders Agreement**"). For details regarding the shareholders agreement which is expected to conclude in 2018, see section 10.17.2 below.

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

Presented below is a description of the main covers:

A. **Compulsory motor insurance branch**

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

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

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

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

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

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

B. **Motor property insurance branch**

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

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

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

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

For details regarding the draft circular regarding the implementation and marketing of service letters, see section 10.2.10 below.

C. **Liabilities insurance branch**

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

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

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

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

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

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

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

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

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

The premiums in policies of this kind are determined as a function of several variables, such as the policyholder's activity type, and the types of products which are manufactured, imported or provided by it, the scope of activities (in accordance with the sales turnover of the business), the requested liability limits,

the deductible amount, the coverage period for claims which were first reported during the insurance period, but which refer to a specific preceding date, the claims history, and the scope of territorial coverage (in Israel or including also exporting to foreign countries).

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

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

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

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

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

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

D. Other property and others insurance branch**Apartment insurance sub-branch**

Comprehensive apartment insurance - This sub-branch includes coverage for the policyholder's apartment, in accordance with the minimum terms which were determined in the Addendum to the Control of Insurance Business Regulations (**Terms of Contract in Insurance for Apartments and Contents Thereof**), 1986 (the "**Standard Apartment Insurance Policy**"), which can be amended only in favor of the policyholder, and to which extensions can only be added. The insurance is intended for residential apartments in the private sector and includes, inter alia, apartment insurance policies for policyholders who took out mortgage-backed loans, some of which were sold through agencies of mortgage banks, and in such cases, their premiums are restricted by the Commissioner.

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

Other property insurance sub-branch -

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

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

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

The "**extended fire**" coverage can be expanded to "**all risks supplementary**" coverage (which covers all risks, except for the risks which are excluded in the policy). For the most part, the expansion involves the payment of an addition premium, and is in a limited amount. An "all risks industrial" policy is also available, which is sold in special cases for specific risks, in which accidental damage to the policyholder's property is covered, except for the damages which are excluded under the policy.

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

Guarantees sub-branch -

Policies in accordance with the Sales Law - Policies which are intended to secure the investments of residential unit buyers in accordance with the Sales Law, and which rely on its provisions. These policies are generally issued against collateral, such as the project's land, the project's bank account, guarantees and agreements. For the most part, the insurance period in these policies is long (several years may pass until the expiration of the policy, according to one of the alternatives under the Sales Law, and until the

cancellation of the coverage provided therein). The risk in these policies gradually decreases as construction progresses, until the transfer of possession of the property. The recognition of income with respect to these policies is deferred over 3 years.

Accident, illness and disability insurance sub-branch -

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

Personal accidents insurance policies are sold as individual policies and collective policies, with certain adjustments. Until August 2016, Clal Insurance insured municipalities, local committees and educational institutions with students personal accident insurance policies, which provide coverage for personal accidents of students. Clal Insurance stopped marketing and insuring students personal accident insurance policies beginning in September 2016.

The liabilities in personal accidents for students policies are characterized as very long tail claim, due to the fact that the obsolescence period for minors begins, at the earliest, when they reach age 18. For additional details regarding the effect of the students personal accident insurance policy, see Part B of the Report - Board of Directors' Report, sections 3.1 and 3.1.2.

E. Credit and foreign trade risks insurance branch-

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

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

In the foreign trade risks branch, a reserve for net surplus revenues must be kept for two years.

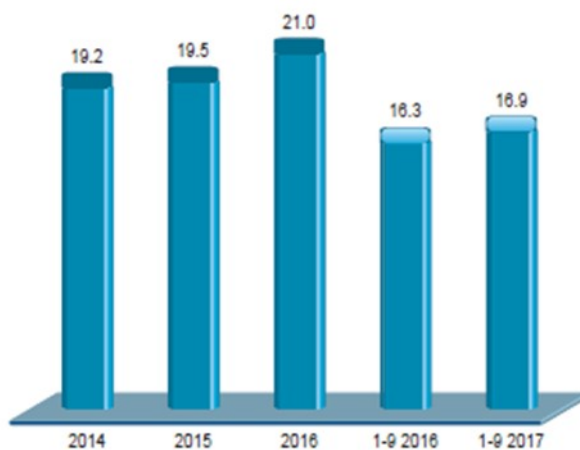
7.1.3. Main markets, trends, and changes in supply and demand -

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

In accordance with the Commissioner's publications, as of September 30, 2017, gross premiums in the non-life insurance segment in Israel in the first nine months of 2017 amounted to approximately NIS 16.9 billion, as compared with approximately NIS 16.3 billion in the corresponding period last year, i.e., an increase of approximately 4%, as compared with an increase of approximately 6% in 2016, relative to the corresponding period in 2015. The increase in the motor property branch was primarily due to the increase in the number of

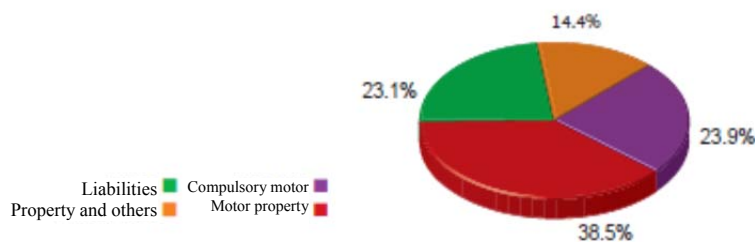
vehicles in Israel, and the increase in average premiums. For further details on this matter with respect to Clal Insurance, see Part B of the report - board of directors' report, section 2.2.2.

Development of gross premiums in non-life insurance in the years 2014 to 2017

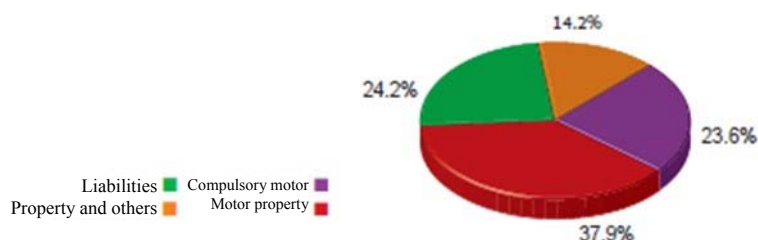


Presented below the distribution of gross premiums in the non-life insurance market in Israel, by non-life insurance branches, as described in this segment (excluding the short term illness and hospitalization branch, as described in the section regarding health insurance (section 8 below), with variability between the companies regarding its inclusion in the health segment or in the non-life insurance segment), in January to September of 2016 and 2017:

**Distribution of gross premiums in the Israeli insurance market by non-life insurance branches
January – September 2017**

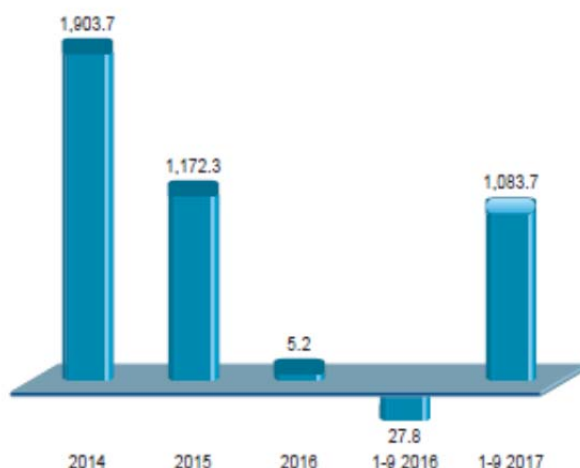


**Distribution of gross premiums in the Israeli insurance market by non-life insurance branches
January – September 2016**



In accordance with the Commissioner's publications, as of September 30, 2017, profit in the non-life insurance segment in Israel in the first nine months of 2017 amounted to approximately NIS 1.08 billion, as compared with loss of approximately NIS 0.03 billion in the corresponding period last year. The changes in profitability were primarily influenced by the provision which was made with respect to the implications of the Winograd committee and the amendment to the Discounting Regulations. Additionally, an increase in investment income occurred, as well as an improvement in underwriting profitability in the motor property branch. For additional details regarding the development of profit in the non-life insurance segment in Clal Insurance, see Part B of the report - board of directors' report, section 3.1.2.

Development of comprehensive income before tax in the non-life insurance segment in the years 2014 – 2017



A. Compulsory motor insurance branch-

Most of the insurance companies in Israel operate in this branch, which is generally characterized by a uniform product, and by significant price competition. For details regarding the insurance tariffs reform in compulsory motor insurance, and its impact of the tariffs and the competitive conditions in the market, see section 7.1.1.1(c)(1) above. The demand in this segment is a result of the number of vehicles, which gradually increases each year, in light of the fact that it constitutes compulsory insurance, and due to the competitive conditions in the segment.

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

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

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

B. Motor property insurance branch

- o Most of the insurance companies in Israel operate in this branch, which is generally characterized by uniform products with respect to private and commercial vehicles weighing up to 3.5 tons, and in significant price competition. The increase in this segment is a result of the number of vehicles, which gradually increases each year.
- o The profitability in this branch may be affected, inter alia, by various changes to the components, including the number of vehicle thefts and road accidents, changes in the prices of replacement parts and in repair costs, changes in standardization and in regulation, changes in the prices of new vehicles, prices of work hours in garages, and damages due to natural disasters. For additional details, see section 7.1.1.2b below.
- o In recent years, the police unit for the prevention of vehicle thefts (“**Etgar**”) has been operating, which is intended to intensify the war on vehicle thefts. In 2017, 40% of the unit's operations were financed by external entities, which includes the Israel Insurance Association, through the insurers, and the leasing and rental companies, and 60% of the unit's operations were financed by the State. The activities of the Etgar Unit are contributing to a reduction in the number of vehicle thefts. Additionally, the rate of vehicle theft is also affected by the political situation and the regulatory restrictions regarding the use of replacement parts, which were intended to neutralize the incentive for vehicle thefts. According to the Etgar report for 2017, the number of vehicle thefts decreased in 2017 on the national level at a rate of 19.12%, as compared with 2016.

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

C. Liabilities insurance branch

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

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

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

D. Other property insurance branch and others-

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

The demand in these branches may be affected by the competition in the segment.

Guarantee insurance policies are sold by insurance companies, and Sale Law guarantees are also issued through banks. The demand for these insurance policies is affected, inter alia, by the development in the construction segment, and by the alternatives which are evaluated by contractors, and may be affected, inter alia, by the economic, political and security situation in Israel and abroad, by the status of the capital

market and the quality of underwriting, including assessment of the risks in the branch where the creditor operates, and determining the debtor's repayment ability.

E. **Credit and foreign trade risks insurance branch -**

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

F. **Personal accidents insurance sub-branch**

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

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

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

According to the Company's estimate, the share of Clal Insurance in the markets will be affected, inter alia, by future business growth, which will be performed while taking into account underwriting profitability, particularly in individual business operations, after the business optimization process which took place over several years, and which placed an emphasis on preferring profitability considerations over market share. The market shares of Clal Insurance will also be affected by intense competition in the segment, which will continue being focused on the amount of premiums and the provision of services to policyholders, and also possibly by the entry of new competitors which will operate digitally. This competition is expected to increase in the compulsory motor branch in light of the 2017 amendment to the compulsory motor insurance circular, and may affect the Company's share in the compulsory insurance market. For details regarding this matter, and regarding the compulsory motor insurance calculator, see section 7.1.1(c)(1) and section 7.2.1 below. Additionally, competition may also increase in the motor property insurance branch, in light of the expected publication of the motor property insurance tariff calculator, which will present comparative information also in connection with motor property insurance tariffs on the website of the Capital Markets, Insurance and Savings Authority. Changes to arrangements vis-à-vis suppliers (garages and loss adjusters) following the draft circular regarding garages and loss adjusters may affect the market shares in the markets. For details on this matter, see section 7.1.1.2b above. In the apartment insurance sub-branch, the Company's share in the markets may be affected, to a certain extent, by the provisions of the consolidated circular on the matter regarding water damages and its effect on the competition between insurers, including, inter alia, as a result of customer satisfaction indicators. For additional details regarding the effect of the competition and business optimization, see section 7.2 below.

The Company's estimates constitute forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, depending, inter alia, on the competitive conditions in the segment, on the manner of implementation of the regulatory provisions, including the 2017 compulsory motor insurance circular, the amendment to the consolidated circular regarding water damages, and the expected draft circular regarding arrangement garages and the selection of loss adjusters, as well as the conduct of competing entities and license holders, and the impact on tariffs.

7.1.5. New products

During the reporting year, no significant new products were marketed by the Group in this segment. However, following the circular regarding principles for the phrasing of insurance plans, and following the Commissioner's position regarding principles for the phrasing of insurance plans, the Company worked, including during the reporting year, to correct and adjust its products according to the circular and to the aforementioned provisions of the position paper.

7.2. Competition

7.2.1. Factors encouraging competition

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

Transparency and price -

- As part of the Commissioner's policy in recent years, significant reforms were promoted which involve the reduction of tariffs, promoting transparency and increased competition. These reforms affect, and will continue to be continued in the coming years, the non-life insurance segment, and the profitability thereof. For additional details regarding section 2.5.3 above, and for details regarding the 2017 amendment to the compulsory motor insurance circular, see section 7.1.1.1(c)(1) above.
- **Calculators** - A significant part of the competition in the segment is focused on competition over the amount of premiums. On the website of the Capital Markets, Insurance and Savings Authority, a compulsory motor insurance calculator is available which presents the insurance tariffs of all of the companies, which are determined according to the relevant variables (of each company) to insure the vehicle for which a query is performed using the calculator (the "**Compulsory Motor Calculator**"). The compulsory motor calculator allows interested parties to compare tariffs for compulsory motor insurance between the companies. Additionally, on the aforementioned website, the apartment insurance tariff calculator is published ("**Apartment Insurance Calculator**"). The apartment calculator is intended to present comparative insurance tariffs of insurers, in accordance with the coverages given in the standard insurance policy for apartments and their contents. Additionally, in December 2015, a **draft was published regarding the establishment of an infrastructure for reporting to the Commissioner regarding motor property insurance tariffs**, in which it is proposed to develop a calculator for motor property insurance tariffs which will allow anyone who wishes to acquire compulsory motor insurance to compare the insurance products of the various companies, similarly to the compulsory motor calculator. In accordance with the draft letter regarding the creation of a reporting infrastructure, the reports of insurance companies regarding tariffs in motor property insurance, for the purpose of presenting them in the motor property calculator, will be done online and in real time. In accordance with the draft letter regarding the creation of reporting infrastructures, the compulsory motor calculator is expected to be integrated, in the future, into the in the future calculator. The draft letter regarding the creation of a reporting infrastructure specifies the variables which will be used in the pricing of the premiums.

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

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

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

- During the reporting year, a circular on the subject of “**interface for the identification of insurance products**”, and a circular on the subject of “**retrieval of personal information**”, entered into effect. The purpose of these circulars is to allow an accessible and simple internet interface for policyholders to identify their insurance products at all of the insurance companies, and to receive information regarding those insurance products on the insurance companies' websites. Additionally, the provisions of the circular regarding the renewal of insurance contracts, which was published in September 2014, on the subject of the renewal of insurance contracts, which determined that an insurer is required to submit to the policyholder, 30 days before the end of the insurance period, notice regarding the end of the insurance period, including specification of the following, inter alia: the insurance premiums and the deductible amount in the concluded policy, which may also affect the policy retention and renewal processes, and increase the competition in the segment.
- For additional details regarding the addition to insurance circular, see section 10.2.7 below.

Service and claim settlement -

According to the Company's estimate, in the reporting year and in the coming years, the competition in the segment will continue to increase, and will also address additional components, beyond the pricing issue, such as the issue of service and the claim settlement method. These data constitute an additional measurement tool available to policyholders for selection of the insurance product. The Commissioner publishes, on the website of the Capital Market, Insurance and Savings Authority, comparative figures regarding the claim settlement method of insurance companies, as well as comparative figures regarding benchmarks for the evaluation of the service which is provided by insurance companies to policyholders.

Lifting of barriers to competition -

For details regarding the lifting of barriers to entry to the market, see section 10.3.1.2 below.

According to the Company's estimate, during the reporting year, the competition-encouraging factors specified above had an effect on the Company's activity in the non-life insurance branches; however, the Company is unable to estimate the impact of those factors, per se, in light of the combination of other factors including business optimization processes which were implemented by Clal Insurance, the fact that some of the claims are “long tail” claims, price competition and the conduct of the competing players in the market, distributing entities and customers.

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

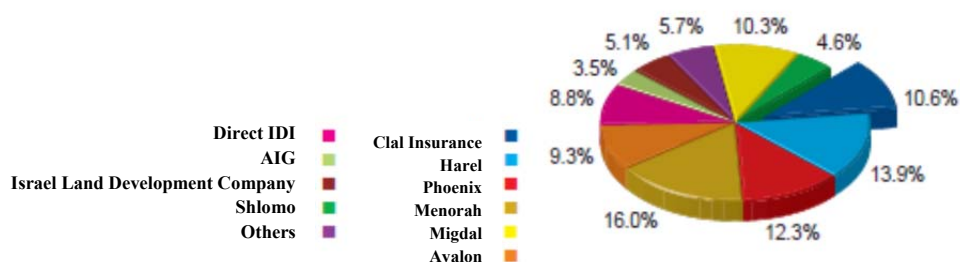
7.2.2. Competitive conditions in the operating segment

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

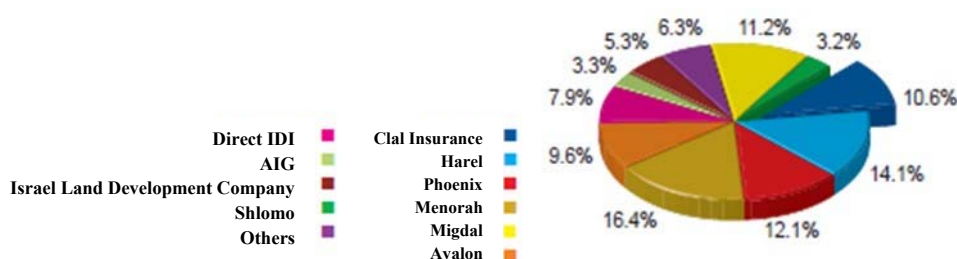
Total gross premiums in the non-life insurance segment in the Group amounted, as of September 30, 2017, to approximately NIS 1,797 million, and constituted, according to the data in the financial statements of the

insurance companies as of September 30, 2017, which are published on the website of the Capital Markets, Insurance and Savings Authority, approximately 10.6% of the activity in the non-life insurance segment. In the first nine months of 2016, gross premiums in non-life insurance in the Group amounted to approximately NIS 1,717 million, and also constituted approximately 10.6% of the activities in the non-life insurance segment.

Distribution of premiums in the non-life insurance segment between insurance groups and companies as of September 2017



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



a. Individual branches

Most of the “traditional” insurance companies sell most of the products in the individual insurance branches (compulsory motor insurance, motor property insurance and apartment insurance), and additionally, the direct insurance companies, which constitute, as of the end of September 2017, approximately 16.1% of the non-life insurance market in the individual branches. The market in the individual insurance branches involves significant competition.

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

During the reporting year, following the business optimization process of Clal Insurance, which was performed in previous years, and which placed an emphasis on preferring profitability considerations over market share, Clal Insurance began working towards focused growth in market share, particularly in individual business operations, while maintaining underwriting profitability.

The competition in the activity branches is increasing in branches where there is uniformity between the products, and therefore, there is excess sensitivity to the tariffs in those products, which is also affected by the comparative data which is available on the website of the Capital Markets, Insurance and Savings Authority. In

general, in recent years, consumer awareness regarding the existence of competition has increased. For details regarding this matter, see section 7.2.1 above.

b. Business branches

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

The competition over large businesses is affected, inter alia, by the preparation of insurance tenders by customers, and the involvement of consultants, and the capacity of Clal Insurance's reinsurers vs. competing companies.

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

7.2.3. Significant competitors in the segment

There is intense competition between all of the insurance companies which are engaged in this segment. According to the Group's estimate, the Group's main competitors in this segment are the large insurance groups: Harel, Migdal, Phoenix and Menorah, which hold, jointly with the Group, approximately 63.1% of the market share in non-life insurance as of September 30, 2017, in accordance with the data which are published on the website of the Capital Markets, Insurance and Savings Authority, where the Group alone holds approximately 10.6% of the aforementioned market share.

In certain branches in the non-life insurance segment in Israel, there are significant competitors in the same branch, as is the case, for example, in the apartment insurance branch and in the motor property and compulsory insurance branch, in which direct insurance companies also compete over consumers (for details regarding the market share of the direct insurance companies, see section 7.2.2a above). In the credit and foreign trade risks insurance branch, the main competitor of Clal Insurance is ICIC - The Israel Credit Insurance Company Ltd. Other competitors include Coface, which began operating in Israel in 2015, and several foreign credit insurance companies which insure Israeli companies in the credit insurance segment and which perform their sales activities through brokers.

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

The Company deals with competition on several levels:

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

Improvement of service to customers and agents - Inter alia, by providing the possibility to receive compulsory motor insurance certificates paid by credit cards issued at the agent's office, financing and payment distribution arrangements with respect to compulsory motor insurance premiums, and relatively quick claim settlement, use of a SAP-based claims system, activation of policy generation systems at the agent's office, technological improvement in interfaces vis-à-vis agents (such as a systems which allows printing and direct mailing of policies, tablets for agents which allow the receipt of the complete and accessible customer picture, and a claims opening system).

Operational improvements - for the purpose of complying with the new regulatory directives, Clal Insurance developed automational tools in order to facilitate the agents' work in the required actions. Clal Insurance also worked to improve work methods, improve agreements with service providers, transfer of most outsourcing

services in the business review segment for self-performance, partial transition to digital mailing to policyholders, etc.

Products - Creation of designated products tailored to certain market segments and/or certain demographics, and expansion of existing policies, and adjusting them to customers' needs.

Marketing - Sales promotion to agents through brochures, publications in professional media, focused campaigns, initiated visits of professional entities on behalf of Clal Insurance in the agent's office, professional conventions, professional training and publication of a product catalog. During the reporting year, the Company developed and increased the variety of sales tools, and as part of the foregoing, provided benefits to policyholders, based on an analysis of customer data and their relationship with the Company, in order to expand the mix of products acquired by the customer. Additionally, during the period subsequent to the reporting period, a customers unit was established in the Group, which concentrated the Group's direct activities, including in the non-life insurance segment. The Company also operates a digital platform for the marketing of compulsory motor and motor property products. The Company also markets a unique track in the comprehensive policy, called "Select Garages" (for details, see section 7.1.1.2(b2) above).

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

7.3. Customers -

7.3.1. General

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

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

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

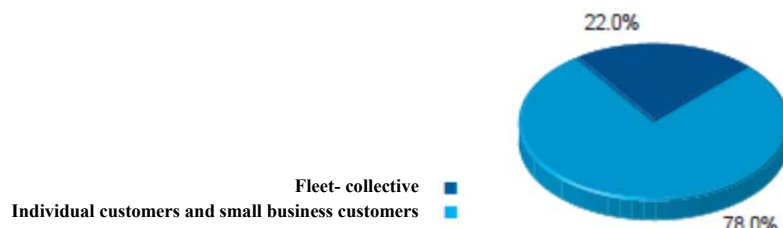
The Group's types of customers in the liabilities insurance branch are divided according to the insurance type: third party liability insurance and employer's liability insurance are intended both for the private sector (households and condominiums) and for the business sector (businesses, corporations,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

Distribution of gross premiums (NIS in thousands) by types of customers in the various branches in the non-life insurance segment, in the years 2016 and 2017

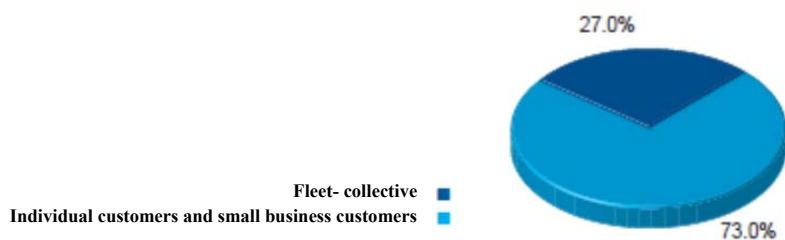
A. Compulsory motor insurance branch

Customer type	2017		2016	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders (non-fleets or collectives)	366,867	78%	319,964	73%
Fleet - collective	105,680	22%	118,342	27%
Total	472,547	100%	438,306	100%

Distribution of customers in the compulsory motor insurance branch by premiums in 2017



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



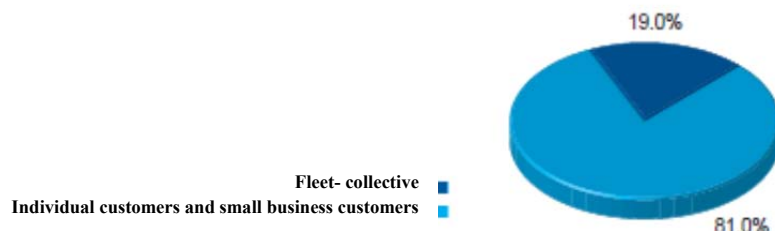
B. Motor property insurance branch

Customer type	2017		2016 ⁴⁸	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales

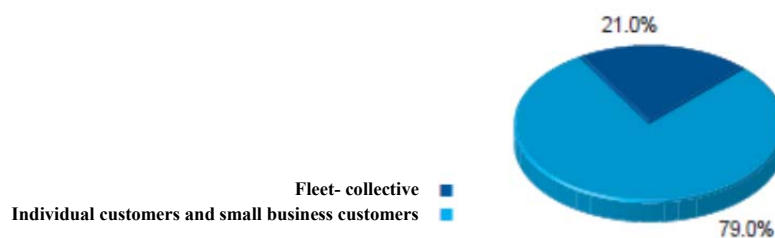
⁴⁸ The data for 2016 were restated.

Individual policyholders (non-fleets or collectives)	588,958	81%	503,631	79%
Fleet - collective	137,882	19%	130,877	21%
Total	726,840	100%	634,508	100%

Distribution of customers in the motor property insurance branch by premiums in 2017



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



C. **Liabilities insurance branch**

Customer type	2017		2016	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders and small business customers	168,590	52%	168,505	54%
Large business customers and large plants	155,245	48%	141,754	46%
Total	323,835	100%	310,259	100%

Distribution of customers in the liabilities insurance branch by premiums in 2017



Distribution of customers in the liabilities insurance branch by premiums in 2016



D. Other property and others insurance branch

Customer type	2017		2016 ⁴⁹	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders and small business customers	366,856	55%	407,575	55%
Large business customers and large plants	297,193	45%	335,005	45%
Total	664,049	100%	742,580	100%

Distribution of customers in the other property and others insurance branch by premiums in 2017



Distribution of customers in the other property and others insurance branch by premiums in 2016

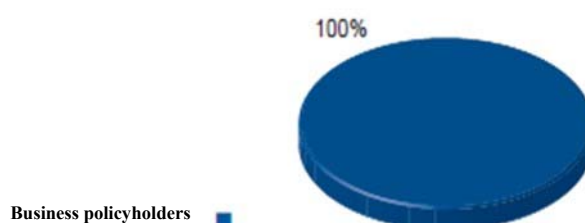


⁴⁹ The data for 2016 were restated.

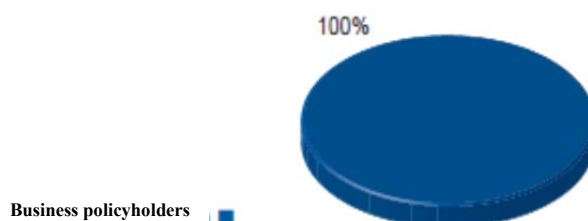
E. Credit insurance branch

Customer type	2017		2016	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Business policyholders	110,188	100%	107,027	100%
Total	110,188	100%	107,027	100%

Distribution of customers in the credit insurance branch by premiums in 2017



Distribution of customers in the credit insurance branch by premiums in 2016

7.3.2. Dependence on customers in the segment, renewal rates and seniority

- o In the non-life insurance segment, the Group is not dependent on any individual customer or on a limited number of customers.
- o The Group does not have any individual customer whose income in the segment constitutes 10% or more of the Company's total income in the consolidated reports.
- o The Group insures, from time to time and in the ordinary course of business, member companies of the IDB Group. The Group's total income in the non-life insurance segment from member companies of the IDB Group, from premiums in the ordinary course of business, did not exceed 5% of the Company's income in the segment in 2017. For the sake of caution, despite the fact that the IDB Group includes a large

number of companies, all of the member companies of the IDB Group were addressed, for this purpose, as a single entity.⁵⁰

- o The rate of individual policyholders who purchased compulsory motor insurance together with motor property insurance in 2017, out of the total customers who purchased compulsory motor insurance in the Group, amounts to approximately 68%. The rate of individual policyholders who purchased compulsory motor insurance together with motor property insurance in 2017, out of the total customers who purchased motor property insurance in the Group, amounts to approximately 85%.
- o Presented below are data regarding the renewal rate (customers who renewed policies in which the insurance had terminated) in the mandatory motor insurance, motor property insurance branches and the housing insurance sub-sector in 2017, 2016 and 2015 out of the total insurance fees in respect of policies that terminated in 2017, 2016 and 2015, respectively, which are affected, inter alia, by business optimization processes which were implemented by Clal Insurance in recent years:⁵¹

Branch	Rate of renewals from total premiums with respect to policies whose conclusion date is in 2017	Rate of renewals from total premiums with respect to policies whose conclusion date is in 2016	Rate of renewals from total premiums with respect to policies whose conclusion date is in 2015
Compulsory motor insurance	69.0%	63.8%	59.5%
Motor property insurance	73.9%	68.4%	62.4%
Apartment insurance	83.3%	79.2%	83.2%

- o Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, according to the number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date, **in the compulsory motor insurance branch**)⁵²:

Number of insurance years (years of seniority)	Premiums, NIS in thousands			Proportion of total sales		
	2017	2016	2015	2017	2016	2015
First insurance year (no seniority)	206,078	168,748	155,977	43.61%	38.50%	34.30%
Second insurance year (one year of seniority)	90,540	84,023	102,427	19.16%	19.17%	22.53%
Third insurance year (two years of seniority)	53,114	61,275	65,805	11.24%	13.98%	14.47%
Over three years of seniority	122,815	124,260	130,495	25.99%	28.35%	28.70%
Total	472,547	438,306	454,704	100.00%	100.00%	100.00%

⁵⁰ With respect to the reporting year, the evaluation also included Mr. Moshe Terry, who serves as the trustee for IDB Development for the purpose of exercising the authorities which are vested in him by virtue of the means of control.

⁵¹ The data for 2015 and 2016 were restated.

⁵² For details regarding premiums which were collected by Clal Insurance in the non-life insurance segment during the reporting year, see Note 5(c) to the financial statements.

- o Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, by number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date), **in the motor property insurance branch:**

Number of insurance years (years of seniority)	Premiums, NIS in thousands			Proportion of total sales		
	2017	2016 ⁵³	2015	2017	2016	2015
First insurance year (no seniority)	289,064	225,568	205,352	39.77%	35.55%	32.13%
Second insurance year (one year of seniority)	149,220	120,239	143,483	20.53%	18.95%	22.45%
Third insurance year (two years of seniority)	79,226	89,339	84,119	10.90%	14.08%	13.16%
Over three years of seniority	209,330	199,362	206,143	28.80%	31.42%	32.26%
Total	726,840	634,508	639,097	100.00%	100.00%	100.00%

- o Presented below are data regarding premiums (NIS in thousands) which were paid by customers during the reporting year, by number of years of seniority in Clal Insurance (according to the policy acquisition and renewal date), **in the apartment insurance sub-branch:**

Number of insurance years (years of seniority)	Premiums, NIS in thousands			Proportion of total sales		
	2017	2016 ⁵⁴	2015	2017	2016	2015
First insurance year (no seniority)	38,693	34,835	37,952	14.27%	11.98%	12.01%
Second insurance year (one year of seniority)	27,603	31,229	44,732	10.18%	10.74%	14.16%
Third insurance year (two years of seniority)	24,838	35,766	27,508	9.16%	12.30%	8.71%
Over three years of seniority	180,018	188,947	205,752	66.39%	64.98%	65.12%
Total	271,152	290,777	315,944	100.00%	100.00%	100.00%

- * Details regarding customer renewals do not include data regarding policies which were sold through mortgage banks (old portfolios) which entered run off beginning in 2005.

⁵³ The data for 2016 were restated.

⁵⁴ The data for 2016 were restated.

8. Health insurance segment

8.1. Products and services

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

1) **Illness and hospitalization branch**

In Israel, there are several layers providing illness and hospitalization coverage: The basic health basket which is provided to the country's citizens by virtue of the National Health Insurance Law (the "**Basic Basket**"); additional services which are provided by the health funds in accordance with the provisions of the National Health Insurance Law (hereinafter: the "**Additional Services**" or the "**Additional Health Services**" or the "**Additional Health Services Plans**"); and insurance policies sold by the insurance companies.

The Group offers to its policyholders a variety of insurance coverages in the illness and hospitalization branch, which include compensation or indemnification to policyholders with respect to medical expenses in case of harm to health due to an illness or accident. Some of these products are substitute, supplement and expand the coverages and services which are given in the basic basket and/or the additional services.

The illness and hospitalization branch includes the following sub-branches:

- Illness and hospitalization insurance.
- International travel insurance.
- Insurance for foreigners residing in Israel.
- Personal accidents insurance.
- Dental insurance.
- Insurance for Israeli residing abroad.

2) **Long term care branch**

Long term care insurance provides solutions for situations in which the policyholder is defined as requiring long term care, according to the definition of the insurance event in the policy, i.e., anyone who cannot independently perform part of the activities of daily living, and therefore requires assistance or supervision. A policyholder with mental incapacity is also considered as requiring long term care.

A person requiring long term care who resides at home, and who fulfills certain criteria (including, inter alia, health and economic criteria), may be entitled to receive services from the National Insurance Institute, including treatment hours at home, in accordance with the provisions of the National Insurance Law (Combined Version), 1995.

The Ministry of Health also participates in assisting the funding of residence in a long term care institution among the long term care institutions which are recognized by it for this purpose, for any person requiring long term care who requires assistance in financing such residence.

In the long term care branch, insurance coverages are sold which are paid, in addition to the payments or services which are given by the state, as specified above, as individual insurance and as collective insurance, in which, upon the occurrence of an insurance event, the insurance company undertakes to insurance company in funding the long term care hospitalization or to compensate the policyholder. The policies provide insurance benefits for a defined period, or for the entire lifetime.

8.1.2. Details regarding the primary products and services included in the operating segment

Presented below is a description of the main covers:

1) Illness and hospitalization branch

In the illness and hospitalization branch, Clal Insurance markets individual insurance and collective insurance.

1) A. Individual insurance

Individual health insurance policies which were sold until the end of January 2016 are generally for an undefined period, regarding which, except for the cases specified in the policies and in the policies, only the policyholder is entitled to announce their termination.

In accordance with the Commissioner's directives, individual insurance in the health segment (excluding loss of working capacity, long-term care insurance, international travel, dental, and foreign employees and residents) which are sold from February 2016, are automatically renewed for all policyholders once every two years, and subject to the Commissioner's approval, the insurance company may update the tariffs and conditions in all individual health insurance policies, until the date of the next update of the tariff and/or conditions (hereinafter: the "**Date of the Change**"). The insurance company is required to inform all policyholders regarding the change approximately two months in advance; however, in case the monthly insurance premiums have increased in the next insurance period by more than NIS 10, or by more than 20% of the insurance premiums, whichever is higher, relative to the monthly insurance premiums which the policyholder paid prior to the date of the change, or if a reduction was implemented in the scope of insurance coverage, as an alternative to increasing premiums, as aforesaid, it will not be possible to continue the insurance without obtaining the policyholder's express consent (hereinafter: the "**Policy Pricing Reform**"). In accordance with the amendment to the circular "preparation of individual health insurance plan", which was published in March 2018, it was determined that the aforementioned notices would be delivered through email and text messages to cellphones, as part of the Commissioner's policy of encouraging the use of digital means in interfaces between the insurer and the policyholder.

It is difficult to estimate the impact of the policy pricing reform over the long term; however, in the short term, during the reporting year, the update to the policies in accordance with the aforementioned reform resulted in a reduction of tariffs in Clal Insurance in overlapping coverages. Additionally, the Company estimates that periodically updating the policy terms may affect the ability to maintain policyholders, and may increase policy cancellation rates, particularly among healthy policyholders.

The information presented on all matters associated with the possible implications of the policy pricing reform constitutes forward looking information, which is based on assumptions and estimates made by the Group, as of the reporting date. Actual implementation may differ from the forecast, and depends on a variety of factors, including the manner in which the policies are updated, according to the requirement and/or possibility to update them, over the years, and the operating expenses associated therewith, and also depends on the conduct of competing companies, distributing entities and the preferences of policyholders over time, as well as the combined impact of the policy pricing reform, together with the independence circular and the standard policy regulations, as defined below, as well as the combined impact of synergistic sales.

Additionally, in accordance with the Commissioner's directives, beginning in February 2016, an insurance company which markets individual policies in the illness and hospitalization branch and in the personal accidents branch will allow a potential policyholder to purchase a base plan, independently of their purchase of another, additional plan, or another base plan, unless the Commissioner has given advance written consent for the above. It was also determined that an insurance company will allow potential policyholders to purchase any of the following coverages as base plans: surgeries, transplants, drugs and critical illness. An insurance company may not make a discount in a certain plan conditional upon the purchase or holding of any other plan, and must obtain the policyholder's separate consent for the acquisition or cancellation of each one of the plans.

1) B. Collective insurance

Collective health insurance policies are generally for periods of several years, where in some of the policies, policyholders are entitled to acquire, at the end of the collective insurance period, individual policies without underwriting (“**Insurable**”).

The Control of Finance Services Regulations (Insurance) (Collective Health Insurance), 2009, regulate collective insurance, and determine, inter alia, that the continuous renewal of collective insurance will be done only on the condition that one or more of the basic coverage chapters, as defined in the regulations, which existed in the policy prior to its renewal, have not been canceled. It was further determined that the premiums cannot be raised, during the insurance period, or on the date of renewal of the collective insurance policy, at a rate or amount higher than that specified in the amended regulations, without the express consent of the policyholder.

1) C. Insurance coverages in the illness and hospitalization branch

Presented below is a description of the characteristics of insurance coverages in the main products which are sold by the Group in the illness and hospitalization branch:

A. Illness and hospitalization insurance.

- In the illness and hospitalization branch, the insurance companies offer coverages which are divided into three types:
 - o **Alternative insurance** - Insurance coverage which constitutes an alternative to the services which are given in the basic basket and/or for additional services.
 - o **Additional insurance** – Coverage for services which, at their date of sale, are not included in the basic basket or in the additional services.
 - o **Supplementary insurance** - Coverage which expands coverage given in the basic basket and/or in the additional services.
- **The basic insurance coverages in the sub-branch include:**
 - o **Insurance for surgeries, transplants and special treatments** - Provides coverage to the policyholder with respect to private medical services. Within this framework, the insured is given the right to choose the date of receiving the medical service, the identity of the attending physician and the medical institution. The aforementioned insurance coverage provides coverage for medical expenses, inter alia, in connection with surgery, transplants and/or special treatment overseas.

Beginning in February 2016, all of the insurance companies in Israel are marketing a policy which includes standard insurance coverage for surgeries, alternatives to surgery, and consultations with specialized physicians regarding surgeries or regarding alternative treatments to surgery, all in Israel, the scope and terms of which were set forth in the Control of Finance Services Regulations (Insurance) (Terms of Insurance Contract for Surgeries and Alternative Treatments to Surgery in Israel), 2015 (hereinafter: the “**Standard Surgery Policy**” and the “**Standard Policy Regulations**”, respectively).

In accordance with the Economic Plan Law (Legislative Amendments to Implement the Economic Policy for Budget Years 2015 and 2016), 2015 (hereinafter: the “**2015 Economic Arrangements Law**”), beginning in July 2016, the standard surgery policy which is marketed by all of the insurance companies in Israel includes coverage for surgeries which will only be performed by a service provider who has an arrangement with the insurer regarding the performance of the procedure (hereinafter: “**Arrangement Service Provider**”). It was further determined in the 2015 Economic Arrangements Law, in a standard manner for all insurance companies and health funds, that the insurance company will pay in accordance with the standard policy for surgeries, with respect to a surgery, to the physician

or to the medical institution in which the surgery was performed, according to an insurance arrangement only, and will not pay to the patient monetary reimbursement or payment for the surgery.

The aforementioned provisions will not apply to an insurance company whose market share is lower than a rate specified by the Insurance Commissioner, if in his opinion this is required in order to ensure competition, and which received approval from the Commissioner for this purpose, provided that the aforementioned market share rate does not exceed 10% (hereinafter: “**Insurers With Low Market Share**”).

The existence of a standard surgery policy at an insurance company which allows the provision of service to policyholders through providers which have an agreement with the insurance company only, resulted in competition focused on price, service (including the available doctors, which will be determined in the arrangement), and the claim settlement method. The pricing of the policy, in light of the scope of coverages given therein, may affect the possibility of retaining policyholders in policies which were sold before the entry into effect of the standard policy regulations, and accordingly, may affect the mix of policyholders in these policies. At this stage, the foregoing has no significant impact; however, in consideration of the fact that these are long term arrangements, it is not possible to estimate the extent of their impact.

In February 2016, the Israel Medical Association filed a petition with the Supreme Court in objection to the health chapter in the Economic Arrangements Law. The petition was filed against the Knesset, the government, the Ministry of Health and the Minister of Health, the Ministry of Finance and the Minister of Finance, and against the insurance companies and hospitals which were defined as “formal respondents”. In the petition, it was claimed that the health chapter in the Economic Arrangements Law includes far-reaching changes, although they were not preceded by informed and in-depth discussions, and that the aforementioned reform is inappropriate for inclusion in the Economic Arrangements Law. Inter alia, it was claimed in the petition, with respect to a surgery arrangement, that the foregoing restricts the access of patients to a variety of physicians, that it constitutes a breach of Basic Law: Human Dignity and Liberty, and that it revokes from citizens the option to choose the best medical treatment, in their judgment. In September 2016, the Court determined that in light of the fact that this is a new arrangement, and the implications of its implementation are not yet known, the hearing of the petition will be deferred until March 2017, and the foregoing date was extended to March 2018.

In February 2018, a summary was published of a hearing which was held in the price committee regarding the reporting of prices and profits in private surgeries (hereinafter: the “**Committee**”), regarding the committee's recommendation to the health ministers and the Ministry of Health to impose oversight, on the reporting level, pursuant to Chapter G (Reporting of Prices and Profitability) of the Oversight of Prices of Goods and Services Law, 1996, on the prices of privately financed surgeries, and on the profitability and prices of privately financed surgeries (hereinafter: the “**Recommendation**”). The reporting requirement will apply to health funds and insurance companies which provide medical insurance, and to hospitals and surgical clinics as the service providers. The committee held a hearing regarding the recommendation, and decided to recommend to the ministers to apply the reporting requirement beginning on May 1, 2018, for a period of two years. Insofar as the recommendation will be accepted, the reports will include data in the framework which will be determined by the committee. The committee will analyze the findings from the aforementioned data, and will consider whether to continue acting according to the current framework, or to take other steps, insofar as may be required.

At this preliminary stage, the Company is unable to estimate the impact of the recommendation and the future decisions which will be based thereon.

- o **Critical illness insurance** - Insurance coverage in which the policyholder, in case of the diagnosis of a critical illness insurance, is entitled to receive monetary compensation in a one-time amount.
- o **Drugs insurance** - Insurance coverage for purchasing drugs which are not included in the national health basket.

- o There are also additional coverages, such as **ambulatory services** - services which provide medical treatment, in a hospital or a clinic, with no need for hospitalization.

The Company's estimate in connection with the standard policy regulations constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results over the long term may differ from the estimated results, and are dependent, inter alia, on the impact of policy pricing, the conduct of competing entities, including insurers with low market shares who are eligible for easements, health funds and policyholders, the conduct of distributing entities, customers, and on the impact of other regulatory arrangements, including arrangements which apply to medical institutions.

B. International travel insurance

The international travel branch is comprised of a basket of insurance coverages which are intended for policyholders during their time spent abroad, which includes, inter alia, coverage with respect to medical expenses, personal accidents, reduction of travel period and cargo. The insurance period in an international travel policy is specified in days, according to the period of the policyholder's stay abroad, or for the duration of all travel days in a single calendar year. International travel policies are mostly sold by the direct sales unit, which mostly sells to members of collectives of three health funds, in accordance with time limited agreements, and also by insurance agents. The profitability in international travel policies is also affected by changes in exchange rates.

In September 2017, an amendment to the provisions of the consolidated circular regarding international travel insurance entered into effect, and provisions were determined regarding the phrasing of international travel insurance plans, and the marketing thereof (hereinafter: the "**Provisions**"), which primarily involve the determination stating that the plan structure will include basic coverage which primarily includes medical coverage, with which various expansions can be acquired (such as cancellation of travel, shortening of travel, pregnancy, winter sports, etc.), in accordance with the provisions which were determined.

The provisions include a reduction of the exceptions which can be included in the policy, which can be determined during the sale process, as compared with the situation which prevailed before the change, including cancellation of the possibility to exclude an insurance event involving cancellation or shortening of the trip due to the death or hospitalization of the policyholder due to a prior medical condition, as well as the determination of additional provisions according to which the liability limits in the plan will be adjusted to the expected cost for the policyholder upon the occurrence of the insurance event, inter alia, in accordance with the destination country, provisions pertaining to the process of engaging in insurance contracts over the internet, regarding the extension of the insurance period after the engagement in the agreement, as well as provisions regarding documentation and monitoring by an insurer or insurance agent. The Company began marketing international travel policies which comply with the provisions of the consolidated circular beginning in September 2017.

The expansion of the scope of coverage which is given within the framework of the provisions, and the reduction of the exceptions, resulted in a trend of increased tariffs in the policies which were adjusted according to the provisions. The reduction of the exceptions which can be included in the policy, and which can be determined as part of the sale process, as well as the separate sale of the coverage chapters, imposed difficulties on the sale process and on the selective purchase of coverages. At this preliminary stage of the adoption of the provisions, it is not possible to predict their full implications over the long term, which depend, inter alia, on the claims experience, the choices of members, and the conduct of competing entities.

C. Personal accidents insurance

This sub-branch includes individual policies which grant entitlement to compensation upon the occurrence of an insurance event, such as fractures, burns, disability and death due to an accident.

For details regarding the circular regarding “**amendment to the provisions of the consolidated circular - chapter 6, parts 2, 3 and 4 - disclosure and reporting to holders of health insurance policies**” (hereinafter: the “**Disclosure And Reporting Circular**”), which determines, inter alia, a transitional provision according to which monthly text messages will be sent to policyholders informing them of the monthly payment to the insurance company with respect to personal accidents policies, see section 8.2 below.

For details regarding the determination with respect to the marketing of personal accidents policies, see Note 42(d)(1) to the financial statements.

2) Long term care branch

In the long term care branch, Clal Insurance markets policies in which, upon the occurrence of an insurance event, the Company undertakes to participate in the financing of residence in a long term care institution, or to compensate the policyholder in a predetermined amount. The policies provide insurance benefits for a defined period, or for the entire lifetime.

In accordance with the Commissioner's directives on the matter, as expressed in the circular regarding the “preparation of long term care insurance plan” (the “**Long Term Care Circular**”), an insurance event which is due to a situation wherein the individual is unable to perform at least 3 of 6 activities which are defined in the circular (getting up and lying down, getting dressed and undressed, bathing, eating and drinking, continence and mobility) will entitle the policyholder to no less than 50% of the monthly insurance benefits, and an insurance event which is situation a situation of mental incapacity” (as defined in the circular), will entitle the policyholder to receive 100% of the monthly insurance benefits. The insurance benefits are paid beginning at the end of the waiting period, for the entire lifetime of the policyholder, or for a period of several years, as defined in the policy, and so long as the policyholder continues to require long term care. The waiting period may be a several months or several years, depending on the product purchased by the policyholder.

In recent years, the Commissioner's interventions and public pressure have increased on all matters associated with the settlement of long-term care claims, and the policy interpretation method. Subsequently, In April 2017, a draft was published of an “amendment to the provisions of the consolidated circular - section 6, part 3, chapter 5 (hereinafter: the “**Draft Circular**” or the “**Draft Circular Regarding The Settlement Of Long-Term Care Claims**”). The draft circular includes provisions regarding claim settlement in long-term care insurance, which are intended to ensure a claim settlement process which is as fast and fair as possible, and which requires the least possible hassle on the part of the policyholder.

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

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

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

The described proceedings, provisions and restrictions proposed in the draft circular regarding the settlement of long-term care claims, if they become a final and binding document, are expected to have an impact on the claim settlement process in its entirety, both from the operational perspective, and on all matters associated with claim settlement and the tools which will be available to the insurer to ascertain its liability, and as a result, may increase claim settlement costs. At this preliminary stage, the Company is unable to estimate the entire impact of the aforementioned provisions. For additional details, see section 10.16(b)(1) below.

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

For additional details in connection with the Commissioner's position regarding the re-evaluation of eligibility, see section 10.2.9 below.

- **Individual long term care insurance**

Individual insurance policies in the long term care branch are insurance policies which are purchased privately by policyholders. The insurance period in such policies is for the entire lifetime, where the maximum period of entitlement to receive insurance benefits is in accordance with the type of policy which was acquired (several years to entire lifetime). There are long term care insurance policies which are supplementary to long term care insurance acquired by a policyholder (generally through health funds or collective insurance), which provide insurance benefits only after the end of a waiting period of 36 or 60 months.

There are fixed premium long term care policies which grant the policyholder the right, in cases where he stops paying the premiums, for any reason whatsoever, under certain conditions, to accrue settlement values, which allow him to receive reduced insurance benefits in case of a claim, in accordance with his age, the premium payment period, and the premium amount which was paid by him. When the settlement values are lower than a certain limit which was determined by the Commissioner, the policyholder receives, instead of the settlement values, a one-time amount. Additionally, until 2013, individual long term care policies were also sold at variable premiums, without settlement values. In accordance with the Commissioner's directives, beginning in 2013, in addition to fixed premium policies, only policies with premiums linked to the CPI's increase of up to 4% per year can be sold, in which the price is fixed no later than age 65 ("**Restricted Variable Rate Premium**").

During the reporting year, the long term care policies which were marketed by Clal Insurance were mostly with fixed premiums, while others were with restricted variable rate premiums.

Until 2007, Clal Insurance also marketed long term care insurance with fixed premiums, which included a mechanism for linkage to investment portfolio returns, in a manner whereby positive returns, beyond the minimum returns determined in the policy, increased the amount of the monthly stipend to which the policyholder is entitled upon the occurrence of the insurance event. Returns lower than the minimum returns defined in the policy entitle Clal Insurance to increase the insurance premiums, in a manner whereby the amount of the monthly stipend to which the policyholder is entitled upon the occurrence of the insurance event will not be reduced. Since 2007, long term care policies with this mechanism are no longer sold by the Group.

- **Collective long term care insurance**

Collective insurance agreements in the long term care branch include, for the most part, insurance coverages which are similar to the coverages provided in the individual insurance agreements; however, in general, they are for a fixed period. Collective long term care insurance is subject to the Commissioner's circulars on the subject, including, inter alia, an obligation stipulating that the insurer must allow policyholders whose insurance coverage, by virtue of the collective policy, has concluded, in certain defined cases, continuity of insurance by providing the possibility of transferring to entire lifetime individual policies (the "**Continuing**

Policy”), without a renewed underwriting process, and without a waiting period. The insurance amount and the payment period for insurance benefits will be as determined for the policyholder in the collective long term care insurance which he holds.

In accordance with the Commissioner's provisions, collective policies which were sold or renewed after January 1, 2013, will apply for the policyholder's entire lifetime (as opposed to the previous situation, according to which the insurance period in collective policies is for a defined period), and the premium pricing will not be based on subsidization between different age groups (where the number of years of age in each age group will not exceed five years), and between genders. However, the aforementioned guidelines determined that an insurer will be entitled to renew existing contracts for the implementation of collective long term care insurance plans, according to their previous format, provided that these conclude by December 31, 2013. This date was postponed several times by the Commissioner, most recently to December 31, 2017, and was not extended beyond that date.

In September 2017, directives of the Commissioner entered into effect which determined detailed instructions with respect to collective long-term care insurance policies (hereinafter: the “**Directives Regarding Collective Long-Term Care Insurance**”). In accordance with the provisions of collective long-term care insurance, the main terms of the collective insurance agreements which will be entered into from that date onwards will be as follows: the insurance period will be no less than 5 years, and no more than 8 years; the type of premium which can be collected from a policyholder in collective long-term care insurance is the fixed premium or increased premium (variable up to 4% per year, and only until age 65); a policyholder in collective long-term care insurance will accrue settlement values from age 40 onwards, which will be determined according to the age when the policyholder first joined the insurance, where at the time of renewal at another insurer, the reserves will be transferred between insurers; Upon renewal of a collective long-term care insurance policy, the policyholder will be given continuity of insurance, without a re-evaluation of the prior medical condition, and without an additional qualification period; Upon realization of the continuity right of a policyholder aged 40 or higher, for a long-term care policy in a private framework, the premium in the continuing policy will be no higher than the premium which that policyholder is required to pay with respect to the collective long-term care insurance, before the transition to the continuing policy, subject to the transitional provisions which were determined for the first 10 years, throughout the entire insurance period, and differently from the situation which applied before the entry into effect of the aforementioned provisions, according to which the premiums, in case of realization of the aforementioned continuity right, were as practiced on the date of the transition, at the insurer, for holders of similar individual policies. With respect to policyholders under 40 years of age, or over 70 years of age, the insurer is entitled to collect, with respect to the continuing policy, a premium which will be no higher than the conventional premium for new members of similar individual policies at the insurer.

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

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

As of the publication date of the report, Clal Insurance does not engage in collective long-term care insurance agreements according to the framework which was determined; however, during the reporting year, the matter did not have a significant impact on the Company, primarily in light of the fact that, during the years before the

publication of the draft directives, the Company worked to reduce its activity in the collective long-term care insurance segment (except with respect to collective long-term care insurance for members of health funds).

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

In July 2016, the **Control of Financial Services Regulations (Insurance) (Collective Long Term Care Insurance for Health Fund Members), 2015** entered into effect, as well as the circular regarding collective long term care insurance for health fund members (hereinafter: the "**Provisions**"). The provisions specify, inter alia, standard terms for the collective long term care insurance policies of the health funds, rules for the management of policyholder funds, due to the premiums which are paid for the policyholders, which will be used as insurance coverage in case of the transition of policyholders between health funds, and regarding which it was determined that, during the insurance period, the policyholder fund may bear up to 80% of the difference between the actual value of the insurance claims, and the expected value of the claims, in accordance with the agreement between the fund and the insurer. It was further determined that the reimbursement of expenses which the health fund may receive from the insurer will be calculated in accordance with the number of individuals joining and leaving the fund, and will not exceed 5% of the premiums which were actually collected (relative to the situation prior to the publication of the provisions, according to which it was possible to reimburse amounts which the fund paid with respect to the policy in an amount which will not exceed a rate of 5% of the total of the total premiums from the policyholders).

In accordance with the provisions, the Commissioner is entitled to approve, for that insurer, to insure two funds only in cases where it insures, in total, less than 50% of all holders of the health funds' policies. In accordance with the provisions, an insurance company will choose a competitive process which will be conducted by health funds, and will engage in an agreement for a period which will not exceed 8 years. As of the publication date of the report, Clal Insurance insures, in collective long term care insurance, members of the Maccabi and Leumit health funds, and in general, bears the entire insurance risk with respect to it, with respect to the part of the risk which was not transferred to reinsurance.

As part of the amendment to the provisions from January 2018, explicit authority was conferred upon the Commissioner to extend the agreement period, for the purpose of preparing long-term care insurance for health fund members, between an insurance company and a health fund, beyond 8 years, and the entry into effect of the provision regarding the obligation of an insurance company to bear risk in a collective long-term care insurance plan for health fund members was postponed to January 1, 2019.

The provisions also regulate the transfer of policyholders between funds, and regulate the coverage for individuals who were covered by collective long term care policies (which were not prepared through the health funds), which concluded after January 1, 2011, and were not renewed at any insurer, and who were aged 60 or higher on the application date of the regulations, or on the conclusion date of the insurance period in the aforementioned policy, whichever is later (hereinafter: "**Entitled Policyholders**"). The entitled policyholders will be entitled to join the long term care insurance of the health fund with which they are registered, according to the tariffs which are practiced in the health fund for their age group, within 120 days after the application date of the regulations, or after the end date of the collective policy, whichever is later. Additionally, an obligation was established with respect to insurers who insured the entitled policyholders, to notify them regarding the aforementioned rights.

As part of the amendment to the provisions, which was published in February 2018, the eligibility terms of policyholders who are entitled to join the long-term care insurance plan of the health fund in which they are a member were improved, inter alia, by changing the age of an eligible policyholder from 60 to 55, and by expanding the population of eligible policyholders, and additionally, the date was extended by which a policyholder is entitled to join the collective long-term care insurance which is prepared for health fund members, without an evaluation of his medical condition, until the end of July 2018.

Within the framework of the amendment to the provisions which was published in July 2017, the insurance coverage which is given within the framework of the uniform long-term care policy to health fund members was improved (hereinafter: the "**Amendment To The Provisions**" and the "**Standard Policy**"). The amendment to the provisions allows soldiers, including career soldiers, to receive continuity of insurance also during their period of military service. The amendment also expands insurance coverage with respect to an expansion of the definition of the insurance event, in case of a mobility restriction of the policyholder.

Clal Insurance is preparing for the implementation of the provisions with respect to collective long-term care insurance policies, and has updated the relevant policies in accordance with the aforementioned provisions.

The collective insurance policies for members of the Maccabi and Leumit health funds are expected to conclude in December 2018 and March 2019, respectively. For additional details regarding the Maccabi agreement, see below.

Maccabi agreement

Following Clal Insurance's (hereinafter, in this section: the "**Insurer**") winning of a tender to select providers of long term care insurance for members of the Maccabi Gold program and members of Maccabi Health Services, on July 1, 2008 (hereinafter: the "**Effective Date**") a collective long term care insurance policy for members of Maccabi Health Services entered into effect (in this section: the "**Policy**"). The policyholders under the policy are members of the Maccabi Magen program who, prior to the effective date, were included in a long term care coverage plan which was operated by Maccabi Magen (the "**Long Term Care Fund**"), who were transferred to the policy, according to the layer in which they were insured. The policy also covers members of Maccabi Health Services who, prior to the effective date, were not members of Maccabi Magen, who were not included in the long term care fund, and who requested to obtain coverage under the policy from the effective date onwards, and whose request was approved by the insurer. The agreement period which was signed with Maccabi, following the insurer's winning of the tender (hereinafter, in this section: the "**Agreement**") was 5 years (in this section: the "**Original Agreement Period**"), which concluded on June 30, 2013, and which was extended several times until December 2018.

Additionally, within the framework of the engagement with Maccabi, on the effective date, assets worth approximately NIS 687 million were transferred to the management of the insurer (in this section: the "**Principal**"), which were held, during the original agreement period, in accordance with the provisions specified in the agreement, with the aim of returning them upon the conclusion of the agreement period, with a value which increased during the agreement period. The fund assets are managed by the Company in a separate designated track and in accounts which are separate from its other managed assets, and treats them in accordance with its treatment under the provisions of the legislative arrangement regarding investment-linked insurance policies. As of the end of the reporting year the value of the principal is NIS 2,997 million.

As part of the extension of the within the framework of period, it was determined that if the continuity clause in the policy is activated, which anchors the policyholders' rights to acquire private continuation policies without medical underwriting in the event that the collective policy is not renewed, or is renewed under inferior terms, the fund will bear the continuity costs in accordance with a mechanism which was determined between the parties. Additionally, in accordance with the agreement, Clal Insurance undertook to indemnify Maccabi with respect to any damage and/or monetary expense which may be incurred by Maccabi and/or to Maccabi Magen with respect to, inter alia, a breach of the policy and/or with respect to a breach of the agreement by Clal Insurance, and with respect to any claim or demand which may be brought against Maccabi and/or Maccabi Magen in connection with the policy and/or in connection with the insurer's liability in accordance with the agreement and/or the policy. In accordance with the agreement between the parties, it was determined that Maccabi will be entitled to terminate the engagement if an event takes place in the insurer among a certain list of events, including liquidation, receivership, reaching an arrangement with creditors, inability to any debts on time, or a significant adverse effect on various parameters associated with the insurer's financial position. It was further determined in the agreement that in the event that the agreement has been terminated, as specified above, liquidated damages will be paid to Maccabi at a rate of 10% of the total annual premiums of policyholders under the policy. To secure the insurer's undertakings by virtue of the

agreement, the insurer provided a bank guarantee in the amount of NIS 50 million, linked to the CPI for May 2008, which was published on June 15, 2008. The annual scope of premiums from the transaction during the reporting year was approximately NIS 630 million. The agreement establishes mechanisms for the adjustment of premiums in case the regulations are amended during the insurance period. For details regarding the Commissioner's directives with respect to collective long-term care insurance policies for health fund members, and the implications thereof, see above.

On March 21, 2017, Clal Insurance engaged with Maccabi in an agreement for the extension of the collective long-term care policy for Maccabi members for a period a year and a half, from July 1, 2017 to December 31, 2018 (the "**Additional Extension Period**"). During the additional extension period, the provisions of the policy, as updated beginning on July 1, 2016, will continue to apply, and an additional payment of Clal Insurance to the policyholder fund was established, which will be financed, in part, out of the additional premiums. Clal Insurance will continue managing the policyholder fund, and will also provide to Maccabi services for the operation of the long-term care members who belonged to Maccabi Magen prior to the signing of the original agreement, and who remained in Maccabi Magen, in accordance with the regulations of Maccabi Magen.

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

1) Illness and hospitalization branch

In recent years, the illness and hospitalization branch has been a developing branch, due, inter alia, to the following facts: the gap between the scope of health services provided by the state in the basket of basic health services, and citizens' need for improved health services; technological improvements in the field of medicine; increased life expectancy and improved quality of life, which require expensive medical resources, such as advanced drugs and medical treatments; The additional health services, which are subject to change, which do not necessarily sufficiently address various issues such as transplants and drugs; and increased consumer awareness in the field of health, including regarding available service and by choice, medical services which are not included in the basic health basket, and the additional services of health funds.

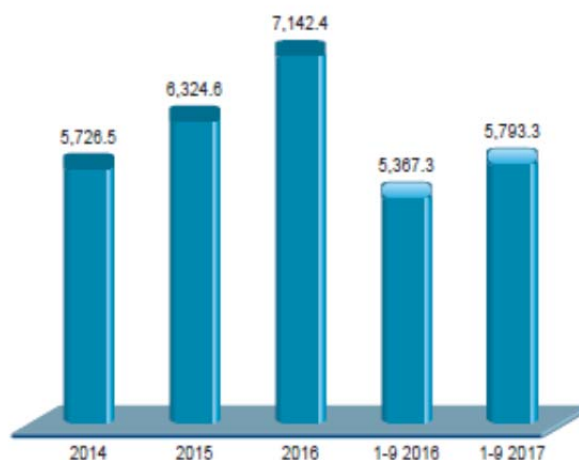
Additionally, in light of the Company's decision to focus on its core activities in this branch, in general, Clal Insurance no longer markets insurance in the insurance branch for foreigners residing in Israel, dental insurance and health insurance policies for Israelis residing abroad.

In accordance with the Commissioner's publications as of September 30, 2017, the market volume, in terms of gross premiums in the illness and hospitalization branch in the first nine months of 2017, amounted to approximately NIS 5.8 billion, as compared with approximately NIS 5.4 billion in the corresponding period last year. Premiums in the illness and hospitalization branch in the first nine months of 2017 constituted approximately 13.6% of total premiums in the entire insurance market in Israel, as compared with approximately 13.9% in the corresponding period last year.

In January to September 2017, an increase of approximately 7.9% occurred in the market volume, in terms of gross premiums of illness and hospitalization insurance, in the insurance market in Israel relative to the corresponding period last year, as compared with an increase of approximately 12.9% in the total scope of the aforementioned premiums in 2016, relative to 2015.

In recent years, sales of illness and hospitalization insurance have been on an uptrend, inter alia due to public awareness, and the reasons specified in section 8.1.2(1) above.

**Development of premiums in the illness and
hospitalization branch in Israel from 2014 to September
2017**
NIS in millions



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

For details regarding the possible implications of the sale of standard surgery policies by all of the insurance companies, and the Commissioner's directives regarding the method for sale of health policies from February 2016, including with respect to the insurance period, which is automatically renewed every two years, see sections 8.1.2(1a) and 8.1.2(1)(a) above.

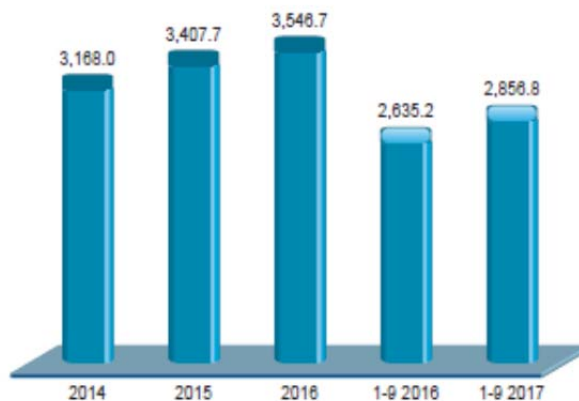
2) Long term care branch

The long term care branch is a developing branch, inter alia, due to the increase in life expectancy, including as a result of technological improvements in the field of medicine, and due to the fact that there are no alternative products to it on the market. In recent years, a decrease has occurred in sales of individual long term care insurance by Clal Insurance (which includes individual long term care policies, as part of the realization of the continuity rights of policyholders in concluded long term care collectives), due, inter alia, to its decision to reduce its exposure to this segment, which is exposed to significant risks, including exposure to regulatory changes, the public atmosphere, and complex claim settlement processes.

In accordance with the Commissioner's publications as of September 30, 2017, the market volume in terms of gross premiums in the long term care branch in the market, in the first nine months of 2017, amounted to approximately NIS 2.9 billion, as compared with approximately NIS 2.6 billion in the corresponding period last year. Premiums in the long term care branch in the first nine months of 2017 constituted approximately 6.7% of total premiums in the insurance market in Israel, as compared with approximately 6.8% in the corresponding period last year.

In January to September 2017, an increase of approximately 8.4% occurred in the scope of gross premiums in long term care insurance in the insurance market in Israel, as compared with the corresponding period last year, as compared with an increase of approximately 4.0% in the scope of premiums in long term care insurance in the insurance market in Israel in 2016, relative to 2015.

**Development of premiums in long-term care insurance
from 2014 to September 2017
NIS in millions**



The scope of premiums in the long term care insurance branch reflects the premiums which are paid with respect to policies in effect which were sold over the years, and where the changes therein do not necessarily reflect the change in supply and demand during the reporting year.

Some of the branches in the segment are characterized by the accrual of significant reserves for long periods, and therefore, the profitability in the segment is affected, inter alia, by investment income held against insurance liabilities.

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

In accordance with the Commissioner's publications with respect to the data for the nine month period ended September 30, 2017, the Group is the third largest group in the health segment, the fourth largest in the illness and hospitalization branch, and the second largest in the long term care branch.

The health insurance market is a developing market, and the Company is a central player in this market. However, in light of the fact that the market has been subject to comprehensive regulation in recent years, and in light of recent regulatory changes, future changes are possible, inter alia, in connection with the regulations which apply to health funds, and the development of the aforementioned changes in the coming years, and it is not currently possible, at this stage, to predict the way in which the changes will affect the segment in general, and the Company's future share in particular.

Regarding long term care insurance - in light of the Commissioner's directives regarding collective long-term care insurance policies for health fund members, as specified in section 8.1.2(2) above, changes to the collective insurance market for health fund members are possible, as well as to the players competing therein, and as a result, also to the market shares of companies which insure the health funds.

For details regarding the regulatory encouragement of increased competition in the illness and hospitalization insurance segment, see the obligation to sell policies with a standard wording, in accordance with the standard policy regulations, in section 8.1.2(1)(a) above, the existence of a calculator for the comparison of health insurance on the website of the Commissioner of Capital Markets, Insurance, and Savings, as specified in section 8.3.1 below, and the publication of statistical data with respect to the method for service and claim settlement, as specified in section 8.3.1 below. For details regarding the regulatory encouragement for insurers with small market shares, see the 2015 Amendments to the Economic Arrangements Law, as specified in section 8.1.2(1c) above. For details regarding the increased use of digital means for the purpose of transferring

information to policyholders, in order to make accessible to them information regarding their insurance products, including updating policyholders by text message regarding the expiration of discounts and insurance price increases, and routine updates to holders of personal accident policies, within the framework of a transitional provision, see the disclosure and reporting circular in section 8.2 below. For details regarding additional regulatory changes which are intended to affect the pricing of the policies, and the flexibility in the selection and cancellation thereof, see the Commissioner's directives, which are described in section 8.1.2(1a) above.

For details regarding the draft directives of the Commissioner regarding the sale of insurance products, including in the health segment, through sales representatives who are not insurance agents and who are not employees of the insurance company, see section 10.8.2 below.

The Company's estimate constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the long term effects of the aforementioned regulatory changes, on the business results of Clal Insurance, on the conduct of competitors and distributing entities, and the preferences of policyholders.

8.1.5. New products

There were no material changes to the products during the reporting period.

Following the position paper regarding principles for the phrasing of insurance plans, which was published in August 2015 by the Commissioner, and the circular regarding instructions for the phrasing of insurance plans which was published in August 2015, which included the specification of principles which are intended to instruct the insurer upon the phrasing of insurance plans, in a manner whereby they will not include discriminatory conditions, and will be simple and clear, Clal Insurance worked also during the reporting year to modify its products in accordance with the relevant regulatory provisions.

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

The activity in this segment is subject to the provisions of the law which apply to insurers engaged in the segment, and to the Commissioner's directives which are published from time to time. From time to time, the Commissioner publishes circulars that relate to insurance covers that are included in policies in the segment.

The activity in this segment requires a license, in accordance with the Insurance Law, and is overseen by the Capital Markets, Insurance and Savings Division in the Ministry of Finance.

Details regarding additional regulatory directives or drafts of regulatory directives which were published in the operating segment:

In February 2018, a circular regarding disclosure and reporting was published which determined the manner by which information reports will be sent to potential insureds and policyholders, with an emphasis on making the information available to policyholders, including by digital means.

The disclosure and reporting circular determines, inter alia, provisions with respect to the policyholder's option to choose the way in which they will receive the due disclosure document, the insurance details document and the annual report, and to change their choice (hereinafter: the "**Report Documents**"); An insurance company will send to the main policyholder a summary report for all of the family members, and also, separately, a personal report to each adult policyholder (except delivery by mail to a policyholder who is the spouse of the main policyholder, when both have the same residential address). The circular imposes on institutional entities an obligation to verify the policyholder's receipt of the report documents, insofar as notice has been received that they did not reach the policyholder; and imposes an obligation to send a text message before sending the report documents and in case of conclusion of the discount period and increase of the monthly insurance premiums, in an amount exceeding twenty shekels per month.

The circular also establishes a transitional provision, in effect for two years, according to which an insurance company will send to policyholders text messages to inform them of the monthly payment to the insurance company for a personal accidents policy.

The application date is September 2, 2018, with respect to the annual report for 2018. Notwithstanding the foregoing, an insurance company may request the Commissioner to approve sending the reports, in accordance with the provisions of the circular regarding reporting with respect to 2017.

In general, the circular applies to health insurance policies, excluding collective or non-collective personal accident insurance which has been prepared for a group of policyholders, due to their participation in a certain non-recurring event which is shared by the Group members, or due to their participation in a certain activity, and which was prepared for a period of less than one year. For details regarding the impact of the circular on policies of up to one year, see section 7.1.1.4(d) above.

The provisions of the disclosure and reporting circular are expected to have operational and business implications, which could have effects in opposing directions, and could have effects in terms of the retention of personal accidents policies; however, at this preliminary stage, the Company is unable to estimate the overall impact of the aforementioned provisions, which could be material, including with respect to future sales.

The Company's estimate in connection with the disclosure and reporting 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, and depend, inter alia, on the conduct of policyholders.

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

8.3. Competition

8.3.1. Competitive conditions in the segment and names of competitors in the segment

According to the Group's estimate, the main competitors in the segment are divided into two main groups:

- The insurance companies, most of which operate in the segment.
- Alternatives are available to some of the coverages in the illness and hospitalization branch, within the framework of the additional services of health funds.

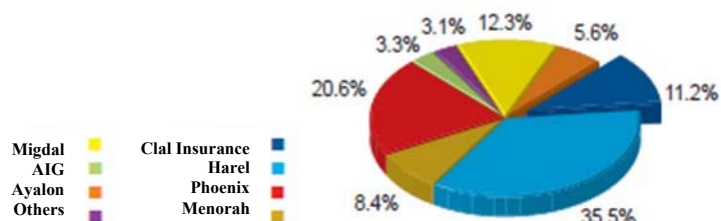
The competition between the insurance companies in the segment is focused on the extent of correspondence to the policyholder's needs and wishes, and on service, claim settlement and tariffs.

As part of the Commissioner's policy in recent years, significant reforms were promoted which involve the reduction of tariffs, transparency and increased competition. These reforms affect, and will continue to affect, in the coming years, the health insurance segment, and the profitability thereof. For additional details, see section 2.5.3 above.

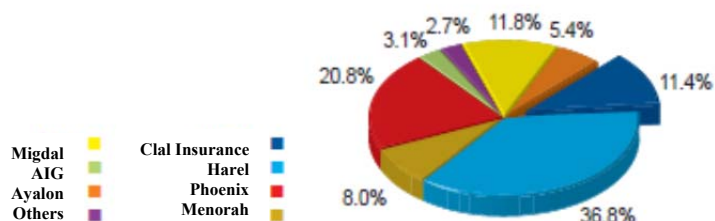
Total gross premiums in the illness and hospitalization branch in the Group amounted, in the first nine months of 2017, to approximately NIS 650 million, and constituted, in accordance with the Commissioner's data, approximately 11.2% of the activity in this branch in the insurance market in Israel. In the corresponding period last year, total gross premiums amounted to approximately NIS 611 million, and constituted approximately 11.4% of the activity in this branch in the insurance market in Israel.

According to the Group's estimate, the significant competitors in the segment are Harel Group, Phoenix Group and Migdal Group.

Distribution of gross premiums in the illness and hospitalization branch among insurance groups and companies in Israel as of September 2017

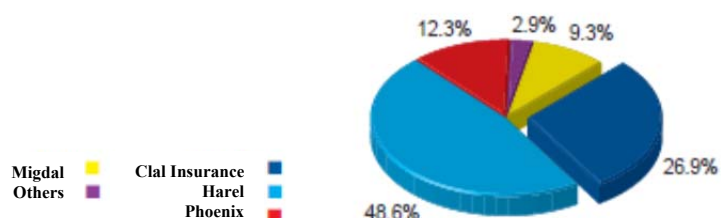


Distribution of gross premiums in the illness and hospitalization branch among insurance groups and companies in Israel as of September 2016

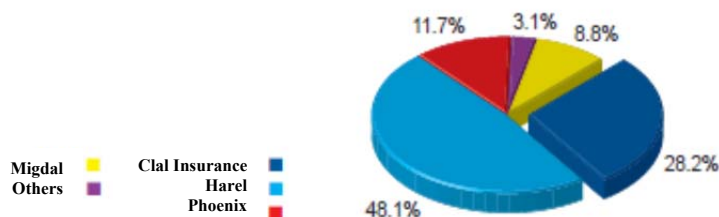


Total gross premiums in the long term care branch in the Group amounted, in the first nine months of 2017, to approximately NIS 768 million, and constituted, in accordance with the Commissioner's data, which are published on the website of the Capital Markets, Insurance and Savings Division, approximately 26.9% of the activity in this branch in the insurance market in Israel. In the corresponding period in 2016, total gross premiums amounted to approximately NIS 743 million, and constituted approximately 28.2% of the activity in this branch in the insurance market in Israel. The decrease in market share was due to both the decrease in sales of individual long term care policies in Clal Insurance, and to the optimization of current business, primarily in collective business operations.

Distribution of gross premiums in the long term care branch among insurance groups and companies in Israel as of January-September 2017



Distribution of gross premiums in the long term care branch among insurance groups and companies in Israel as of January-September 2016



According to the Company's estimate, the competition in the health segment is expected to increase in the coming years, as a result of the combined future impact of the regulatory reforms which are unique to the segment, as specified above, and also as a result of industry-wide regulatory provisions, including the provisions of the circular regarding the **“Collection of statistical information regarding claim settlement and the method used to handle requests to withdraw and transfer funds”**, after which comparative figures were published on the website of the Capital Markets, Insurance and Savings Division, regarding the service level indicator of insurance companies.

Additionally, with the aim of improving the market, the competition therein, and the transparency thereof, and to help policyholders choose the most appropriate insurance for them, a calculator is available on the Authority's website for the comparison of health insurance, which is intended to allow the comparison of the main coverages sold in health insurance policies (transplants, drugs and surgeries), among all insurance companies which market those coverages. The purpose of the calculator is to increase competition in the market, and to allow policyholders to compare the tariffs which are offered to new health insurance policyholders, as stated above. During the reporting year, a circular on the subject of **“interface for the identification of insurance products”**, and a circular on the subject of **“retrieval of personal information”**, entered into effect. The purpose of these circulars is to allow an accessible and simple internet interface for policyholders to identify their insurance products at all of the insurance companies, and to receive information regarding those insurance products on the insurance companies' websites.

Furthermore, the information which is submitted to policyholders was expanded, including during the insurance period, with respect to the price of insurance, as part of the disclosure and reporting circular (for additional details, see section 8.2 above). The aforementioned regulatory reforms, including the publication of the aforementioned information, and/or parts thereof, may affect the competition in the segment, and will constitute an additional measurement tool in the policyholder's selection of the insurance product.

Additionally, the provisions of the 2015 addition to insurance circular and the amendments thereto (including the draft amendment from January 2018, as specified in section 10.2.6 below), which determine principles regarding the regulation of the conduct of insurance companies insurance agents when adding an insurance applicant to an insurance plan, and are expected to affect the policy renewal processes and to increase competition in the segment.

In January 2018, a press release was published stating that the Antitrust Authority and the Commissioner had commenced a joint evaluation of the market for individual health insurance, which is intended to evaluate the competitive conditions in the segment. The Company is unable to predict the conclusions of the aforementioned evaluation, nor its implications.

Clal Insurance is unable to estimate, at this stage, the impact of the aforementioned provisions on the Company's market share in the segment, particularly in the long term.

8.3.2. Methods for dealing with competition

The Group deals with competition in this operating segment on several levels:

- Development of modern, innovative solutions which provide high-quality solutions for policyholders' needs.
- Appropriate pricing of products, in consideration of all of the influencing factors, including distribution and sale commissions, operating costs, policy resiliency and the cost of risk.
- The existence of high-quality information regarding past experience, which serves as the basis for risk management.
- Reinsurance contracts and distribution of risks, in collaboration with reinsurers, in a manner which allows finding appropriate solutions for the various types of consumers.
- Provision of rapid, effective, professional, fair and high-quality service, both to agents in terms of operations, and to policyholders in terms of claims handling and service.
- The ability to adjust to changing market conditions, and to the uncertainty due to expected regulatory changes, which pertains, is, to the aspects of operations, product adjustment and profitability.

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

- Many years of experience in the field of health insurance;
- The Group's reputation in the segment;
- Long term relationships with agents marketing the Group's products.
- Direct distribution network;
- The variety of health products which are sold under one roof;
- The service given by the Company to customers and agents, and the claim settlement method.
- Competitive barriers - for details regarding the lifting of barriers to entry to the market, see section 10.3.1.2 below.

8.4. Customers

The main types of customers in the segment are collectives and individual policyholders.

Presented below is the distribution of gross premiums (NIS in thousands) by types of customers in the health insurance segment, by branches, for the years 2016 and 2017:

Illness and hospitalization⁵⁵

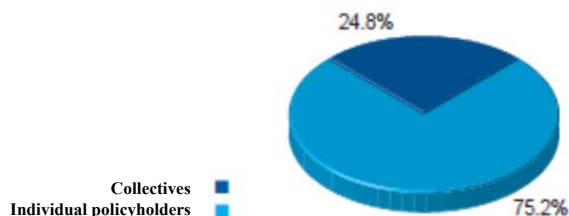
NIS in thousands	Gross premiums for 2017	Proportion of total gross premiums for 2017	Gross premiums for 2016	Proportion of total gross premiums for 2016
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⁵⁵ The scope of premiums in the illness and hospitalization insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and changes therein do not necessarily indicate the change during the reporting year.

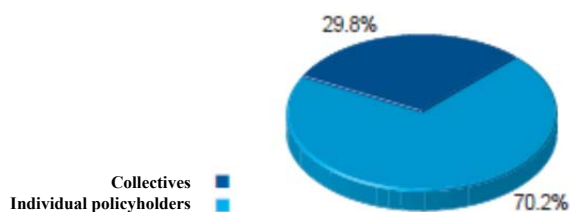
Collectives*	215,768	24.8%	241,330	29.8%
Individual policyholders	655,049	75.2%	569,306	70.2%
Total	870,817	100%	810,636	100%

* Includes sales of international travel insurance at the health funds.

Distribution of customers in the illness and hospitalization branch by premiums in 2017



Distribution of customers in the illness and hospitalization branch by premiums in 2016



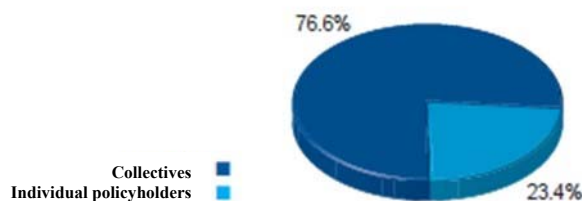
Long term care⁵⁶

NIS in thousands	Gross premiums for 2017	Proportion of total gross premiums for 2017	Gross premiums for 2016	Proportion of total gross premiums for 2016
Collectives ⁵⁷	801,855	76.6%	752,455	76.1%
Individual policyholders	244,456	23.4%	235,789	23.9%
Total	1,046,311	100.0%	988,244	100.0%

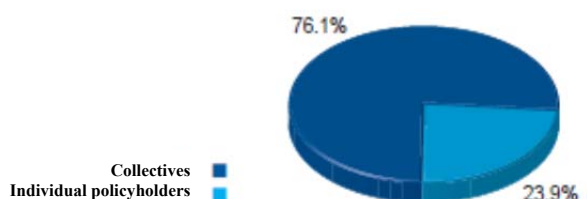
⁵⁶ The scope of premiums in the long term care insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and change therein do not necessarily reflect the change during the reporting year.

⁵⁷ Includes health fund policyholders.

Distribution of customers in the long term care branch by premiums in 2017



Distribution of customers in the long term care branch by premiums in 2016



The cancellation rate (including cancellation, reduction or non-renewal of policies) per year from policies which are in effect at the start of the year, in terms of premiums, in the long term individual illness and hospitalization branch (illness and hospitalization sub-branch only) amounted to approximately 9.4% during the reporting year, as compared with approximately 8.2% in 2016.⁵⁸

The cancellation rate (including settlement, cancellation, reduction or non-renewal of policies) for the year, from policies in effect at the start of the year, in terms of premiums, in the individual long term care branch, during the reporting year, amounted to approximately 3.1%, as compared with 3.4% in 2016.⁵⁹

The Group is not dependent on any single customer or on a limited number of customers in the health insurance segment.

The Group has no single customer whose income in the segment constitutes 10% or more of the Group's total income in the consolidated reports.

Clal Insurance insures, from time to time and in the ordinary course of business, member companies of the IDB Group (which constitute policyholders in collective insurance policies) in policies in the segment. The Company's income in the health insurance segment from member companies of the IDB Group from premiums in the ordinary course of business does not exceed 5% of the Company's total income in the segment in 2017. For the sake of caution, despite the fact that the IDB Group includes a large number of companies, all of the member companies of the IDB Group were addressed, for this purpose, as a single entity.⁶⁰

⁵⁸ In accordance with the provisions of the Commissioner's circular, the cancellation rate is calculated by dividing the premium amount which was charged in the last month of the year, by the premium amount which was charged in the last month of the previous year. The calculation only refers to policies which commenced before the current year, after neutralization of the increase in tariffs.

⁵⁹ See footnote 58 above.

⁶⁰ With respect to the reporting year, the evaluation also included Mr. Moshe Terry, who serves as the trustee for IDB Development for the purpose of exercising the authorities which are vested in him by virtue of the means of control.

The rate of premiums of the Maccabi long term care collective amounted, during the reporting year, to approximately 60.2% of total premiums in the long term care segment, which constitutes a total of approximately NIS 629.9 million. It is emphasized that the agreement with Maccabi Health Services is for a defined period (see section 8.1.2(2) above).

Part III - Additional Information Regarding Branches Which Were Not Included in the Operating Segments

9. Additional information regarding other operations which were not included in the operating segments

The Group has several activities which were not included in the aforementioned operating segments, as well as activities which were discontinued and/or and which are in runoff, and which do not constitute a significant business component, according to the organization attribution presented below:

9.1. Clal Agency Holdings

Clal Agency Holdings (1998) Ltd. is a wholly owned subsidiary of the Company, which concentrated the holding of the Group's insurance agencies. For additional details, see section 10.8.2 below.

9.2. Financing activities

In 2013, the Company decided to gradually discontinue the Company's activities in the financing segment, which include the factoring, financial leasing, consumer credit and business credit activities (the "**Financing Activities**"), with the intention of focusing on the Group's core business segments. The financing activity is currently in a run off stage, and in general, no new business activity is being performed.

**Part IV: Additional Information on the Level of the Corporation -
Matters Pertaining to the Activities of the Group in its Entirety**

10. Additional information on the level of the corporation

10.1. General environment and the impact of external factors on activities

For details regarding a description of trends, events and developments in the Group's macro-economic environment, which currently affect or are expected to affect on the Group, see the specific reference under the various operating segments, and Part B of the report - board of directors' report, section 2.1.

10.2. Restrictions and supervision of the corporation's activities

The Group's activities in the various segments are subject to the general provisions of the law and also to the provisions of the law which apply to each operating segment, as described above.

Along with the general laws, insurance and pension savings activities in Israel, which is the main component of the Group's activities, are subject to unique laws which apply to the branch, including the Insurance Law, the Insurance Contract Law, the Provident Funds Law, the Pension Advice Law and regulations enacted pursuant thereto, and also to principle rulings of the courts, which affect activities in insurance and pension savings in Israel, including as regards the interpretation of the aforementioned laws and regulations.

Insurance and pension savings activities in Israel are also subject to the oversight of the Capital Markets, Insurance and Savings Authority, and the Commissioner is the figure authorized to establish provisions and guidelines.

The member companies in the Group are overseen by various oversight authorities, including the Commissioner, who oversees the activities of the institutional entities and the insurance agencies in the Group. Additionally, the Company and Clalbit Finance are overseen by the Israel Securities Authority. Member companies in the Group are exposed, from time to time, to administrative enforcement proceedings and to the imposition of fines. For additional details, see Note 42(d) to the financial statements. The Group's member companies are also exposed to class actions on various matters arising from the provisions of the law, which apply to the institutional entities, including those which are included in this chapter, and those which are included in other chapters in the report regarding the description of the corporation's business. For details regarding class actions which were filed against institutional entities in the Group, see Note 42(a) to the financial statements.

As part of the enforcement program, the Company performs, since 2012, gradually and in different segments, compliance gap surveys, in which deficiencies are identified which the Company works to regulate, within the framework of action plans which are determined by it.

Presented below is a summary of the provisions of the law and the final circulars which were published during and after the reporting year, as well as a summary of drafts which were published by the Commissioner, which apply to the activities of the Group's member companies and which are material to their activities, in addition to the laws specified in the description of the operating segments, and additional sections above and below. For details regarding the regulatory restrictions which apply to the Group's institutional entities, in connection with the capital requirements and the requirements regarding the control of the Company, and for details regarding industry-wide decisions of the Commissioner, see Notes 16(d)(e) and (f) and Note 42(d) to the financial statements.

10.2.1. Provisions regarding equity requirements and dividend distribution

• **Provisions of the economic solvency regime**

For details regarding the final instructions for the implementation of the new Solvency II-based economic solvency regime for insurance companies, see Note 16(e)(3) to the financial statements.

In December 2017, a circular was published on the subject of “**Structure of required disclosure in periodic reports and websites of insurance companies regarding the Solvency II-based economic solvency regime**”. The circular sets forth the structure of disclosure regarding the results of the economic solvency ratio calculation, in a report on the matter. The report will be published on the websites of the insurance companies beginning with the calculation with respect to December 2017, and will be attached to the periodic report beginning with the calculation based on the data for December 2019. The circular also establishes the structure of disclosure in the financial statements and the board of directors' report. The circular also specifies provisions pertaining to a reduction of the timetable for calculation of the economic solvency ratio, according to which, beginning with the calculation on the data for December 2018, disclosure will be given regarding the calculation results as part of the next financial statements subsequent to the calculation date, and it was also determined that the calculation results will be audited or reviewed, as applicable, beginning with the calculation on the data for December 2018.

In March 2018, a position of the Commissioner regarding the “**definition of recognized capital and required capital in hybrid capital instruments**” was published. The position includes an interpretation of terms which appear in hybrid capital instruments which were issued by Clalbit Finance in the past, for the purpose of fulfilling the minimum equity requirement, in light of the entry into effect of the economic solvency regime. The Commissioner's position is that, after the cancellation of the Control of Financial Services Regulations (Insurance) (Minimum Equity Required of Insurer), 1998, and with respect to insurance companies which received the Commissioner's approval for the performance of an audit on the implementation of the provisions of the economic solvency regime, the appropriate interpretation of the terms specified below, with respect to suspending circumstances, will be as follows: the term “equity” will be interpreted according to the definition of the term in the instructions for the implementation of the economic solvency regime; the term “required capital” will be interpreted according to the definition of “minimum capital requirement” (MCR) in the provisions of the economic solvency regime, in its upper limit (45% of SCR), and calculated without the distribution provisions, and without the stock scenario adjustment. Additionally, according to the position paper, until the receipt of the Commissioner's approval regarding the performance of an audit of the adoption of the provisions of the economic solvency regime - the terms will be interpreted according to the provisions of the circular “provisions regarding an insurer's solvency equity”, which set forth, insofar as is possible, the current arrangements in the Capital Regulations which pertain to the solvency equity requirement.

- **Capital requirements**

For details regarding the Draft Control of Financial Services Regulations (Insurance) (Minimum Equity Required to Receive Insurer License), 2017, and the circular regarding “required equity for solvency purposes”, see section 10.3.1.2 below and Note 16(e) to the financial statements.

- **Letter from the Commissioner regarding dividend distributions by insurance companies**

For details regarding a letter from the Commissioner with respect to dividend distributions by insurance companies, which pertains to restrictions on dividend distributions as a function of the solvency ratio, see Note 16(e)(4) to the financial statements.

10.2.2. Reporting to the Commissioner

In December 2017, an amendment was published to the provisions of the consolidated circular regarding reporting to the Commissioner - EV report file (embedded value report), which primarily includes the cancellation of the obligation to report to the Commissioner and to the public the embedded value of insurance business operations (life and health insurance), and the application of the obligation to report to the Commissioner (but not to the public) the embedded value of pension business operations (new pension funds only), which will be calculated according to the data as of December 31 of each year.

10.2.3. The Law to Promote Competition and Reduce Concentration, 2013 (the “**Concentration Law**”)

In December 2013, the Concentration Law was published. The Concentration Law is intended to reduce the level of concentration in the Israeli economy through several central processes which will enter into effect gradually in the coming years, including, inter alia, the imposition of restrictions on incorporation through a pyramid structure (control by a reporting corporation of one or more reporting corporations), and the imposition of increased corporate governance rules on pyramid companies; separation between holding of significant real operations and significant financial operations, as defined in the law; and the establishment of a mechanism for an "insurer with no controlling shareholder", and establishment of provisions regarding the appointment, tenure and discontinuation of tenure of directors in the aforementioned insurer;

Presented below are details regarding the main provisions of the Concentration Law which may affect the Group:

- Restrictions on control of reporting corporations through a pyramid holding structure - The provisions of the Concentration Law impose restrictions on the holding of "tier companies", i.e., of companies which constitute reporting corporations (as this term is defined in the Companies Law) through a pyramid structure. As of the present date, IDB Development is considered a "first tier company", the Company is considered as "second tier company", and Clalbit Finance - a reporting corporation controlled by Clal Insurance - is considered an "other (third) tier company", as these terms are defined in the Concentration Law.
- Prohibition against control and restrictions on cross-holding of a significant real corporation and a significant financial entity -
 - As of the reporting date, in accordance with the list which was published by the committee to reduce concentration, the Company is considered a concentration entity, and by virtue of the fact that it is controlled by IDB Development, which is a significant real corporation, the Company is also considered as a significant real corporation. Clal Insurance, Clal Provident Funds and Atudot Havatika are also considered concentration entities, and significant financial entities. Therefore, in accordance with the transitional provisions which were determined in the Concentration Law, beginning in December 2019, the continued control by IDB Development of real corporations may affect the ability of IDB Development to hold the control of the Company or to hold more than 10% of a certain type of means of control in the Company (or more than 5% of a certain type of means of control in the Company in case the Company is considered an insurer with no controlling shareholder). Additionally, due to the status of IDB Development as a significant real corporation, the foregoing affects its ability to appoint joint directors in the Company and in institutional entities in the Group and affects its ability to hold the control of Clal Insurance or to hold the means of control therein, as stated above, beginning in December 2019. Additionally, insofar as Clalbit Finance Ltd. will remain an other tier company, Clal Insurance will be obligated to transfer its shares in Clalbit Finance Ltd. to the Company or to a third party, or to merge Clal Insurance into the Company and Clalbit Finance into Clal Insurance, by the dates specified in the Concentration Law. The Company is working to implement the provisions of the Concentration Law, inter alia, in consideration of the Commissioner's directives in connection with the appointment of a trustee for the holding of the means of control of the Company by IDB Development, and the Commissioner's letters in this regard, as specified in Note 1 to the financial statements.
 - In accordance with the provisions of the Concentration Law, an institutional entity's holdings in a certain type of means of control of a significant real corporation may not exceed 10%. Notwithstanding the foregoing, the transitional provisions of the law determine that an institutional entity which, prior to the publication date, legally held the means of control of a significant real corporation, at a rate exceeding the rate specified in the law, will be entitled to continue holding the aforementioned means of control until December 10, 2019. According to the Company's estimate, and in light of the restrictions which apply to the activities of the Group's institutional entities, by virtue of the Investment Regulations, this provision does not significantly affect the investment activities of the Group's institutional entities.

- In accordance with the provisions of the Concentration Law, the holder of a permit for control of a managing company of provident funds, and the holder of a permit for control of an insurer which also manages a provident fund (which is not an annuity paying provident fund) will not receive an additional permit for the control of a managing company of provident funds except in accordance with the rules which were determined by the Commissioner. In January 2016, a draft circular was published which specifies the rules for the provision of a permit for control of a managing company of a pension fund, or a managing company of a provident fund, to an entity which already holds a permit for control of a managing company of this kind. The circular includes an exception regarding the requirement to receive a permit for control of a managing company only regarding old funds or managing companies of branch-based provident funds only. Accordingly, Clal Insurance is not required to merge the managing companies which it holds.

10.2.4. Proposed Restrictive Trade Practices Law

In February 2018, the ministerial committee on legislative affairs approved the Proposed Restrictive Trade Practices Law (Strengthening Enforcement and Increasing the Regulatory Burden), 2018, in which it is proposed, inter alia:

To increase the total preconditions for the submission of a merger request sent to the Commissioner for approval, pertaining to the combined sales turnover of the parties that wish to merge, from NIS 150 million to NIS 360 million; To add to the definition of a "monopoly holder" anyone who holds significant market power with respect to the provision or acquisition of assets or services; To lift the restriction on the maximum amount which can be imposed as a sanction on a corporation beyond the maximum rate of sanctions as a percentage of the corporation's sales turnover.

At this preliminary stage, the Company is studying the proposed law, and is unable to estimate its impact of the business activities, insofar as it is approved and becomes binding.

10.2.5. Draft update to the provisions of the consolidated circular - board of directors of institutional entity

On March 4, 2018, the Commissioner published a draft update to the provisions of the consolidated circular regarding the board of directors of an institutional entity, which determines provisions regarding the qualifications of the members of the board of directors and its committees, as well as their composition, roles, authorities, and manner of conduct, which replaces the provisions of the Control of Finance Services Regulations (Insurance) (Board of Directors and Its Committees), 2007, and other circulars. The draft includes the comprehensive regulation of rules and principles with respect to the work methods of the board of directors, inter alia, the draft specifies that the controlling shareholder may not serve as the chairman of the board, and that the chairman of the board may serve for a maximum period of up to 9 years, whereby, with respect to a currently serving chairman of the board, the tally of years will begin from the publication date of the circular. The draft circular determines that the board of directors will determine its desired composition, which, without the commissioner's approval, will not exceed 10 members, where a third of the directors will be independent, and whose terms will not exceed 6 years, and also sets forth provisions regarding the composition of the board of directors, the qualification of directors and the expertise which is required of them.

In accordance with the draft, the appointment of directors will be performed by a board of directors search committee, most of whose members will be independent, and in which the chairman will not serve as a member. It is further proposed that joint meetings will not be held for the board of directors of an institutional entity and the parent company of an institutional entity, and restrictions were established regarding the tenure of directors in institutional entities of the same group, including a prohibition against the tenure of a director in the institutional entity and in its controlling corporation, which is not an institutional entity.

In accordance with the draft circular, it is proposed to determine transitional provisions, according to which an independent director who duly serves in an institutional entity will be entitled to remain in his position until the renewal date of the next term. Insofar as his tenure will be renewed, subject to his fulfillment of the current provisions of the law, he may serve continuously until the end of nine years after the date of his initial appointment. A non-independent director, subject to his fulfillment of the current provisions of the law, may continue serving in the position until the end of eighteen months after the publication date of the circular.

The draft circular, insofar as it will be published as a binding circular, is expected to have implications on the composition of the Board of Directors of the Company and the Group's institutional entities, and on their work arrangements; however, at this preliminary stage, it is not possible to estimate the effects it will have on the Company and on the Group's institutional entities.

Institution for resolution of disputes

In January 2018, the **Draft Economic Plan Law (Legislative Amendments to Implement the Economic Policy for the Budget Year 2019), 2018 - Arbitration in Insurance** (the "Draft"), was published, in which it was proposed to establish, under the Capital Market, Insurance and Savings Authority, an institution for the arbitration of claims by policyholders, beneficiaries and third parties, who wish to exercise their rights in accordance with the terms of an insurance policy or in accordance with the relevant provisions of the law, towards supervised entities, after their claim has been rejected, completely or partially, by the overseen entity, or was not answered by it at all (provided that the claim is not based on the Road Accident Victims Compensation Law, or an insurance policy pursuant to the Motor Vehicle Insurance Ordinance, that the hearing of the claim before a court or arbitrator has not begun, that a determination has not been given by the Commissioner, that the claim does not raise any important or new legal question, or any complex factual question which the arbitrator believes should be heard by a court, and that the claimant has filed no more than three claims to the institution in the same year). The draft established, inter alia, conditions regarding the qualification of arbitrators within the framework of the aforementioned institution, provisions regarding the appointment of the arbitrators, designation of the activity and the arbitrators' term periods. The draft also includes provisions regarding the method for investigation of claims by the institution, according to which the investigation of claims must be done in a manner which is considered appropriate by the arbitrator, and that the arbitrator is not bound by the provisions of substantive law, legal procedures or the rules of evidence; The claim will generally be heard based on the claim documents and the written response of the overseen entity, unless the arbitrator believes that additional investigation is required, in the presence of the parties; The arbitrator's decision will be specified in writing; The arbitrator will be entitled to award compensation with respect to damage incurred by the claimant due to unreasonable conduct by an insurer; Appeals against the arbitrator's decision may be filed with the District Court only in the following cases: Unauthorized decision / deviation from authority, absence of right of claim, decision opposed to public policy, fundamental legal error in a claim which was heard in accordance with substantive law, grounds which would have led a court to revoke a final ruling, insofar as the arbitrator identified not accept the appellant's request to hear the claim in accordance with substantive law - existence of an unreasonable difference between the decision, and the decision which would have been reached in accordance with substantive law. The court hearing the aforementioned appeal will have the authorities of the court which hears the claim for the first time, if it believes that, in the absence of such authority, it will not be possible to hear the appeal.

The draft was not included in the proposed law which was presented for the first reading in the Knesset in February 2018.

At this preliminary stage, Clal Insurance is unable to assess the full effects of the draft which will be accepted as a binding version, which could be significant, and will result, on the one hand, in increased efficiency of claim processes, and on the other hand, in a comprehensive increase in claim settlement costs.

The information presented with respect to the draft law constitutes forward looking information, which is based on assumptions and estimates of the Group, as of the publication date of the report. Actual implications may differ significantly from the forecast, in light of the preliminary status of the published draft, and due to the uncertainty regarding the manner in which the provisions of the draft will actually implemented, if and insofar as they are accepted, and its implications on claim settlement processes.

10.2.6. Circular regarding the addition to insurance plans

In January 2018, a **draft amendment to the Addition To Insurance Circular** was published, in which the Commissioner set forth provisions regarding the regulation of the conduct of insurance companies and insurance agents when adding a potential policyholder to an insurance plan. The aforementioned draft includes

a proposal to expand the insurance adjustment process, as specified in the addition to insurance circular, and to determine that, as part of the aforementioned process, an evaluation will be performed regarding the insurance products which are available to the customer, by running a query on the website "Insurance Mountain", which allows the receipt of information regarding the policyholder's other insurance policies, also in other companies, in order to prevent a situation wherein products are offered to the policyholder which are similar to the products which he currently has, and which he does not need. Excluding with respect to marketing initiated by the insurer, the obligation to investigate requirements in the Insurance Mountain will not apply in case the insurance applicant has refused to give such permission, and has refused to give information regarding the insurance products which he currently has. It is further proposed to obligate the insurance agent to submit the policyholder's contact details to the insurance company, in order to allow the insurance company to fulfill its obligations with respect to informing the policyholder. Additionally, it is proposed to prohibit for insurance companies to add an insurance applicant to a policy which covers a similar insurance event, in case of insurance which is covered in a policy which he already has, in order to prevent a case of double insurance, of which the applicant is not aware, except for several exceptions which were determined regarding this case.

According to the assessment of Clal Insurance, the draft amendment to the addition to insurance circular may make sale processes more complex, and particularly, the process of initiated marketing by the insurer, and telephone sales, and may increase the competition in the segment, and affect the policy retention and renewal processes.

The information presented on all matters associated with the possible implications of the addition to insurance circular constitutes forward looking information which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, due, inter alia, to the uncertainty regarding the final wording of the amendment to the circular, and the conduct of competitors, agents and customers.

10.2.7. Cancellation of insurance policies

In February 2017, a circular regarding the cancellation of insurance policies was published, which determines a uniform provision regarding the obligation of the insurance companies to allow policyholders to cancel the insurance policies which they hold, by various means, and determines provisions with respect to the actions which are required to effect the cancellation. Inter alia, the circular determines that in case a policyholder wishes to cancel an insurance policy, the Company is required to specify for them all policies which they have in the Company. The circular entered into effect in July 2017.

The circular may result in an increase in the scope of requests for the cancellation of insurance policies.

The information presented on all matters associated with the circular regarding the cancellation of insurance policies constitutes forward looking information, which is based on the Company's estimates and assessments, and actual results may differ significantly from the forecast, inter alia, due to the preliminary nature of the arrangement, and its impact on the conduct of policyholders.

10.2.8. Annex to the circular regarding the investigation and settlement of claims and the handling of public inquiries

In September 2016, most of the provisions of the annex to the circular regarding the investigation and settlement of claims and the treatment of inquiries September (hereinafter: the "Annex" and the "Claim Settlement Circular", respectively). The annex, which is intended to constitute an inseparable part of the claim settlement circular, includes detailed provisions regarding claim settlement, which are required for implementation during the claim settlement process.

In March 2017, an amendment was published to the annex, including provisions according to which, as part of the approval regarding the receipt of documents in claims for insurance benefits, the insurer must specify, to the policyholder, the additional policies which the policyholder holds at that insurer, as well as provisions regarding the insurer's obligation to work to obtain information which is relevant to the settlement of the claim, if the information that it has indicates that additional information exists which is required in order to

settle the claim in question. It was further determined that the institutional entity will not influence, directly or indirectly, the professional judgment of a physician or nurse on their behalf.

Additionally, in February 2017, a position of the Commissioner was published regarding a “**clarification with respect to the re-evaluation of eligibility**”, which mostly involved the determination that an insurance company which approved a claim for periodic insurance benefits for a short period out of the maximum eligibility period in the policy, must initiate a re-evaluation of the claimant's eligibility to insurance benefits before the end of the approved period (hereinafter: the “**Position Paper Regarding Re-Evaluation**”). For additional details regarding the amendment to the annex to the claim settlement circular, and regarding the Commissioner's position - clarification regarding re-evaluation of eligibility, see Notes 42(a4)(2) and 42(d)(3) to the financial statements.

During the reporting year, the aforementioned provisions has no significant impact on Clal Insurance. However, over the long term, the aforementioned amendment to the claim settlement circular may have an impact on the claim settlement process in its entirety, both from the operational perspective, and on all matters pertaining to claim settlement, inter alia, in light of the increased obligations which apply to the insurance company with respect to the collection of information, with respect to the response of policyholders, and with respect to the dealing with the claims and their effect on the claim settlement method with respect to the relevant population group, both specifically and systematically. At this preliminary stage, the Company is unable to estimate the entire impact of the aforementioned amendments.

The information presented on all matters associated with the possible implications of the aforementioned amendments constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, due to the preliminary stage of the amendments which were published, and due to the uncertainty regarding the method of actual implementation, and their implications on the claim settlement process, with respect to insurers and policyholders, and cumulative costs.

For details in connection with the amendment to the provisions of the consolidated circular regarding the settlement of long-term care claims, see section 8.1.2(2) above.

10.2.9. Circular regarding the implementation and methods for marketing of service letters

In January 2018, a draft amendment to the service letters circular was published, which determined provisions and rules regarding the implementation and methods for marketing of service letters, in which it is proposed to determine that the non-provision of an option to purchase insurance policies without service letters and/or cancellation of a discount on the policy which is purchased without service letters, will be viewed as a prohibited condition. It is further proposed to determine that the commissions of insurance agents with respect to the sale of insurance policies will not be affected by the sale of the service letters which are marketed by the insurance company. It is also proposed to obligate an insurance agent who markets external service letters to policyholders (which are sold by an entity other than the insurer), to present to the policyholder the service letter which is marketed by the insurance company from which the insurance policy was purchased, and the differences between the service letters, including as regards the terms of service, and the price. The aforementioned draft amendment comes in place of a draft position of the Commissioner from August 2017, regarding the findings of an evaluation with respect to the implementation and methods for marketing of service letters.

10.2.10. The Insurance Contract Law

In November 2016, an amendment to the Insurance Contract Law was approved, which increased the special interest rate which a competent court is authorized to rule if an insurance company has not paid the insurance benefits which were not under dispute in good faith, up to 20 times the interest rate prescribed in the Adjudication of Interest and Linkage Law, as compared with 3 times the aforementioned interest rate, which applied prior to the amendment (“**Special Interest**”). Additionally, the aforementioned amendment expands the types of insurance regarding which the Court is obligated to charge special interest, in such cases, also with respect to illness and hospitalization insurance (which includes long-term care insurance) and compulsory motor insurance.

In April 2017, an additional amendment to the law was approved, whereby the special interest with respect to long-term care insurance will be at a rate of no less than 10 times, unless the court has determined a lower rate, for reasons which will be specified.

The aforementioned amendments to the Insurance Contract Law may result in an increase in claim settlement costs.

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

10.2.11. Circular regarding customer service in institutional entities

In February 2018, a **draft amendment was published to the circular regarding customer service in institutional entities**, which is intended to improve the quality of service given to customers of institutional entities. The draft sets forth, inter alia, provisions regarding details of which must be included in notices sent by an institutional entity to customers (and particularly, notices regarding financial charges); A prohibition against the transfer, by an institutional entity, of information regarding a customer to a third party, receipt of approval the customer's consent; A requirement to provide human telephone response to customers within 3 minutes, given by a representative who speaks the customer's language (as a minimum, Hebrew, Arabic or Russian); A requirement stipulating that an institutional entity must respond to the customer using the means of communication by which the customers contacted it, unless requested otherwise by the customer; A requirement to document telephone calls with customers, and to offer customers the option to receive documentation of the call.

The Company is studying the provisions of the draft.

10.2.12. Digitization

For details regarding the implementation of various provisions with respect to the obligations of institutional entities in connection with digitization, see section 10.10.3.3 below.

10.3. Barriers to entry and exit

10.3.1. Presented below are details regarding the main barriers to entry in the Company's main operating segments:

10.3.1.1. **Licensing obligation and permit requirement**

- (A) The engagement in insurance requires a license, in accordance with the Insurance Law and the Provident Funds Law, and is overseen by the Capital Markets, Insurance and Savings Authority in the Ministry of Finance. The insurers and the managing companies of pension funds and provident funds in the Group are obligated to receive a license from the Commissioner.

A managing company of an annuity paying provident fund is also required to receive an insurer license in accordance with the Insurance Law, and the aforementioned insurer license will be considered as a managing company license with respect to all of the provident funds which are managed by it. As part of the products reform, it was determined that a managing company to which an insurer license has been given, as stated above, is currently entitled to manage all types of provident funds (both paying and non-paying), excluding insurance funds. A managing company may manage one comprehensive new pension fund which is entitled to designated bonds, one new general pension fund which is not entitled to designated bonds, one old pension fund and provident funds. In the Concentration Law, it was determined that any entity which has a permit for the control of a managing company which is entitled to manage a pension fund or provident funds and study funds, will not be given an additional permit to control a managing company other than in accordance with the rules determined by the Commissioner. A managing company may engage in another segment which pertains to a pension

product that was approved by the Commissioner, subject to the approved terms, provided that the engagement is regulated in accordance with the provisions of the Provident Funds Law, the Insurance Law or the Pension Advice Law. Additionally, any provident fund which is managed by a managing company requires approval for the management of a provident fund, which must be renewed annually. For details regarding the provisions of the Concentration Law and the circular regarding rules for the issuance of a permit for control of a managing company, see sections 6.2 and 10.2.3 above.

Clal Pension and Provident Funds and Atudot Havatika hold an insurer license in the pension fund branch, in accordance with the Insurance Law, as well as approvals for the management of the provident funds which are managed by it.

- (B) The holding of more than five of a certain type of means of control of an institutional entity is conditional upon the receipt of a permit for the holding of means of control from the Commissioner, and the control of an institutional entity or insurance agency also requires a permit from the Commissioner, inter alia, in accordance with the provisions of the policy document regarding control of an institutional entity, from December 2014, which were published by it. For details on this subject, see Note 1(b)(2) to the financial statements. Following the transfer of the control shares in the Company to the trustee and the debt settlement in IDB Holding Corporation Ltd., the control of the Company is regulated in accordance with the Commissioner's letters, as specified in Note 1(b)(1) and (2) to the financial statements. The status of the Company's control permits, and the regulation methods thereof, may affect, from time to time, the ability to implement changes to the required regulatory permits.
- (C) For details regarding the restrictions on control and holding which were determined by virtue of the Concentration Law, inter alia, regarding the separation between the holding of significant real operations and significant financial operations, and the imposition of restrictions on the holding of more than one insurer or more than one managing company, see section 10.2.3 above.

10.3.1.2. **Capital requirements**

For the purpose of engagement in insurance operations, member companies of the Company's group are required to fulfill capital requirements. For details regarding the regulatory capital requirements which apply to member companies in the Group, and the companies' fulfillment thereof, see Notes 16(e) and 16(f) to the financial statements. For an update regarding the status of an undertaking of the shareholders in Clal Pension and Provident Funds and Clal Credit Insurance to maintain and supplement equity, see Notes 16(e)(6) and 16(e)(7) to the financial statements.

In July 2017, the **Draft Control of Financial Services Regulations (Insurance) (Minimum Equity Required to Receive Insurer License), 2017** was published, which primarily involves cancellation of the **Control of Financial Services Regulations (Insurance) (Minimum Equity Required of Insurer) Regulations, 1998**, in their current version, and regulation of the minimum equity required to receive an insurance company license. According to the draft, it is proposed to determine the minimum level of Tier 1 capital which is required to receive a license in branches which are characterized by long insurance periods and claim periods (life, long term health and liabilities insurance), in the amount of NIS 15 million (as compared with NIS 52 million today), and minimum Tier I capital for the receipt of a license in the branches which are characterized by short claim periods (non-life insurance and short-term health insurance), in the amount of NIS 10 million (as compared with a total of NIS 59 million today).

Insofar as the Draft Regulations are published as a binding version, they are expected to increase competition in the insurance market, due to the reduction of the equity requirement required to receive an insurance company license. The Company is unable to predict the full implications of the aforementioned draft.

10.3.1.3. **Minimum size**

In order to cover the high fixed operating costs which are involved in the management of financial assets, the Company is required to maintain a sufficient scope of policies and managed assets.

10.3.1.4. **Additional barriers**

- (A) The ability to acquire adequate protection from reinsurers.
- (B) Organizational, automational and operational infrastructure, in consideration of the complexity of the products and of their operation, as well as regulatory changes.
- (C) A broad and skilled distribution network.
- (D) In the non-life insurance segment, a company which is active in the credit and foreign trade risks insurance branches must engage in that branch exclusively.
- (E) In recent years, the Commissioner performed several actions in an effort to lessen the barriers to entry in the segment. For additional details, see section 6.2.3(a) above, with respect to the default pension fund, and section 8.1.2(1c) above regarding the 2015 Economic Arrangements Law. For details regarding the minimum requirements, see section 10.3.1.2 above.

10.3.2. Presented below are details regarding the main barriers to exit in the Company's various operating segments:

10.3.2.1. In the life insurance branch, in some of the products in the non-life insurance branch, in the long term care branch and in some of the products in the illness and hospitalization branch, the discontinuation of operations in long tail claim policies may take many years, until all of the claims are settled with respect to policies which were sold in the period prior to the discontinuation of the operation, and until all of the rights of policyholders and/or members have been exercised (run off), or until the operation has been sold.

10.3.2.2. The Commissioner has the authority to order an insurer that wishes to liquidate or dissolve its insurance business operations to act in a certain way regarding the dissolution of its business operations, and also has the authority to petition the Court with a motion requesting that the liquidation be implemented by the Court or under its supervision.

10.4. **Critical success factors**

Success factors which are common to all of the Group's operating segments

According to the Group's estimate, the critical success factors which are common to all of the Group's operating segments include:

- The mix of the policyholder portfolio, retention of the portfolio and recruitment of new policyholders and members, while maintaining profitability;
- The ability to adjust to changing market conditions, regulatory changes, competitive conditions and reduced profitability, including by way of changes in products, marketing, service, pricing, the amount of management fees, and the ability to adjust the automation systems and automation and operation processes;
- The quality and professionalism of underwriting and claim settlement, including broad claims;
- Service quality, including as regards claim settlement and the option to provide, on the level of the Group, combined solutions for all of the customers' needs, while creating a synergy between the Group's member companies;
- The ability to develop and implement advanced digital tools in case of sale and service;
- Efficiency of operations and quality of IT and automation systems;
- Investment income, returns in managed portfolios, the state of the capital market and interest terms;

- The capital management ability in the various operating segments, and efforts to improve it;
- Actuarial ability to support the business policy, to perform high-quality, current pricing, and to conduct high-quality calculations regarding the required reserves;
- Retention and development of high-quality human resources;
- The ability to develop and maintain the distribution channels, including by way of recruiting and retaining high-quality agents, at a reasonable commission rate, and development of the independent sales arm;
- The quality of reinsurance agreements, and the stability of the system of relationships with the reinsurers over the years;
- The quality of risk management and internal monitoring and control.

10.5. Investments

10.5.1. Assets managed in the Group

Presented below are details regarding the types of assets which are managed by institutional entities in the Group:

- A. The nostro assets of the institutional entities in the Group (Clal Insurance, Clal Pension and Provident Funds, Atudot Havatika, Clal Credit Insurance, as well as the Company's assets) - (A) Assets held against equity and other liabilities; (B) Assets held against liabilities in non-life insurance; (C) Assets held against liabilities in non investment-linked life insurance; and (D) Assets held against non investment-linked liabilities in long term care, health and loss of working capacity insurance.

The insurance companies in the Group bear the risks associated with the nostro assets. However, some of the liabilities in life insurance with respect to guaranteed return policies are backed by designated bonds. See section 6.1.1.2 above.

- B. **Assets of investment-linked liabilities in Clal Insurance** - Assets held against liabilities in life insurance and in long term care and loss of working capacity insurance with respect to various types of various types. The business results in connection with these assets are included in the calculation of the liabilities to these policyholders. In general, the calculation of policyholders' rights is performed net of management fees and expenses, in accordance with the policy provisions. For details regarding the Company's income from management fees, see Note 30 to the financial statements.

The nostro assets and the investment-linked liabilities of the insurance companies in the Group which are managed by the Group are listed in the balance sheets of the insurance companies.

- C. **Provident funds and pension funds** - Assets of the pension funds and provident funds which are managed by the managing companies in the Group (Clal Pension and Provident Funds and Atudot Havatika) - the assets of members of pension funds and provident funds are managed in trust by managing companies. Net results, after deducting management fees and expenses, in connection with the assets of the pension funds and provident funds are charged to the members. The assets of pension funds and provident funds are not listed in the balance sheets of the managing companies, except for the assets of Bar Gemulim Provident Fund Ltd., which includes a guaranteed return track ("**Bar A**") under which Clal Insurance guarantees returns to its members. See Note 42(f)(2)(a) to the financial statements. Some of the assets of members in the comprehensive pension fund which is managed by Clal Pension and Provident Funds and Atudot Havatika are backed by designated bonds. For details on this matter, see section 6.1.1.2 above.

For details regarding the distribution of managed assets in each of the institutional entities in the Group, see section 10.5.6.1 below.

D. Managed assets in the Group which include guaranteed returns or a guarantee regarding the amount of nominal deposits

Some of the Group's savings products include a commitment to guaranteed returns. Presented below are details regarding the material guaranteed return liabilities of the Group's member companies, as stated above:

- In policies which were sold until the end of 1990, returns for policyholders in life insurance policies with a savings component were determined as a guaranteed rate ("**Guaranteed Return Policies**"). The rate was changed according to the policy type and issuance date. The commitment to a rate of return is primarily backed by designated bonds, the balance of invested assets in accordance with the restrictions specified in the Investment Regulations.
- In most of the savings policies which were sold by Clal Insurance since 1991, the returns are credited to the policyholder in accordance with the results of the investment portfolio, after deducting management fees and expenses ("**Investment-Linked Policies**"). However, in a small part of the policies, returns are guaranteed at a rate which is guaranteed to policyholders, without the backing of designated bonds, for a period of 10 years after the joining date.
- As part of the acquisition of the provident fund Bar A, Clal Insurance accepted an obligation to minimum guaranteed annual returns for all assets invested in Bar A (real net returns of 5.5%, in accordance with the terms specified in the fund regulations). This undertaking is backed by an undertaking of the Accountant General for real guaranteed returns at a rate of 5.95% per year, on 89% of the assets, while the other assets are invested in accordance with the Investment Regulations.
- Additionally, in some of the funds which are managed by Clal Pension and Provident Funds, Clal Insurance and/or Clal Pension and Provident Funds provided guarantees with respect to members who joined the funds by certain dates and with respect to deposits which were deposited by those members by certain dates, as specified in the fund regulations, guaranteeing that the amount which will be paid to members will be no less than the amount of deposits which were paid by those members, or on their behalf, subject to the terms set forth in the regulations of the aforementioned funds. Over the years, the aforementioned guarantees were discontinued with respect to funds which were deposited, from a certain date and thereafter. Significant negative returns may result in paid charges by virtue of the guarantee. In consideration of the cumulative returns in the aforementioned funds, particularly from the date of discontinuation of the guarantee, the exposure to such payment is estimated as low.

The Company's estimate with respect to the aforementioned guarantees constitutes forward looking information, which is based on the information which is available to Clal Insurance and Clal Pension and Provident Funds as of the reporting date. Actual results may differ from the estimated results, and depend, inter alia, on the development of market conditions, members' accrual, and the achieved returns.

Most of the assets which are held against guaranteed return liabilities are managed within the framework of the nostro portfolio.

10.5.2. Total managed assets for the nostro portfolio and for members/policyholders of the Group's institutional entities, as of December 31, 2017 (NIS millions):

Institutional entity	Nostro	Investment-linked funds
The Company	43	
Clal Insurance	32,313	63,630****
Clal Credit Insurance	279	-
Clal Pension and Provident Funds - pension funds*	167	51,666
Clal Pension and Provident Funds - provident funds*		33,619**
Atudot Havatika ***	24	10,084
Total	32,826	158,999

* Data regarding the equity of the aforementioned managing companies of provident funds and pension funds are audited.

** Including provident funds owned by Clal Insurance, and including guaranteed return provident funds.

*** The data refer to all of the fund assets, and are not audited.

**** Including funds managed for the health funds Leumit and Maccabi Health Services, within the framework of the policyholders fund, as specified in section 8.1.2(2) above, in the amount of NIS 3,244 million, as of the publication date of the report.

10.5.3. Investment management of institutional entities

A. Investment management companies

The investment activities of the Group's institutional entities are primarily performed through Canaf - Clal Financial Management Ltd. ("Canaf"), which is a subsidiary of Clal Insurance. Canaf manages the nostro funds of the insurance companies and the managing companies in the Group, and manages the investments of assets of investment-linked liabilities and assets of members of pension funds and provident funds in the Group.

Canaf has separate (designated) investment teams for the management of nostro funds and the management of members' funds, which are assisted by the various adjunct units in the Group: research, strategy, private credit and infrastructure, alternative assets, private investments, real estate, treasury, middle office, legal, control and investment accounting.

Additionally, some of the foreign investing activities are performed with the assistance of external consultants and investment managers.

B. Investment management policy

The funds of the Group's institutional entities are managed subject to the provisions of the Investment Regulations and the Commissioner's directives, as applicable, in accordance with the general investment policy which is determined by the board of directors of the insurer and/or the managing company, and in accordance with the instructions and supervision of separate, independent investment committees in accordance with the companies and the types of managed funds. The Company's board of directors approves the general investment policy for the managed portfolios. As part of the above, the board of directors approves exposure frameworks to the various investment channels, in each of the managed portfolios, as well as the hierarchy of authorities for the approval of various investments. As part of the general investment policy, the board of directors instructs the investment committees to determine a specific investment policy in accordance with the general investment policy which is determined by the board of directors, for each of the various institutional entities and investment tracks, in consideration of, inter alia, the restrictions which apply to the

track in accordance with the law and/or in accordance with the policy terms and/or in accordance with the provident fund regulations, and in consideration of the specific characteristics of the tracks, including the expected development of the assets portfolio, expected cash flows and average lifetime, early redemption risks, and more. The investment committees establish the detailed investment policy, as stated above, for each fund and track separately.

As part of the investment policy, the board of directors and investment committees also approve a credit policy for the purpose of managing the credit assets of the managed portfolios. The credit policy includes the determination of work processes, hierarchy of authorities and exposure policy in the credit portfolio, with reference, inter alia, to the maximum exposure limits to a single borrower, to a group of borrowers, to a particular branch, etc.

The investment policy for managed portfolios is evaluated on a routine basis as part of the discussions of the investment committees. Additionally, the middle office, control and risk management units routinely supervise the investing activities, with an emphasis on the scopes of activities, the exposure rates in each type of investment channel, the fulfillment of the restrictions of the investment and credit policy, and the provisions of the law.

The nostro portfolios are managed in a manner which will allow servicing of the Company's liabilities, in consideration of, inter alia, the average lifetime of the liabilities, the linkage basis, the currency, the accounting reporting rules and the timing of cash flow in the short term. The investment policy is based on an evaluation of the overall correspondence and management of the risk, relative to the Company's capital and capital surplus.

The members' portfolios are managed, inter alia, in light of long term considerations, in order to achieve maximum returns for members, in consideration of the risk level of the various investment assets, and considerations involving the portfolios' liquidity.

During the reporting period, the Company continued developing its portfolio of non-marketable investments, including real estate, private loans, equity and debt for infrastructure in Israel and abroad, inter alia.

For details regarding the distribution of managed assets in each of the Group's institutional entities as of December 31, 2017, see section 10.5.6.1 below.

In accordance with the Commissioner's directives, the Group's institutional entities publish their declarations regarding the investment policies of members and policyholders funds on their websites.

Declarations regarding the specific investment policy for 2017 and 2018 were published in January 2017 and January 2018, respectively, on the Company's website, at:
<https://www.clalbit.co.il/clalins/channelsdonation/Pages/default.aspx>.

C. Investment committee, credit sub-committee and internal credit committee

Investment committees - In accordance with the Insurance Law, Clal Insurance has two investment committees: an investment committee for the investment of funds to cover investment-linked liabilities, and an investment committee for the investment of the equity and other liabilities of the insurer, and for the investment of funds to cover insurance liabilities which are non-investment-linked liabilities ("Nostro"). Clal Credit Insurance has a separate nostro investment committee.

Each of the managing companies in the Group (Clal Pension and Provident Funds and Atudot Havatika) has an investment committee for the management of members' funds and a nostro investment committee.

The investment committees each determine, separately and independently, an investment policy as part of the overall investment policy which was approved by the board of directors, approve transactions in accordance with the hierarchy of authorities which was determined by the board of directors, and fulfill additional roles, in

accordance with the provisions of the law. As part of the foregoing, the investment committees determine the strategy and the specific investment policy in the asset portfolios. Additionally, the investment committees supervise the implementation of the policy, and adjust the structure of the portfolio in accordance with market conditions, within the framework of the investment policy.

The implementation of the guidelines of the investment committees and the actual performance of investments is performed in a separately and distinct manner by the relevant investment managers.

As of the publication date of the report, the investment committee of Clal Insurance in the nostro portfolios is comprised of Board members of Clal Insurance and the CEO of Clal Insurance, and convenes at least once per month. The investment committees in members' portfolios include a majority of external members, and convene at least once every two weeks.

Additionally, in accordance with the provisions of the law, a member may not be appointed, and may not serve as a member of the investment committee, if his roles or other activities create, or may create, a conflict of interest, or have the potential to detract from his ability to serve as such a member and with respect to an external representative in an investment committee, or anyone who is a relative of the controlling shareholder, or anyone who has, or whose relative, partner, employer, or direct or indirect superior, or any corporation of which he is a controlling shareholder, on the appointment date on during the two years preceding the date of the appointment, an affinity with the Company, to the Company's controlling shareholder, or to a relative of the controlling shareholder, as of the date of the appointment, or to another corporation ("Affinity" - as defined in section 240(B) of the Companies Law).

Members' investment committee - In September 2017, the **Draft Control Financial Services Regulations (Provident Funds) (Investment Committee), 2017**, was published. The draft includes several changes on matters associated with the composition, appointment, qualifications and work methods of committees for the investment of members' funds, as compared with the law which currently applies, including a demand for all members to be external representatives; some of the preconditions for qualification for appointment as an investment committee member were changed; provisions were determined which are intended to ensure the independence of an investment committee member; rules were established regarding the prohibition of cross-tenure in an institutional entity and in a financial entity; it was determined that a search committee will be created which will recommend to the board of directors candidates for the candidate of investment committee member; it was determined that the appointment term of an investment committee member will be 6 years, and that the member cannot be re-appointed, and additionally, provisions were determined regarding the work methods of the investment committee.

Nostro investment committee - In February 2018, a draft circular was published regarding **non-investment-linked investment committees**. The draft circular regulates various aspects pertaining to the work method of a nostro investment committee, including on the following subjects: the number of members; Minimum conditions for qualification; Functions and work methods of the committee.

Credit sub-committee: In accordance with the Commissioner's directives, the investment committees, with the approval of the boards of directors of the Group's institutional entities, appointed a joint credit sub-committee for the Group's institutional entities (the "**Credit Sub-Committee**").

The credit sub-committee is comprised of members who have proven expertise and experience in the credit segment. The credit sub-committee includes external representatives only.

The credit sub-committee is responsible for overseeing the implementation of the policies determined by the board of directors and the investment committees regarding the provision of credit, for approving the provision of credit in accordance with the hierarchy of authorities, and for reaching decisions regarding the methods used to handle troubled debts, in accordance with the hierarchy of authorities.

Internal credit committee - In accordance with the Commissioner's directives, the institutional entities in the Group appointed an internal credit committee which is comprised of managers in Canaf, whose functions

include: approving the extension of private loans from the nostro assets, providing recommendations regarding the provision of private loans, and the handling thereof, and approval of immaterial amendments to private loans, in accordance with the hierarchy of authorities.

10.5.4. Restrictions, legislation, standardization, circulars and special constraints which apply to investment management in the institutional entities

The investment management of institutional entities is subject to the provisions of the law which apply to insurers and to pension funds and provident funds, including the Commissioner's directives, as published from time to time.

As part of the above, the investment activity is primarily subject to the Investment Regulations, to Chapter 4 of the consolidated circular - management of investment assets (the "**Consolidated Circular**") and to the provisions of the circular regarding investment rules which apply to institutional entities (in this section: the "**Circular Regarding Investment Rules**"). The Investment Regulations, the consolidated circular and the circular regarding investment rules regulate most of the provisions of the law which apply to the investments of an institutional entity.

10.5.4.1. **The Investment Regulations, the consolidated circular and the investment rules (in this subsection: the "Provisions Of The Law") -**

The provisions of the law establish the regulatory framework which applies to the investments of an institutional entity, and refer, inter alia, to the following subjects: **A.** Restrictions on exposure to a single corporation and a group of corporations, cumulative exposure to the five largest corporations and the five largest groups of corporations, as defined in the Regulations; **B.** Foreign investment in countries with a credit rating of (BBB-) or higher, or in OECD member countries; **C.** Restrictions regarding the holding of the means of control of a corporation - up to 20%, excluding partnerships and real estate corporations, regarding which permission is given for a holding rate of up to 49%, subject to certain restrictions, and according to the cumulative maximum scope which was set forth in law; **D.** A quantitative restriction regarding investment in land rights, out of the total assets of the institutional entity - up to 15%; **E.** A restriction regarding the rate of holding in marketable bond series - up to 25% of each series; **F.** Definition of related parties to the institutional entity, and imposition of restrictions on investments in such entities; **G.** Restriction on the provision of unrated loans; **H.** Regarding nostro portfolios - a requirement for the establishment of rules pertaining to the management of assets held against liabilities, including regarding the degree of correspondence between the average lifetime, liquidity rate and linkage terms of the investment assets, and the characteristics of the liabilities; **I.** Establishment of rules to correct active and passive exceptions from the provisions of the investment regulations, reports and sanctions.

10.5.4.2. **Restrictions on holding -**

In accordance with various laws, the Group's holdings in various corporations - both holdings in the nostro portfolio, and holdings for other parties (such as funds of investment-linked policies, provident funds and pension funds) - are included together with the holdings of the Group's controlling shareholders⁶¹, directly and/or indirectly, in those corporations (hereinafter: "**Aggregate Holding**"). Due to the current restrictions on holding in the law, with respect to corporations with certain operating segments (such as banking corporations, insurers, communication companies) and/or with respect to holdings in corporations which are related parties of the Group, the aforementioned aggregate holding may be restricted, and the Group may sometimes be

⁶¹ For details regarding the status of the control of the Company, see Note 1 to the financial statements.

prevented from increasing its holdings in the securities of those corporations, and may sometimes also be required to sell existing holdings, including out of the Group's holdings on behalf of other parties.

Additionally, in accordance with the provisions of the **Law to Promote Competition and Reduce Concentration, 2013**, an institutional entity's holdings in a certain type of means of control of a significant real corporation may not exceed 10%. Notwithstanding the foregoing, the transitional provisions of the law determine that an institutional entity which, prior to the publication date, legally held the means of control of a significant real corporation, at a rate exceeding the rate specified in the law, will be entitled to continue holding the aforementioned means of control until December 10, 2019. According to the Company's estimate, and in light of the restrictions which apply to the activities of the Group's institutional entities, by virtue of the Investment Regulations, this provision does not significantly affect the investment activities of the Group's institutional entities.

10.5.5. Presented below are details regarding the final material provisions of the law which were published during and after the reporting year, as well as the summary of material drafts which were published by the Commissioner, which apply to institutional entities in connection with the management of their investments:

10.5.5.1. **The Insolvency and Economic Rehabilitation Law Memorandum, 2018**

In March 2018, the Knesset passed the **Insolvency and Economic Rehabilitation Law, 2018** (the "**Law**") was published, which is intended to re-formalize laws regarding insolvency and rehabilitation and recovery proceedings. The provisions of the law come in place of a series of legal provisions which until now have regulated insolvency laws. The law formalizes, inter alia, the following subjects: (1) the definition of a corporation's insolvency; (2) The opportunities for entry into processes involving the rehabilitation and/or liquidation of a corporation; (3) The distribution of considerations between the various creditors; (4) Restriction of the power of floating charge holders, in a manner whereby they will be entitled to receive repayment of only 75% of the debtors which are subject to the floating charge, such that the unsecured creditors will receive greater repayment of the debt to them; (5) Prospective cancellation of some of the obligations; (6) The establishment of a special duty of care for directors and CEO's, in a situation where the Company is in a state of economic insolvency, but has not yet been declared as such in legal terms.

The law may have implications on all matters pertaining to loans which are given by institutional entities in the Group, primarily including loans secured by pledges, due, inter alia, to the prejudice caused to the rights of secured creditors in favor of unsecured creditors, within the framework of the provisions of the memorandum.

The Company's estimate in connection with the implications of the memorandum constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date. Actual results may differ from the estimated results, due, inter alia, to the decisions which will be reached in the Group's institutional entities regarding the provision of credit.

10.5.5.2. **The Draft Control of Financial Services Regulations (Provident Funds) (Purchase, Sale And Holding Of Securities)**

In July 2017, the Knesset Finance Committee passed an amendment to the **Control of Financial Services Regulations (Provident Funds) (Purchase and Sale of Securities), 2009**, which includes several amendments with respect to the principles and the methods used to conduct the competitive process which is required for implementation once every three years, between the brokers used by the institutional entities to purchase and sell securities on behalf of members' funds. Additionally, it was determined in the amendment that it is necessary to conduct competitive process, once every five years, among at least four participants, for the receipt of securities holding services (except through a global custodian), and additionally, a prohibition was established against the determination of a custodian commission for a single action involving clearing securities as a rate of the scope of the action.

The Company worked, during the reporting year, to perform a competitive process for securities holding services, in accordance with the provisions of the regulations.

10.5.5.3. **The Draft Control of Financial Services Regulations (Provident Funds) (Direct Expenses Due to Performance of Transactions), 2017 (hereinafter: the "Expense Regulations")**

In December 2017, the Ministry of Finance published a **Draft Amendment to the Control of Financial Services Regulations (Provident Funds) (Direct Expenses Due to Performance of Transactions), 2017** (the "**Regulations**"). The regulations formalize the types of direct expenses which the institutional entity will be entitled to collect from the accounts of members, in addition to the management fees which are collected from them, and under which restrictions. The draft amendment includes the following main amendments: (A) Converting the transitional provision which was determined in the regulations, which expired at the end of 2017, into a permanent provision (hereinafter: the "**Transitional Provision**"). The transitional provision, which is expected to become a permanent provision, with retroactive application, beginning on January 1, 2018, included the stipulation that expenses may be collected from the accounts of members at a rate of up to 0.25% of the total revalued value of the assets of the relevant fund, primarily with respect to external management commissions (commissions which are paid to external managers, such as managers of investment funds and mutual funds); (B) Additionally, the amendment also include cancellation of the possibility of charging management fees to members at a rate of 0.1%, with respect to investment in a number of ETF's on indices in Israel; and (C) The possibility was canceled of charging members for expenses with respect to the provision of mortgages which are paid to a related party.

As of the publication date of the report, the regulations have not yet been published, and are in legislative process. Non-approval of the aforementioned regulations, or approval thereof in a framework other than the proposed framework, could have a significant impact, beginning in January 2018, on all matters associated with the expired transitional provision.

The Company's estimate in connection with the implications of the regulations constitutes forward looking information, which is based on the information that is available to the Company as of the reporting date. Actual results may differ from the estimated results, due, inter alia, to the final version of the regulations, if and insofar as they will be published.

10.5.5.4. **Call for bids and provision of government assistance to increase competition in the retail credit market**

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

At this preliminary stage, and in light of the preliminary status of the proposed arrangement, it is not possible to estimate the significance and feasibility of the possible implications on the Group.

10.5.6. Managed investments

For details regarding the impact of investment income on the Company's profits, see Part B of the report - board of directors' report, section 3.1.4.

10.5.6.1.

Distribution of managed assets in Clal Insurance as of December 31, 2017:

	Nostro - assets held against liabilities in non-life insurance, health and equity⁶²	Assets held against investment-linked insurance liabilities	Nostro - assets held against liabilities in life and health insurance (long term care and critical illness)
Cash and cash equivalents	5.14%	7.09%	2.82%
Marketable government bonds	19.44%	23.51%	5.22%
Marketable corporate bonds	9.61%	14.65%	5.08%
Stocks and other marketable securities	15.12%	35.46%	5.15%
Designated bonds (*)	0.00%	0.00%	61.33%
Deposits and loans	31.28%	6.54%	9.10%
Other	19.40%	12.74%	11.30%
Total assets	100.00%	100.00%	100.00%

* Designated bonds which were issued until December 1, 2003 bear guaranteed interest of 5.05%, plus the consumer price index, and bonds which were issued beginning on January 1, 2004, bear guaranteed interest of 4.86%, plus the consumer price index.

Distribution of managed assets in Clal Credit Insurance as of December 31, 2017:

	Nostro - assets held against liabilities in non-life insurance and equity	Assets held against investment-linked insurance liabilities	Nostro - assets held against liabilities in life insurance
Cash and cash equivalents	6.82%	-	-
Marketable government bonds	51.06%	-	-
Marketable corporate bonds	26.97%	-	-
Stocks and other marketable securities	7.16%	-	-
Deposits and loans	4.38%	-	-
Other	3.61%	-	-
Total assets	100.00%	-	-

Distribution of assets of pension funds managed by the managing companies (Clal Pension and Provident Funds and Atudot Havatika) in the Group as of December 31, 2017:

	Meitavit Atudot New Fund	Meitavit Atudot Supplementary Fund	Atudot Havatika
Cash and cash equivalents	5.61%	3.96%	2.82%
Marketable government bonds	6.86%	32.39%	12.26%
Marketable corporate bonds	9.82%	20.85%	13.07%
Stocks and other marketable	32.73%	34.83%	14.38%

⁶² Not including long term care and critical illness.

	Meitavit Atudot New Fund	Meitavit Atudot Supplementary Fund	Atudot Havatika
securities			
Designated bonds (*)	29.79%	0.00%	37.64%
Deposits and loans	5.78%	4.20%	8.07%
Other	9.42%	3.77%	11.76%
Total assets	100.00%	100.00%	100.00%

* Designated bonds of the "Meiron" type bear guaranteed interest of 5.57%, plus the consumer price index.

Distribution of assets of pension funds managed by the Clal Pension and Provident Funds as of December 31, 2017:

	Provident fund for compensation and severance pay	Study funds	Central provident funds
Cash and cash equivalents	7.25%	10.07%	7.85%
Marketable government bonds	25.14%	25.71%	32.68%
Marketable corporate bonds	13.57%	14.01%	18.51%
Stocks and other marketable securities	27.10%	32.25%	27.73%
Deposits and loans	17.59%	9.74%	5.07%
Other investments	9.35%	8.22%	8.16%
Total assets	100.00%	100.00%	100.00%

10.5.7. Investments in investee companies

The Company had no material investments in investee companies and/or partnerships and/or enterprises which are not subsidiaries during the reporting year.

10.6. Reinsurance

Reinsurance is a means used by an insurance company to hedge its risks and to protect capital. Through reinsurance, the insurance company distributes its risks among additional insurance companies, reduces its exposure and allows the expansion of the scope of insurance liabilities which it can accept upon itself.

Protection which is acquired through reinsurance is against two main types of risks: risk of a single case and/or risk of an event (which may include several damages). A catastrophic event may affect a large number of cumulative risks which are insured by the Group, and generally involves natural disasters such as earthquake, fire, hail, flood, etc.

The main types of reinsurance contracts include:

1. **Treaty** - An agreement with a reinsurer in which the reinsurer undertakes to participate in the risks, generally in a particular branch.
2. **Facultative insurance** - An agreement with a reinsurer with respect to specific business (mostly at large business customers), in which the liability limits exceed the limits of the treaty, or where, for other reasons, it is not possible to prepare it in this framework.

The aforementioned agreements can be with one reinsurer or several reinsurers.

Additionally, reinsurance contracts can be segmented according to the risk distribution method:

1. Proportional reinsurance - The reinsurer's participation in the risk is defined in advance, according to its relative share in the premiums, and it participates according to its proportional rate in the payment of damages. There are two main types of proportional reinsurance:

- **Quota share treaty:** A proportional reinsurance agreement in which the reinsurers agree to accept a fixed rate of all insurance of a certain type which the direct insurers have accepted upon themselves. The reinsurer receives a proportional part of the premiums received by the direct insurer, and divides all of the damages and expenses by the same ratio, up to the determined amount.
- **Surplus treaty:** A proportional reinsurance agreement in which the direct insurer bears a fixed amount which it determines (retention), and the reinsurer bears the multiplies of the fixed amount up to an agreed-upon limit. The Company's participation rate is determined according to the proportion of the retention out of the insurance amount, and accordingly, the premiums and claims are divided between the Company and the reinsurer.

With respect to a proportional reinsurance agreement (treaty or facultative), a commission is received from the reinsurers according to an agreed-upon rate of the premiums to the reinsurers.

2. XOL (Excess of loss) non-proportional reinsurance - A non-proportional reinsurance agreement according to which the reinsurer accepts responsibility for the level which was agreed upon in advance, and participates in the payment of the damages only if the damage has reached the level at which it participates. In agreements of this kind, the division of risk is non-proportional, and the participation of the reinsurer is conditional upon the amount of damages, up to the limit which was determined, if any.

The **catastrophe risk** of Clal Insurance is a non-proportional reinsurance agreement which Clal Insurance purchases in order to protect its retention (in addition to the existing coverage in proportional reinsurance), based on an evaluation of the expected damage on retention, of a given probability, to which Clal Insurance may be exposed due to a catastrophic event.

With respect to non-proportional reinsurance contracts, a commission is generally not received from reinsurers, excluding in facultative insurance policies of the XOL ("Excess Of Loss") types.

10.6.1. Policy regarding reinsurance

In accordance with the Commissioner's circular on the subject of "Management of the exposure to reinsurers" from December 7, 2003, at least once per year, the board of directors is required to discuss and determine the policy regarding exposure and the insurer's preparations to manage the exposure and the control thereof, to a single reinsurer and to a group of reinsurers which are economically linked (hereinafter, jointly: "**Reinsurers**"). The board of directors is required to hold the discussion after having ascertained the quality of the tools which are available for the insurer to manage and control the exposure to reinsurers.

The policy regarding the exposure to reinsurers will include, inter alia, the policy regarding the management of exposure to reinsurers in the life, non-life and health branches, as well as the definition of the maximum framework for exposure to reinsurers, according to the parameters which will be determined by the board of directors. The aforementioned parameter may be a qualitative parameter, such as the reinsurer's international rating.

The board of directors will oversee the implementation of the policy which determined and will handle exceptional events.

The boards of directors of the Group's institutional entities approve, once per year, the reinsurance policy in accordance with the Group's operating segments, based on the recommendations which were formulated by the management of each institutional entity / division, and the recommendations of the risk management unit. As part of the above, each year, the retention policy for the various branches is determined, and the various types of reinsurance arrangements are evaluated. With respect to the exposure to reinsurers, the policy of the Group's insurance companies include minimum demands for the selection of reinsurers which address, inter alia, the financial rating and other qualitative parameters, including with respect to past experience, where in

the insurance branches in which the exposure to reinsurers is long term, a higher minimal financial rating is required. The policy also includes a maximum exposure framework, which determines the maximum rate of exposure to a single reinsurer and/or to a rating group of reinsurers, out of the Company's capital. Additionally, the policy establishes restrictions on potential exposures to reinsurers and to groups of reinsurers, in case of an earthquake event, by MPL⁶³. The policy establishes mechanisms for the management and control of the exposure to reinsurers, including reports to the boards of directors of the relevant institutional entities, regarding the fulfillment of the aforementioned restrictions.

In non-life insurance business operations, the Group's reinsurance contracts in the various insurance branches are generally prepared on an annual basis with different reinsurers. The relative share of each reinsurer in each one of the reinsurance branches may change from year to year and from branch to branch, in accordance with the Group's business policy and the characteristics of the business which it aims to insure.

However, in **life insurance and health insurance business operations**, which cover risk of death, loss of working capacity, disability, critical illness, long term care and medical expenses, and which are characterized by long term policies, the engagement with reinsurers is done throughout the entire period of the policies which were sold during the reinsurance agreement period, excluding catastrophe risk agreements, which are prepared on an annual basis.

During the reporting year, the Group did not enter into any exceptional reinsurance transactions.

For details concerning the risk factors arising from the entry into agreements with reinsurers, see section 10.16(b)(4) below.

10.6.2. Reinsurance in the non-life insurance segment

10.6.2.1. **Main types of reinsurance arrangements in the segment**

In the liabilities branches, such as employers' liability, professional liability, product liability and third party liability, protection against exposure is implemented by means of non-proportional reinsurance contracts, to protect against large claims.

In the compulsory motor insurance branch, Clal Insurance hedges against the exposure through proportional and non-proportional reinsurance treaties.

In general, the exposure of Clal Insurance in the property and loss of profit branches, and in guarantee activities (including sale and performance guarantees), is protected through proportional reinsurance contracts. In the property and loss of profit branches, a non-proportional reinsurance contract is also acquired for catastrophe coverage (shared by all of the property branches), which provides protection for the share of Clal Insurance on self retention in the damages due to a catastrophic event (including an earthquake), see section 10.6.7 below.

In certain insurance branches, specific (facultative) reinsurance is acquired instead of, or in addition to, the coverage under the treaty, while maintaining fulfillment of the retention levels determined by the Company.

A significant part of the operations of Clal Credit Insurance is protected by proportional reinsurance. Additionally, Clal Credit Insurance acquires non-proportional reinsurance as coverage against default by a group of debtors.

⁶³ Maximum probable loss, with the determined probability, calculated using models.

10.6.2.2. **Commission structure in the non-life insurance segment**

Commissions are not received from reinsurers in non-proportional insurance, except for excess of loss facultative reinsurance.

In proportional insurance, commissions are received from reinsurers. These commissions are primarily calculated according to a certain rate of the premiums to reinsurers. There are two main types of commissions' fixed commissions, according to a flat rate of the premiums, or sliding scale premiums, according to the profitability in the portfolio. Additionally, in single agreements, there is a profit commission based on the reinsurer's profitability rate in the specific contract.

Reinsurers whose share in premiums in the segment constitute more than 10% of total reinsurance premiums in the segment in the years 2016 and 2017

Name of reinsurer	S&P rating as of the date of as of the publication date of the report	Premiums recorded in favor of the reinsurer (NIS in thousands) in 2016	Proportion of total premiums to reinsurers for the operating segment in 2016	Premiums recorded in favor of the reinsurer (NIS in thousands) in 2017	Proportion of total premiums to reinsurers for the operating segment in 2017
Swiss Re	AA -	93,482	14.5%	78,969	9.2%
Munich Re	AA -	63,897	9.9%	165,355	19.2%

10.6.2.3. **Changes to reinsurance arrangements in the non-life insurance segment**

During the reporting year, Clal Insurance added proportional coverage in the compulsory motor branch, to the non-proportional coverage which existed also in previous years.

10.6.3. **Reinsurance in the long term savings segment**

10.6.3.1. **Main types of reinsurance contracts in the long term savings segment**

- A. Proportional contracts of various types protect the exposure of Clal Insurance in most business segments in the life insurance branch.
- B. An excess of loss non-proportional contract, which protects the Group's member companies from catastrophe events, with respect to risks of death, loss of working capacity, and disability.

10.6.3.2. **Description of the commission agreements in the life insurance segment**

With respect to a proportional reinsurance agreement, the reinsurers pay the Company a commission according to the rate of the premiums which was transferred to the reinsurer in the first year after the sale of products in the segment.

In addition to the reinsurance commissions which are paid out of the premiums, as stated above, the reinsurers pay to the Company, in life insurance, a profit commission which is calculated as a proportional part of the profit from the insurance business operations which are covered through reinsurance.

Reinsurers whose share in premiums in the segment constitute more than 10% of total reinsurance premiums in the segment in the years 2016 and 2017

Name of reinsurer	S&P rating as of the publication date of the report	Premiums recorded in favor of the insurer for 2016 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2016	Premiums recorded in favor of the insurer for 2017 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2017
Swiss Re	AA-	79,778	47.4%	80,066	47.6%
Munich Re	AA-	59,007	35.0%	59,503	35.4%
Gen Re	AA+	22,428	13.3%	22,157	13.2%

10.6.3.3. **Changes in reinsurance arrangements in the life insurance segment**

During the reporting year, no material changes occurred in the reinsurance arrangements in the long term savings segment.

10.6.4. Reinsurance in the health insurance segment

10.6.4.1. **Main types of reinsurance in the health insurance segment**

Illness and hospitalization branch

Some of the Group's exposures in health policies which were sold until December 31, 2004, with respect to certain coverages, such as transplants, also in policies which were sold until 2008, are protected by quota share proportional reinsurance contracts.

The exposure in critical illness coverage and in drug coverage, is covered under quota-type proportional reinsurance contracts. The Group also has protection for accumulated damages, in non-proportional contracts, with respect to personal accidents policies and international travel personal accidents, within the framework of catastrophe coverage. The scope of the acquired protection is based on internal studies conducted by the Company.

Long term care branch

With respect to long term care insurance products, quota share proportional reinsurance is available for individual policies which were sold until July 2004, and beginning in June 2014, when Clal Insurance renewed the reinsurance in consideration of the impact of the long-term care products on its economic solvency ratio.

For policies which were sold from July 2004 to May 2014, there was no reinsurance, except for proportional quota share reinsurance contracts which were acquired in connection with the Maccabi transaction, and which are still in effect (see section 8.1.2(2) above), and in connection with a transaction to cover the member of Leumit Health Fund, the reinsurance for which was not acquired until June 2014, and beginning in July 2016.

The Group also has protection for accumulated damages in long-term care policies, within the framework of the catastrophe coverage.

10.6.4.2. **Description of the commission structure in the health insurance segment**

In some insurance contracts, a commission is paid by the reinsurers to the Group with respect to health insurance products of various kinds, which are covered by proportional reinsurance, which is calculated as a

rate of the premiums transferred to the reinsurer. In most cases, this commission is paid only in the first year after the sale.

In addition to the reinsurance commissions which are paid out of premiums, as stated above, in some of the reinsurance contracts, the reinsurers pay the Group with respect to the aforementioned reinsurance, a profit commission which is calculated as a proportion of the profit from the insurance business operations which are covered by the reinsurance.

In excess of loss non-proportional insurance contracts, a commission is not received from reinsurers.

Reinsurers whose share in premiums in the segment constitute more than 10% of total reinsurance premiums in the segment in the years 2016 and 2017

Name of reinsurer	S&P Rating As of the publication date of the report	Premiums recorded in favor of the insurer for 2016 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2016	Premiums recorded in favor of the insurer for 2017 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2017
Partner Re Sa	A+	85,518	40.3%	88,583	33.8%
Scor	AA-	86,282	40.6%	129,987	49.6%

10.6.4.3. Changes in reinsurance arrangements in the health insurance segment

During the reporting year, no material changes occurred in reinsurance arrangements in the health insurance segment.

10.6.5. Coverage restrictions and limits

10.6.5.1. Restrictions or limits on coverage in the non-life insurance segment

In most proportional insurance contracts in property branches, the reinsurers restricted the cumulative scope of coverage to determined events, and particularly, to earthquakes. In the property contracts of most reinsurers, the limit per earthquake event is 4% to 5% of their proportional part in the insurance amount, and with respect to the total exposure limit which was determined in the contracts. For additional details, see section 10.6.7 below.

In excess of loss contracts, the Company did not reach the determined limits in the reporting periods, and it has no outstanding claims in a scope which comes close to the determined limits.

10.6.5.2. Restrictions or limits on coverage in the long term savings segment

There are no significant restrictions or limits on coverage with respect to the reinsurer's participation in quota share proportional contacts, excluding: restrictions on the insurance amount per event in reinsurance agreements with respect to critical illness insurance products, and restrictions on the insurance amount in case of death in reinsurance agreements of the "insurance for all" type.

It is noted that as of the preparation date of the reports, in cases where coverage limits were determined in reinsurance agreements, in general, the Company does not cover amounts which exceed the coverage limit without facultative coverage.

In a contract which protects the Group's retention against catastrophe events in the long term savings segment, there is a coverage limit, and damages above this limit are returned to the Company's responsibility.

10.6.5.3. Restrictions or limits on coverage in the health insurance segment

In some quota share proportional insurance contracts in the long term care and critical illness branch, there is a coverage limit regarding the participation of the reinsurer in claims, in a cumulative amount per policyholder. It is noted that, in general, policies which are issued by the Company are within the framework of the aforementioned coverage limits.

10.6.5.4. Restrictions by virtue of laws and/or treaties

For several years, the reinsurers have been trying to include in the reinsurance agreements a clause which makes their contractual debts subordinated to legal restrictions by virtue of various state and/or international laws and/or treaties, which will be in effect from time to time, such as sanctions on Iran, avoidance of financing of terrorism, etc. (hereinafter: the "**Sanctions Clause**").

Clal Insurance clarified to the reinsurers that it objects to the inclusion of a sanctions clause in the sanctions contracts in a manner which reduces their obligation to pay in branches wherein it cannot include a corresponding clause vis-à-vis the policyholders. As of the preparation date of the report, the contracts with reinsurers do not include the aforementioned sanctions clause in branches where the Company cannot include corresponding coverage vis-à-vis the policyholders. However, the reinsurers repeatedly clarify that a restriction on payment may materialize as a result of the aforementioned legal restrictions.

10.6.6. Material changes in reinsurance arrangements which pertain to the period after the reporting date

No material changes occurred in the reinsurance arrangements during the period subsequent to the reporting date.

It is noted that, from time to time, the Company implements adjustments to the details of insurance arrangements, including with respect to the amount of commissions, the coverage limits and the retention amounts, based on an analysis of past results and risk assessment.

10.6.7. Exposure of reinsurers to an earthquake in Israel

The main catastrophe event to which the Group is exposed is an earthquake in Israel, and the main exposure to this risk exists with respect to the property branches which constitute a part of non-life insurance.

As of December 31, 2017, the amounts of property insurance in Israel, which include earthquake coverage, amount to approximately NIS 387 billion (gross). Clal Insurance is covered, with respect to the aforementioned property insurance, by proportional reinsurance on a quota share or surplus basis. Some of the relative reinsurance contracts include coverage limits for individual events (see details below).

With respect to catastrophic events, Clal Insurance purchased, on the property branches, beyond the coverage under the proportional reinsurance contracts (contractual and/or facultative) with respect to the cumulative retention, reinsurance on an excess of loss basis, in a defined amount with respect to the exposure due to such event, based on the estimate of Clal Insurance regarding the damage which is expected to occur due to a catastrophe with a certain probability.

The acquisition of reinsurance with respect to a catastrophic event is based on assessments of the risk, based on details and updated information regarding the exposures of Clal Insurance through designated international software program, which are based on quantitative models for the assessment of catastrophe risks. According to this evaluation, which was last performed in 2016, the scope of coverage acquired by Clal Insurance protects it from events whose estimated probability of occurrence, according to some of the models, is lower than once every 250 years, and is even lower than once every 1,000 years, according to some of the models.

Based on the aforementioned analysis, Clal Insurance bases the acquisition of catastrophe protection on a maximum probable loss (MPL) rate of 1.5% of the non-life insurance amount in apartment insurance, and 2.5% of the non-life insurance amount in business insurance. With respect to the reporting year, Clal Insurance purchased protection for the cumulative retention against catastrophe with a weighted MPL of approximately 2.2% of the non-life insurance amount in apartment and property insurance.

As a result of the aforementioned reinsurance arrangements, in case of a catastrophe event in Israel, which causes gross damage to insured property in Clal Insurance in a gross amount of up to NIS 8 billion (which is the expected damage, in accordance with the estimate described above), the maximum damage amount borne by Clal Insurance on retention (including the purchasing cost of reinstatement) will be approximately NIS 53.5 million. If the damage amount is higher than the aforementioned amount, Clal Insurance will bear part of the

damages above the aforementioned amount, in accordance with the quota share contracts and the relevant surpluses.

It is noted that the Group also acquired catastrophe reinsurance with respect to **life and health insurance**, and an earthquake in Israel may activate this reinsurance as well. The scope of coverage which was acquired with respect to these products is based on internal studies which were performed by the Company regarding the effects of various scenarios, including an earthquake in Israel, insurance liabilities covering cases of death, loss of working capacity, disability, long term care, personal accidents and international travel. It is noted that the exposure to earthquake risk in Israel, as estimated with respect to this insurance, is in significantly lower scopes relative to the exposure with respect to insurance in the property branches referred to in the data presented in this section and in Note 39(e2) to the financial statements.

The reinsurers of Clal Insurance which participate in the exposure, in non-life insurance, to an earthquake event in Israel are rated according to the following table:

Exposure of reinsurers to an earthquake (NIS in thousands) for 2017:

S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
A- and higher	1,386,800	6,904,363	8,291,163	99.99%
BBB- to BBB+	0	0	0	0.00%
Lower than BBB- or unrated	0	567	567	0.01%
Total	1,386,800	6,904,930	8,291,730	100.0%

Reinsurers whose exposure to earthquake risk exceeds 10% of the total exposure to earthquakes (NIS in thousands) for 2017:

Name of reinsurer	S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
Swiss Re	AA-	268,693	1,122,259	1,390,952	16.8%
Munich Re	AA-	268,693	644,016	912,709	11.0%

Exposure of reinsurers to an earthquake (NIS in thousands) for 2016:

S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
A- and higher	2,094,468	6,961,303	9,055,771	99.5%
BBB- to BBB+	20,282	22,524	42,806	0.5%
Lower than BBB- or unrated	0	0	0	0.0%
Total	2,114,750	6,983,827	9,098,577	100.0%

Reinsurers whose exposure to earthquake risk exceeds 10% of the total exposure to earthquakes (NIS in thousands) for 2016:

Name of reinsurer	S&P rating group as of the publication date of the report	Forecast regarding exposure to earthquake, non-proportional	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake	Proportion of total
Swiss Re	AA-	515,086	1,202,193	1,717,279	18.9%
Munich Re	AA-	405,648	682,671	1,088,319	12.0%

* The amounts presented in the above tables include exposure in lower amounts with respect to insurance for international businesses (“**Incoming Business**”) which are covered by Clal Insurance.

Summary reinsurance results in non-life insurance for the years 2015 to 2017:⁶⁴

Reinsurance premiums in 2017 (NIS in thousands)	Compulsory motor insurance branch	Motor property insurance branch	Other property and others insurance branch	Liabilities insurance branch	Total
Earthquake and natural risks	-	539	199,816	-	200,355
Reinsurance, proportional	207,576	-	303,891	37,937	549,404
Reinsurance, non-proportional	12,694	1,878	22,728	74,420	111,720
Total premiums	220,270	2,417	526,435	112,357	861,479
Reinsurance results	(60,588)	2,325	37,139	(66,546)	(87,670)

Reinsurance premiums in 2016 (NIS in thousands)	Compulsory motor insurance branch	Motor property insurance branch	Other property and others insurance branch	Liabilities insurance branch	Total
Earthquake and natural risks	-	443	208,839	-	209,282
Reinsurance, proportional	-	-	292,914	35,578	328,492
Reinsurance, non-proportional	15,572	2,313	28,264	61,714	107,863

⁶⁴ Profit and loss results of reinsurance only, according to operating segments in non-life insurance, including credit insurance, as reflected in the Company's reports to the Commissioner.

Total premiums	15,572	2,756	530,017	97,292	645,637
Reinsurance results	(18,042)	3,248	282,331	(97,643)	169,894

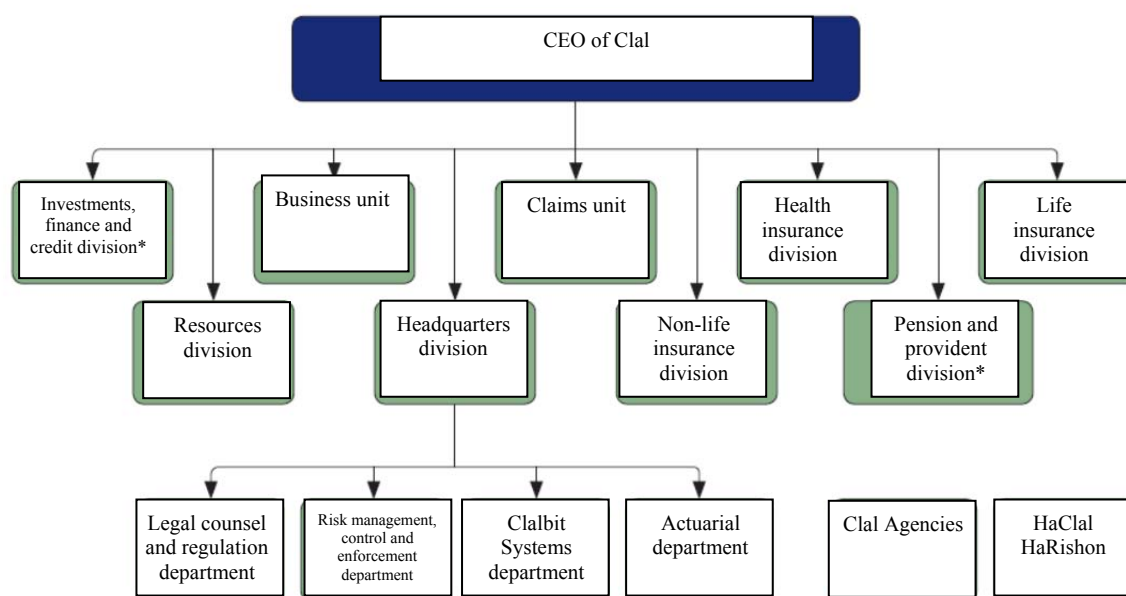
Reinsurance premiums in 2015 (NIS in thousands)	Compulsory motor insurance branch	Motor property insurance branch	Other property and others insurance branch	Liabilities insurance branch	Total
Earthquake and natural risks	-	1,080	204,343	-	205,423
Reinsurance, proportional	-	(1)	317,126	40,630	357,755
Reinsurance, non-proportional	17,389	3,367	23,107	58,109	101,972
Total premiums	17,389	4,446	544,576	98,739	665,150
Reinsurance results	16,654	(3,856)	47,681	70,525	131,004

Explanations regarding the reinsurance results in non-life insurance:

- **Compulsory motor insurance branch** - during the reporting year, Clal Insurance purchased proportional coverage for a branch which did not exist in prior years, see section 10.6.2.3 above. The deterioration in the profitability of reinsurers reflects the deterioration in the development of claims in the branch, and was also due to the increased insurance liabilities due to the expected impact of the Winograd committee, and the amendment to the Discounting Regulations. For details, see section 7.1.1.1(d)(2) above.
- **Other property and others insurance branch** - the decrease in profitability during the reporting year was primarily due to the negative development in a large number of claims, and the decrease in premiums earned, due to the portfolio optimization process.
- **Liabilities insurance branch** - the decrease in loss was due to the lower provision than last year with respect to the Company's insurance liabilities, due to the expected impact of the Winograd committee and the amendment to the Discounting Regulations. For details, see section 7.1.1.1(d)(2) above.

10.7. Human capital10.7.1. Diagram of the Group's organizational structure

The diagram presented below reflects the functional-organizational relationships, as of the date of this report, of the various senior position holders, which is not necessarily identical to legal relationships.



* The activities in the division are performed primarily in Clal Pension and Provident Funds. Beginning in 2018, the treatment of financial products, which was, until that time, under the responsibility of the pension and provident division, was transferred to the life insurance division.

The Group's organizational structure is based on operations through nine units / divisions whose managers, together with the managers of the information systems, risk management, legal counsel, actuarial, marketing, strategy and spokesperson divisions, constitute the management of Clal Insurance, as follows:

- A. Three implementation groups: (1) the business unit, which concentrates the sales and operation activities vis-à-vis the Group's agents; (2) the investments, finance and credit division, which concentrates the investment, finance and credit provision activities in the Group; (3) the claims unit, which concentrates the handling of claims by policyholders and members in all insurance and pension branches. Subsequent to the reporting date, on January 1, 2018, the customers unit was established, which concentrates all of the Group's direct activities vis-à-vis customers on behalf of the business divisions (including the units which were subject to the divisions and the operation of HaClal HaRishon).
- B. Four business divisions: (1) pension and provident funds division; (2) life insurance division; (3) non-life insurance division; and (4) health insurance division; which are professional divisions that guide the implementation entities in their segments. The pension and provident funds division and the health insurance division absorbed, during the reporting year, also include the units which are engaged in direct sales of the Group's products. These units were transferred, after the reporting year, to the customers unit.
- C. Three headquarters units: (1) The resources division, which concentrates the management of human resources, payroll, logistics, service (including service centers for end customers) and the public complaints unit in the Group; (2) The headquarters division, which includes the following departments: information systems, actuarial, legal counsel and regulation, and risk management, control and enforcement. The activities in the risk management, control and enforcement department is active cross-

company, and is also implemented through unit-based control departments which are defined as responsible for the management of operational risks and for the implementation of controls over central processes which were defined as exposed in the organization; (3) The marketing, strategy and spokesperson division.

- D. The Group owns insurance agencies in the long term savings segment and in the non-life insurance segment.
- E. The internal audit division, which is subordinate to the Chairman of the Board.

The organizational structure is intended, inter alia, to strengthen the CEO's control in a manner which will allow adequate supervision; To increase profitability following the increased efficiency and concentration of the Group's core activities "under one roof". To improve service to agents through the business unit which concentrates all of the sales functions through agents, the operation and collection activities, most of the collection activities, as well as service to end customers by unifying the call center, the organization and methods department, and the public appeals unit, under the service department in the resources division; To concentrate the performance of direct activities to customers under the customers unit which was established; To increase the efficiency of claim management in the Group, by means of the cross-organizational claims unit which is separate from the underwriting activity and the professional divisions; To increase the efficiency of headquarters work, and to focus the activities of the business divisions by establishing the Group's insurance policy and developing products.

In January 2017, the long term savings division was split into two divisions: the pension and provident funds division, and the life insurance division.

10.7.2. The Group's workforce

Presented below are data regarding the Group's workforce as of December 31, 2017 and 2016, in accordance with the organizational structure:

Units	Number of employees as of December 31, 2017	Number of employees December 31, 2016
Headquarters and central service entities ¹	1,194 ²	1,194 ²
The health division, including HaClal HaRishon ³	460 ⁴	428 ⁴
Pension and provident division ⁵	1716	2127,6
Life insurance division ⁵	1047	
Non-life insurance division	125	136
Claims unit	415	420
Business unit	1,078 ⁸	1,048 ⁸
Investments, finance, and financial services division	434	428
Clal Agencies	4529	4269
Total ¹⁰	4,433	4,292

- 1- Mostly employees of the headquarters division, Clalbit Systems, the resources division and the internal audit unit.
- 2- During the reporting year, the staff of the customer service center increased by approximately 68 employees, due to the creation of a new center in Beer Sheva, and the expansion of service in the employers desk (the activity in the employers desk was transferred to the business unit in January 2018), while on the other hand, a decrease occurred in the staff of Clalbit employees, due to the transition of approximately 64 employees from Clalbit to the business divisions (the life insurance division and the pension and provident division).

- 3- Including the direct sales activity through HaClal HaRishon (which transitioned, subsequent to the reporting date, to the customers unit).
 - 4- The increase was primarily due to the increase of approximately 31 employees in the workforce of the sales centers (including HaClal HaRishon), due to the increase in sale activities of the Group's products.
 - 5- In January 2017, the long term savings division was split into two divisions: the pension and provident funds division, and the life insurance division. The increase in workforce was due, inter alia, to the strengthening of the professional headquarters, and the transfer of employees from Clalbit Systems.
 - 6- The increase was primarily due to the transition of 24 employees from Clalbit Systems to the pension and provident division.
 - 7- The increase was primarily due to the transition of 40 employees from Clalbit Systems to the life insurance division.
 - 8- The increase was primarily due to the intake of new employees in the collection unit.
 - 9- Increase in the agencies' workforce of 26 employees, due to the increase in the activities of agencies.
 - 10- Of which, approximately 202 and approximately 213 were outsourced workers in the years 2017 and 2016, respectively.
- * The explanation presented above regarding the changes in status refer to most of the changes which occurred during the reporting year.

The increase in the workforce during the reporting year was primarily due to the creation of a desk for contact with employers, pursuant to the Payment Regulations, the strengthening of the collection systems and the operations in the business unit, and the strengthening of the professional headquarters in the life division, and in the pension and provident division.

Out of the workforce described above, the Group's senior management (primarily division and unit managers) includes 16 managers, as well as the Company's CEO (who also serves as the CEO of Clal Insurance) and the Group's internal auditor.

The divisions / units are managed by corporate officers with a rank of Executive VP. The corporate officers serve in their positions in Clal Insurance, which serves as the Group's central business arm. Additionally, in each of the companies and institutional entities in the Group, managers and corporate officers are responsible for their operations.

On March 7, 2018, Mr. Izzy Cohen, who serves as the CEO of the Company and of Clal Insurance, announced his intention to conclude his tenure as CEO of the Company and of Clal Insurance. For details, see section 2.5.2.2 above.

For details regarding corporate officers in the Company, see Part D of the report - Additional Details Regarding the Corporation, section 18.

For details regarding changes of corporate officers after the reporting year, see section 2.5.2.2 above.

The Company has no material dependence on any particular employee.

10.7.3. Benefits and terms of employment agreements**Types of agreements and compensation method -**

On January 2, 2014, Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems and Clal Finance signed a collective agreement between them and the Histadrut New General Federation of Labor (the "**Histadrut**"), the employee committee in the Group. On December 22, 2015, the collective agreement was amended in a manner which applied its provisions also to some employees of Canaf (the agreement, including the addendum to the agreement, shall hereinafter jointly be referred to as: the "**First Collective Agreement**"). The first collective agreement applies to most of the employees of the aforementioned companies, except for employees in specific positions which were defined in the agreement, and managers of a rank which was defined in the agreement. On July 4, 2017, following a strike of approximately two weeks, a new collective agreement was signed between Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems, Clal Finance and Canaf (the "**Companies**") and the Histadrut employee committee in the Group (the "**New Collective Agreement**"), which extended the first collective agreement for a period of 4 years, from January 1, 2017 to December 31, 2020 subject to the changes which were implemented, as specified below:

1. Payment of salary raises to employees, in July of each year during the agreement period, at an average rate of 3% of the base salary of the employees who are entitled to a salary raise. Additionally, insofar as the average annual profit of Clal Holdings in all years of the agreement is greater than NIS 342 million, in April 2021, an additional budget will be allocated for salary raises, at a maximum rate of 4% (raise of up to 1% per year). In general, half of the total salary additions budget will be paid as a uniform addition, and the other half will be paid as a differential addition in the discretion of the managers.
2. Each year, depending on the fulfillment of the condition stipulating minimum annual profit of NIS 210 million, a special payment will be paid to employees, in the total cost which will be in the range from 1.4% of the annual salary cost of the employees to whom the collective agreement applies, increasing up to the maximum rate of 3% of the aforementioned annual salary cost, insofar as the annual profit of the Company reaches a total of NIS 400 million or higher.
3. Additionally, in case the annual profit of Clal Holdings is between NIS 300 million and NIS 400 million, an additional payment will be paid to the employees, without social benefits, at a rate which will range from 0.5% to 1%, depending on the results, of the annual salary cost of employees to whom the collective agreement applies (the "**Additional Payment**"), which will be granted to some of the employees who are entitled to the additional payment, by way of the allocation of options (see section 10.7.6 below). The employee committee agreed to waive the receipt of the additional payment by way of the allocation of options, with respect to 2017, and therefore, the additional payment will be paid in cash.
4. An agreement was reached to increase the participation with respect to meals, participation in the payment for summer camps, an increased welfare budget relative to the first collective agreement, a seniority bonus, a bonus for dedication and excellence to employees who joined the Company after November 2012, and increased employer's deposits to compensation.
5. The minimum wage for monthly employees in the companies which are parties to the agreement was increased to NIS 6,000, and the minimum salary for veteran employees (employees who have been working in those companies from 10 to 30 years) was increased to amounts from NIS 7,000 to NIS 8,500, and the salary of support center employees was increased.
6. The trial period for new employees was extended to 36 months, and an agreement was reached regarding changes to performance improvement processes before dismissal.

7. Additionally, employees age 60 and older were offered a voluntary retirement program, in which 91 employees retired, who received increased retirement bonuses. For additional details regarding the voluntary retirement agreement, see Part B of the report - board of directors' report, section 3.1(f).
8. The new agreement determined that industrial peace will be maintained throughout the entire agreement period, including with respect to a demand to grant consideration to employees with respect to the sale of shares of Clal Holdings by the controlling shareholder of Clal Holdings and/or with respect to a change in the control of Clal Holdings. The new agreement exhausts the claims and assertions of all of the parties throughout the entire period of the agreement, including with respect to the sale of shares of Clal Holdings, as stated above.

For additional details regarding the new collective agreement, see Note 24(d) to the financial statements.

On February 26, 2018, IDB Development, the Histadrut New General Federation of Labor, and the employee committee in the Group, signed an agreement according to which a bonus will be paid to the Group's employees in case of the sale of the control of the Company, or the issuance of a permit for the control of the Company, in accordance with the conditions which were defined in the agreement. The Company is not a party to the aforementioned agreement, and was not involved in drafting it. For additional details, see Note 43(h) to the financial statements.

Employees to whom the new collective agreement does not apply (approximately 1,215 employees), including senior management, are employed in accordance with personal work agreements, which define their employment terms, including the base salary, social benefits and fringe benefits.

On November 13, 2017, the Histadrut announced that it is the representative employee organization for the employees of HaClal HaRishon. Following the aforementioned announcement, the parties began conducting negotiations towards the signing of an annex to the Group's collective agreement in accordance with the Collective Agreements Law, 1957. The parties are in the advanced stages of formulating an outline in principle for the aforementioned annex; however, final understandings have not yet been reached (and there is no certainty that such understandings will indeed be reached and/or that they will be approved by the competent entities). Insofar as the outline in principle becomes a binding agreement, it is not expected to have a significant impact on the Company's financial results.

Provisions with respect to termination of employer - employee relationships -

With respect to the employees to whom the new collective agreement applies - an arrangement applies in accordance with section 14 of the Severance Pay Law, 1963, for their entire employment period.

For additional details regarding the provisions with respect to the termination of employer - employee relationships for the Group's employees, see Note 24 to the financial statements.

Additional terms and benefits -

The practice of the Group's member companies is to provide, from time to time, arrangements for the acquisition of insurance products and services for their employees, including, inter alia, elementary insurance, pension products and health and life insurance.

The Company has a collective health insurance policy for employees who chose to join this insurance for payment.

The Group allows employees to receive loans in accordance with defined internal policies and in accordance with the provisions of the law, in consideration of, inter alia, the employee's seniority and salary.

For details regarding the employment terms (including compensation) of the five highest compensation recipients among the executive corporate officers in the Group (including the Chairman and the Company's CEO), and the highest compensation recipients during the reporting year, and for details regarding the salary which was paid to the directors in the Company, see Part D of the report - Additional Details Regarding the Corporation, section 11.

On March 19, 2018, an extension order was on the subject of regarding the shortening of the work week in the economy, according to which the work week in the economy will be shortened by one hour, such that it will amount to 42 weekly hours, with no decrease in salary. The order enters into effect on April 1, 2018. The Company is studying the provisions of the order and is preparing to implement it.

10.7.4. The corporation's investments in continuing education and training

As part of the Group's overall strategy regarding the development of human capital as a central asset, the Group invested, in 2017, a great deal of resources in professional education and training activities, and in the development of managerial skills in the organization. This year as well, the Group focused on improving service quality and skill services to the Company's customers and agents, in improving professionalism and insurance knowledge in all segments of insurance, enforcement and compliance, and in establishing implementation processes for the information systems which support the business core and improving middle management skills.

These training sessions were intended, inter alia, to adjust the performance of the Group's employees and managers to market changes and developments, to an advanced service standard, and to regulatory requirements.

In 2017, a cross-company training activity was continued in the Group, in order to implement technological developments and digital tools.

10.7.5. Executive salary and compensation policy

Beginning in September 2013, the Company is required to approve, once every three years as a minimum, a compensation policy for corporate officers in accordance with the Companies Law (Amendment No. 20), 2012. Additionally, the institutional entities in the Group are subject to the Commissioner's circular regarding the compensation policy in institutional entities from April 2014, as amended in October 2015 (the "**Compensation Circular**").

The Company's compensation policy is intended to help realize the Company's objectives and work plan in the long term, inter alia, in order to recruit and maintain high-quality executives with specific and unique specializations, who are capable of leading the Company to business success and of dealing with the successes which the Company faces, to employ motivated corporate officers, to achieve a high level of business performance without taking unreasonable risks, and to create an appropriate balance between the various compensation components, fixed vs. variable, short term vs. long term, and cash compensation (including fringe benefits) vs. capital compensation. The compensation policy establishes rules, criteria and benchmarks which will be used to determine the terms of tenure and employment of the Company's corporate officers, in accordance with the specific characteristics of the operation for which the relevant corporate officer is responsible, and in accordance with their experience, qualifications and performance in the position, in accordance with the legal restrictions specified above and below.

A. The compensation circular and the compensation policy in institutional entities

The compensation circular determines, inter alia, that an appropriate ratio will be determined between the fixed compensation component and the variable compensation component, in a manner whereby the rate of the annual variable component will not exceed 100% of the annual fixed component, subject to the exceptions which will be determined (which pertain to a one-time business event which is not repeated each year, and

which does not apply to a broad group of senior position holders), according to which it will be possible to determine that the rate of the annual variable component will not exceed 200% of the fixed component, save with respect to the CEO. It was also determined that any payment of a variable component will be subject to deferral arrangements, such that at least 50% of the variable component will be deferred and distributed according to the straight line method over a period of no less than three years. The circular sets forth various arrangements in connection with the allocation of shares or stock-based instruments, in connection with retirement bonuses and other issues. The circular entered into effect in July 2014 (hereinafter: the "**Application Date**"), and established transitional provisions regarding the adjustment of compensation agreements which were approved prior to the publication date of the draft circular (December 25, 2013), and after that date.

In October 2015, an amendment was published to the compensation circular, in which supplementary provisions to the compensation circular were determined, which determine, inter alia, restrictions regarding the compensation of directors who are not outside directors, a prohibition against the payment of a variable component to directors, and provisions regarding the method used to determine the compensation paid to the Chairman of the Board. Additionally, the provisions of the amendment determine that an institutional entity may not bear the employment costs of an employee due to his tenure in another corporation, and will ensure that an employee does not receive compensation due to his employment in the institutional entity from another entity, and also expand the circumstances for the repayment of variable compensation which is given to a senior position holder. The amendment includes the specification of a transitional provision according to which agreements which were approved until the date of its publication will be adjusted in accordance with the amendment to the circular by December 31, 2017.⁶⁵For details regarding the adjustment of agreements, see section D below.

B. **Executive Compensation Law**

In April 2016, the Compensation for Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Compensation), 2016 (hereinafter: the "**Executive Compensation Law**"), 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 (the "**Ratio Limit**").

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

⁶⁵ The transitional provisions were applied to senior position holders who, in accordance with their employment terms, could be reasonably expected to continue benefiting from the current employment terms, including as regards the rate of the annual bonus, and the method for its payment. It is noted, with respect to senior position holders, where a change has occurred in their employment terms, that the transitional provision was applied in accordance with the compensation circular only regarding employment terms which existed before the change. Beginning on the publication date of the amendment to the compensation circular, and with respect to senior position holders whose employment terms are significantly changed beginning from this date, the provisions of the amendment to the compensation circular will apply beginning from the date of the aforementioned change.

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. The aforementioned cost is after deducting accounting expenses recorded due to the allocation of shares or the right to receive shares, and after deducting the "excess cost of salary" (the difference between the cost of salary and NIS 2.5 million, if the cost of salary exceeds NIS 2.5 million).

In accordance with transitional provisions, six months after the publication date of the law, i.e., beginning on October 12, 2016, its provisions apply to engagements which were approved before the publication of the law. Such engagements which were not approved in accordance with the Executive Compensation Law are not valid.

C. Current compensation policy

On November 7, 2016, the board of directors of Clal Insurance and the board of directors of the Company approved, following the recommendation of the Compensation Committee, a compensation policy, in accordance with the provisions of the compensation circular, the amendment thereto, amendment 20 to the Companies Law, and the Executive Compensation Law. The compensation policy was approved by the shareholders' meeting in December 2016. This policy replaced the compensation policy of the Company and the compensation policy of the Group's institutional entities, which were in effect until the aforementioned date.

Under the current compensation policy, the principles of the Company's compensation policy were consolidated with the compensation policy of the Group's institutional entities, and various provisions were updated, including on the following subjects: determination of a restriction on compensation in accordance with the provisions of the Executive Compensation Law, and the interpretation which was given for it, compensation of directors (including the Chairman of the Board) through fixed compensation only, balancing between the variable component and the fixed component, the preconditions for the payment of variable compensation, the preconditions for the release of variable compensation whose payment has been postponed, payment of a variable component which is not conditional upon preconditions, conditions for the reimbursement of the variable bonus, and provisions regarding the issuance of exemptions, indemnification and insurance.

It is noted, with respect to certain provisions which are required by virtue of the compensation circular, that principles only were determined in the Company's compensation policy, and such provisions were regulated in the compensation policies of the Group's institutional entities, according to its effective version from time to time.

It is noted that the compensation committee, board of directors and shareholders' meeting approved, on the approval date of the updated policy, a easement update to the conditions for release of the variable component which is paid in cash, with respect to parts of the variable bonus which were distributed in the past, but which have not yet been paid, to corporate officers, including the Company's CEO (and excluding the Chairman of the Board).

For the avoidance of doubt, the compensation policy will not prejudice the rights which have accrued with respect to periods before the date of its approval, and that subject to the transitional provisions which were determined in the compensation circular and in the amendment to the compensation circular, so long as they remain in effect, the compensation policy will not adversely affect any engagements and/or other rights of the employees in connection with their tenure and employment in the Company.

For details regarding the main differences between the Company's previous compensation policy and the updated compensation policy, see the immediate report regarding the convention of the meeting which was published by the Company on November 8, 2016 (reference number 2016-01-074181).

The previous and current compensation policies of Clal Insurance were published on the Company's website and are attached as an annex to this part of the periodic report.

For the link to the Company's website where the policy documents are available, see https://www.clalbit.co.il/clalins/reward_policy/Pages/default.aspx.

The Company's corporate officers are entitled to letters of exemption, indemnification and corporate officers' insurance. For details, see Part D of the periodic report - Additional Details Regarding the Corporation, section 23.

D. Adjustment of the existing agreements to the compensation policy

The Company worked, and is continuing to work, to adjust the compensation agreements in the Company to the current compensation policy, and to the provisions of the compensation circular, subject to the relevant transitional provisions and to the compensation policy. Accordingly, previous employment agreements between the Company and its corporate officer were adjusted and will be adjusted in accordance with the relevant provisions of the law, including as specified below:

On October 9, 2016, following the entry into effect of the Executive Compensation Law, the Company notified its CEO and additional corporate officers (who are subordinate to the CEO) that beginning from the application date of the Executive Compensation Law, on October 12, 2016, the compensation to which they are entitled will be reduced in a manner which complies with the provisions of the Executive Compensation Law.

On May 26, 2016, the general meeting of the Company's shareholders approved a new agreement with the Chairman of the Board which corresponds to the Company's compensation policy (see Note 40(b)(4) to the financial statements).

With respect to the CEO - the Company's Board of Directors notified the CEO that until the end of the agreement established with him, i.e., October 2017, his compensation terms will be adjusted in accordance with the Executive Compensation Law, in a manner whereby, beginning on October 12, 2016, he will receive fixed compensation only, which will be restricted in any manner whereby he will not be entitled to compensation regarding which the forecasted annual expense, in accordance with generally accepted accounting principles, exceeds NIS 2.5 million, with the addition of a provision for severance pay and compensation in accordance with the law. It was clarified that the change to the aforementioned conditions will not adversely affect any rights which accrued prior to that date. On November 7, 2016, the Company's CEO notified the Chairman of the Board that he accepted the Company's letter, while reserving his rights in accordance with the law and the agreement.

On July 29, 2017, the CEO notified the Chairman of the Board, Mr. Danny Naveh, regarding his decision with respect to his willingness to extend the tenure of the Company's CEO for an additional two years. On October 23, 2017, the general shareholders' meeting of the Company and of Clal Insurance approved, further to the approval of the Compensation Committee and Board of Directors, the extension of the tenure of the Company's CEO, and the engagement in a new employment agreement with him, beginning on November 1, 2017, for a set period of two years, i.e., until October 31, 2019, including the possibility of extension by the Company (and subject to the CEO's consent), under the same conditions, by one additional year, subject to the provision of notice 3 months in advance (the "**New Agreement Terms**").

For the employment terms of the Company's CEO, see Note 40(b)(5) to the financial statements.

On March 7, 2018, Mr. Izzy Cohen, who serves as the CEO of the Company and of Clal Insurance, announced his intention to conclude his tenure as CEO of the Company and of Clal Insurance. For details, see section 2.5.2.2 above.

It should also be noted that the Group has many position holders who are not considered senior position holders, as defined in the compensation circular, whose annual bonus is dependent on their fulfillment of personal, predetermined compensation benchmarks for each year.

E. Implications

The entry into effect of the compensation circular and the amendment thereto, the Executive Compensation Law and the updated compensation policy of the Company and of the Group's institutional entities, as updated with respect thereto, affected the compensation structure of the Group's corporate officers and managers. The salaries of the Company's CEO and Chairman of the Board became fixed salaries only. Additionally, during the period which passed since the entry into effect of the Executive Compensation Law, an allocation of options to senior position holders, including corporate officers, was not performed. The foregoing had no significant immediate impact on the Company's activity; however, over the long term, it is not possible to estimate the possible implications on the labor market in the financial segment.

10.7.6. Capital compensation plan for employees

- On March 11, 2007, the Company's board of directors adopted a compensation plan for employees and corporate officers for 2007 (hereinafter: the "**2007 Plan**"), according to which the Company will be entitled to provide to employees and corporate officers in the Group up to 2,000,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each.

As of the publication date of the report, all of the warrants which were allocated according to the 2007 plan have expired. For additional details regarding the 2007 plan, see Notes 41(a)(1), 41(b) and 41(c) to the financial statements. On June 22, 2015, the Company's board of directors resolved not to allocate to employees, in accordance with the aforementioned plan, all of the unregistered warrants which are held in the register of warrants (470,000 warrants), and to erase them from the Company's register of securities. Accordingly, the 2007 Plan concluded.

- In accordance with the employment agreement of Mr. Izzy Cohen, the Company's current CEO, the Company's board of directors approved, on December 6, 2012, the allocation of 600,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each to the Company's CEO. As of the publication date of the report, all of the warrants vested and were exercised by the CEO.

For additional details regarding the CEO's compensation plan, see Note 40(b)(5) to the financial statements.

- On December 6, 2012, the Company's board of directors adopted a compensation plan for employees and corporate officers for 2013 (hereinafter: the "**2013 Plan**"), according to which the Company will be entitled to allocate to employees and corporate officers in the Group up to 2,400,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each.

As of the publication date of the report, the total amount of warrants which were allocated according to the 2013 plan (to specific employees, including the Chairman and excluding the CEO) is 2,575,000. 777,329 warrants are held by the trustee for specific employees, and 217,000 warrants are held in the register of warrants, and may be designated, in the future, to specific employees, approximately 596,999 warrants expired and can no longer be allocated, and approximately 1,607,668 warrants were exercised into company shares.

As of December 31, 2017, approximately 767,334 warrants are exercisable.

On December 17, 2015, the Company's board of directors resolved not to allocate to employees, in accordance with the 2013 plan, 35,000 unregistered which are held in the register of warrants, and to delete them from company's register of securities. For additional details, see Notes 41(a)(2), 41(b) and 41(c) to the financial statements.

- In accordance with the employment agreement of Mr. Danny Naveh, the Company's Chairman of the Board, the Company's board of directors approved, on June 5, 2013, an allocation of 175,000 warrants for the acquisition of ordinary company shares with a par value of NIS 1 each to the Chairman of the Company's Board of Directors. As of the publication date of the report, the first tranche of warrants expired, without having been exercised by the Chairman. For additional details regarding the Chairman's compensation plan, see Note 40(b)(4) to the financial statements.
- On March 24, 2015, the Company's board of directors adopted a performance-dependent compensation plan for employees and corporate officers for 2015 (hereinafter: the "**2015 Plan**"), according to which the Company will be entitled to allocate to employees and corporate officers in the Group warrants for the acquisition of ordinary company shares with a par value of NIS 1 each.

On June 22, 2015, the Company's board of directors resolved to adopt several amendments to the plan, and to publish an outline referring to the allocation of up to 435,000 warrants, which will be offered by virtue thereof, in accordance with a performance-dependent plan, to employees and corporate officers of the Company and/or of companies under its control. All of the warrants according to the aforementioned outline were allocated.

- On December 17, 2015, the Company's board of directors resolved to publish an additional outline pertaining to the allocation of up to 35,000 warrants which will be offered by virtue thereof, in accordance with a performance-dependent plan, to corporate officers in the Company and/or in companies under its control. The warrants were allocated according to the aforementioned outline.
- As of the publication date of the report, the total number of warrants which were allocated according to the 2015 plan (to specific employees) is 470,000 warrants. 311,889 warrants are held by the trustee for specific employees, and 156,667 are held in the register of warrants, and may be designated, in the future, to specific employees. Around 1,444 warrants were exercised into Company shares.

As of December 31, 2017, approximately 52,227 warrants are exercisable.

For additional details regarding the 2015 plan, see Notes 41(a)(3), 41(b) and 41(c) to the financial statements.

10.8. Marketing and distribution

Presented below is the organizational structure of the marketing and distribution systems in the Company during the reporting year:

- Business unit - This unit concentrates the Group's entire activity in the long term savings segment and in the health segment vis-à-vis the insurance agents in the sale, service and operations segments, in order to concentrate, in a single unit, the entire set of relationships vis-à-vis the insurance agent, and the associated activity.

As part of the above, the Company operates through three regions: the Haifa and Northern region, the Central region and the Jerusalem and Southern region.

The activities of the business unit include, beyond the marketing and distribution activities, also the operations activity, maintenance of the long term savings and health insurance segments, and collection activities.

- Direct activities - The Group's direct sales activities are performed through agencies which are under the Company's control, through HaClal HaRishon and through the pension and provident division - vis-à-vis employers which, in general, do not work vis-à-vis the Group through an insurance agent.
- Subsequent to the reporting date, on January 1, 2018, a customers unit was established in the Company, which is intended to concentrate all of the direct sales activities vis-à-vis customers and employers, for customers who generally do not work with the Group through insurance agents, on behalf of the business

divisions: non-life insurance, health insurance, life insurance and pension and provident funds, including the operation of HaClal HaRishon. The unit was created with the aim of increasing the direct sales activity, inter alia, in light of the changing regulatory environment.

10.8.1. HaClal HaRishon

HaClal HaRishon, an auxiliary corporation wholly owned (100%) by Clal Insurance, which concentrates the direct sales activity of Clal Insurance, and operates by virtue of a permit received from the Commissioner. HaClal HaRishon works to sell insurance through telephone salespeople (telemarketing) and salespeople working in the field, and was engaged, during the reporting year, mostly in the sale of life insurance (risk) and health and long term care insurance, to customers who, in general, do not work with the Group through insurance agents. For details regarding the transition of HaClal HaRishon to the customers unit subsequent to the reporting date, see section 10.8 above.

10.8.2. Clal Agency Holdings

Clal Agency Holdings (1998) Ltd. ("**Clal Agencies**") is a wholly owned subsidiary of the Company. Clal Agencies concentrates the Group's holding of insurance agencies, which are under the control of Clal Agencies (the "**Group's Agencies**").

The Group's agencies are engaged in the provision of insurance business agency services in all operating segments, and in the performance of transactions with pension products, and some are specialized in specific insurance branches on which their activities are focused.

The activities of the Group's agencies are concentrated in two agencies: Tmura Insurance Agency (1987) Ltd. ("**Tmura**"), which operates in the long-term savings and health branches, and Batach Thorne Insurance Agency Ltd. ("**Batach**"), which is primarily engaged in non-life insurance.

During the reporting year, the transaction for the sale of shares of Trans Betach Marine Insurance Agency (1991) Ltd., to a third party, was completed.

In March 2017, a draft circular was published on the subject of "sale-supporting involvement in processes for the marketing and sale of insurance products" (hereinafter: the "**Draft**"), which is intended to regulate the operation of entities, which are not agency license holders, and which perform actions as part of the sale of insurance products on behalf of an insurer or insurance agent. The draft expands the obligations which apply to insurers or insurance agents which employ sale supporters, including the obligation to obtain the customer's initiated approval for the addition to insurance (in addition to approval during the sale conversation); provision of the option for the customer to cancel the addition to a policy which was sold through a sale supporter, and to receive the premium which was paid for 6 months after the addition date; listening to all marketing conversations in which sales by agents were performed, and correction of the sale process vis-à-vis the customer in case of a flaw in the conversation; prohibition against the provision of compensation to sale supporters as derived from the sold premiums or from the characteristics of the sold policies. The draft does not apply to sales in the pension insurance branch and in the non-life insurance branch (excluding policies which are sold through mortgages), to collective insurance and to sale conversations initiated by the customer. The draft circular requires the insurance companies not to accept requests for addition which were made by sale supporters without receiving a recording of the sale conversation.

Insofar as the draft circular becomes binding, it is expected to impose difficulties on the process of performing telephone sales, both direct sales of the Company and sales through agents, to expose the Company to demands for the repayment of premiums with respect to future sales which will be performed, and for a period of six months after the sale date, and to impose on the Group's institutional entities an operational burden; however, at this stage, it is not possible to estimate its impact on the sale process and on the Company's sales volume.

The Company's estimate in connection with the implications of the aforementioned draft circular constitutes forward looking information, which is based on the information that is available to the Company as of the reporting date. Actual results may differ from the forecasted results, and depend, inter alia, on the final wording of the circular, and the conduct of distributing entities.

10.8.3. Marketing and distribution methods and commission structure in the various segments:

10.8.3.1. **Long term savings**

Marketing and distribution methods in the long term savings segment

The distribution of products in the segment is implemented by insurance agents, including by the Group's agencies, and through pension advisers in the banks, and directly.

A. Sales through agents and agencies

- During the reporting year, the trend of combined marketing (life insurance, pension and provident) through insurance agents continued, including marketing through "arrangement managers", including Tmura, which are large insurance agencies which also provide clearing services for employers, in connection with the separation of pension provisions for institutional entities, and for the various products. The insurance agents receive various services to support their routine activities from the Group's institutional entities.
- Changes in the long term savings segment may have an impact on the activities of agents and arrangement managers in the coming years, inter alia, due to the following: **(1)** The combination of the intense competition in the markets and various reforms which have taken place and continue taking place over the years in the segment, and which have caused a gradual decrease in management fees. For details regarding the reforms which are expected to have an impact on the management fees which are collected by the Group's institutional entities, see section 6.2.1.2(g) above; **(2)** Regulatory encouragement of pension products (with respect to trends in supply and demand during the reporting year, see section 6.1.4 above); **(3)** Changes in the compensation arrangements which are paid to agents by the institutional entities, including the reform regarding the disconnection of the link between distribution commissions and management fees (for details regarding the amendment to the Control Law regarding the calculation of the distribution commission from management fees, see this section 10.8.3.1 below. For details regarding the Commissioner's position with respect to the payment of an institutional entity to a license holder, see this section 10.8.3.1 below, and for details regarding a class action, see Note 42(a2)(11) to the financial statements); **(4)** Regulation of the engagement between agents and employers, in several respects, including: **(A)** Establishing the possibility, for those engaged in pension marketing or a related party thereto, to provide operating services to an employer for whose employees it provides pension marketing, by requiring the employer to pay operating fees, see section 6.2.3(e)(2) above, and the possibility for employers to receive operating services through a third party which is not a license holder; and **(B)** The Commissioner's position regarding the obligations of a license holder, see this section 10.8.3.1 below; **(5)** Expansion of the activities of the pension clearing house and the employer's interface, including the clearing of funds and the provision of feedback, over the long term, may facilitate the activities of agents, inter alia, in connection with the provision of service, the sale of additional products and the performance of transfers, and the activities of operating entities, and may reduce the power of the arrangement managers, which are specialized, inter alia, in pension automation systems which allow clearing and separation of funds and management of pension arrangements vis-à-vis various insurers, and may cause, as a result, a decrease in the need of employers to receive services from the arrangement managers. On the other hand, insofar as more agents will be appointed with respect to the employees of a certain employer, the necessity of the arrangement manager may increase, due to its status as a centralizing factor providing service to the employer (for details regarding the expansion of the activities of the clearing house, see section 6.2.3(c)(1) above).
- In July 2017, an **explanatory document circular** entered into effect, which replaced an old circular on the subject from 2009, and which required license holders to submit to the customer an explanatory document

when providing a recommendation regarding their pension savings. The circular is intended to establish a standard structure for the explanatory document, and to allow the automation and transfer of data through the pension clearing house. The circular expands the obligation to perform an explanatory process for a series of actions, also in the stage after joining the pension product. The scope of debt was determined according to the type of action. The circular includes a disclosure obligation in cases where the product recommended to the customer participates in an agent commissions campaign for sales promotion on the part of the institutional entity.

The provisions of the explanatory document circular expand the requirements which apply on the matter, 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 an 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.

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

The Company is studying the implications of the draft circular regarding service to agents, including in connection with its possible impact on the institutional entities, and in connection with the duties which will apply to the insurance agencies which are owned by the Group.

- As of the publication date of the report, the Group is engaged in the segment through 2,090 insurance agents⁶⁶. Most of the agents also engage with other insurance companies, and the Group's member companies do not have any insurance agent whose scope of activities in this segment exceeds 10% of the Group's scope of activities in the segment.
- Approximately 12.3% of total premiums in the life insurance branch which were collected by Clal Insurance during the reporting year are due to the activities of the Group's agencies, as compared with approximately 11.9% in 2016.

B. Sales through pension advisors

- During the reporting year, most of the banks continued distributing provident funds and pension funds. Clal Pension and Provident Funds is engaged in distribution agreements with most of them. As of the publication date of the report, the banks have not yet begun advising regarding insurance products.

⁶⁶ Including agents who made sales in 2017 in an amount exceeding NIS 10,000.

- As of the publication date of the report, there is significant consulting activity regarding provident products through banks; however, on all matters associated with the distribution of pension funds, the bank's activities are immaterial.

C. Direct sales

- Some of the products in the segment are marketed through direct sales to customers by the Group's employees who hold pension marketer licenses, or by the Group's agencies.
- The Group's employees who are engaged in direct sales in the segment (customer relations managers) are primarily engaged in sales of pension products, and focus on marketing pension arrangements in organizations which are generally not lenders in agents on their behalf. The direct sales channel also includes a unit which is engaged with the banking system in the pension advice segment, primarily with respect to provident products. Additionally, during the reporting year, HaClal HaRishon focused on telephone sales of risk products.
- Engagements for the sale of products in the segment to salaried employees in the workplace are mostly signed vis-à-vis the employer, the employers organization or the employees organization and/or professional union, subject to the provisions of the legislative arrangement regarding the customer addition method. The engagement for the sale of products in the segment to self-employed members is performed on an individual basis.
- The Company operates a customer service center which provides direct support to customers, as well as a customer retention unit.
- The Company works vis-à-vis external consultants who are recruited by public companies and entities, for the purpose of publishing tenders and conducting negotiations regarding the selection of the pension insurer and determining the terms of the pension arrangements of their employees.
- For details regarding the establishment of the customers division, see section 10.8 above.

7. Mortgage banks - risk

- The Company engaged in agreements for the provision of insurance services through mortgages with some of the mortgage banks which are under their control of agencies, as stated above. During the reporting year, the Group continued marketing risk policies to mortgage buyers, through insurance agencies owned by banks, and also through insurance agents, and continued marketing such policies to support mortgages from Clal Mortgages.

Commission structure in the long term savings segment

A. Insurance agents

Presented below are details regarding the structure of commissions paid to agents during the reporting year:

- **Life insurance branch**

The commissions which are paid to agents in the life insurance branch with respect to policies which were sold until 2004, are as follows:

- o **Renewal commissions:** Commissions at a fixed or variable rate of the paid premiums, which are paid for a limited period, on an ongoing basis.

- o **Collection fees:** Commissions at a fixed rate of the paid premiums which are paid throughout the entire lifetime of the policy as fronting fees.
- o **Special commissions - First year commissions:** Upon the sale of the policy, or with respect to it, a one-time payment in cash and/or in cash equivalents may be paid, in accordance with specific agreements with agents, which are generally dependent upon the new output with respect to the first year of the policy sale.

Beginning in 2004, the commission structure in the life insurance branch is as follows:

- o **Renewal commissions:** The commission is generally paid with respect to the sale of risk products and certain profile policies which were sold in the past, at a fixed or variable rate of the paid premiums, which are paid for a limited period, on an ongoing basis. In risk products, after a period of 15 years, the commission rate decreases significantly.
- o **Commissions for management fees from deposits:** A commission which is paid with respect to the savings component in the policy, throughout the entire policy lifetime, at a rate which is derived from the management fees which are collected from the premium, and in accordance with the product type.
- o **Commissions for management fees from accrual:** A commission derived from the management fees which are collected from the balance of savings in the policy. In general, the Company discontinued paying commissions for management fees from accrual with respect to policies which were sold during or after 2013, in most products.
- o **Commissions from accrual:** With respect to certain profile products which were marketed in the past, commissions from accrual are paid.
- o **Special commissions: first year commissions -** Commissions which are paid on a one-time basis, with respect to new output, in the first year of the policy lifetime, in cash and/or cash equivalent, whose rate or amount is determined according to specific agreements with agents, and at times, for fulfillment of sales targets, and **management commissions -** commissions derived from the premiums and paid with respect to new output in the first years of the policy lifetime, as stated above.

Following the amendment to the law regarding the calculation of distribution commissions, which entered into effect in April 2017 (see this section 10.8.3.1 below), the Group's institutional entities worked to adjust the compensation model for agents, in accordance with the legislative amendments. With respect to products which are sold from the aforementioned date onwards, commissions that are connected to the management fees which are collected from the customers are not paid (with respect to individual products, commissions from accrual are paid instead of commissions derived from management fees, and with respect to profile products for salaried employees and the self-employed, renewal commissions are paid, instead of commissions out of management fees from deposits, and additionally, with respect to the aforementioned products, first year commissions are paid, with no connection to the management fees.

During the reporting year, the Company continued working to collect debts from agents with respect to payments which were paid in advance for policies which were then canceled. For additional details, see Note 11 to the financial statements.

In collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately, in accordance with the law. The commission rate paid by an insurer to an insurance agent with respect to a collective life insurance policy may not exceed 5% of the gross premiums.

Commission rates to third parties in the life insurance branch⁶⁷

The average commission rate during the reporting year, out of the total premiums in the life insurance branch in the different products which attributed to agents, amounts to approximately 9.95%, including commissions paid for collective insurance, as compared with 11.02% in 2016.

The average rate of a commission from a new annualized premium in the life insurance branch, with respect to the different products, during the reporting year, amounts to approximately 30.5%, as compared with approximately 35.9% in 2016.

• **Pension funds branch**

- o **Current commissions from contributions** - Clal Pension and Provident Funds pays commissions to insurance agents with respect to pension product sales. In the comprehensive pension fund, these commissions are generally paid as a rate of the contributions, according to a specific agreement between the agreement and the Company, in consideration of the total management fees which are collected from customers. With respect to pension products which are marketed from April 2017 onwards, these commission are paid without connection to the management fees which are collected from the customer (for details regarding the reform on this matter, see this section 10.8.3.1 below).
- o For details regarding the payment of special commissions with respect to new annualized first deposits of contributions to the comprehensive pension fund, see the description of special commissions in the life insurance branch above.

Commission rates to third parties in the pension fund branch^{68,69}

In 2017, the rate of commissions paid to insurance agents with respect to pension products was 2.3% of the total contributions attributed to agents in the pension funds, as compared with 2.6% in 2016.

Provident funds branch

- o **Commissions for management fees from accrual** - with respect to provident products which were marketed until the reporting year, the commissions with respect to provident product sales are generally paid to the insurance agents as a rate of the accrual of members.
- o **Commissions from accrual** - with respect to provident products which are marketed from the reporting year onwards, commissions are paid as a rate of the accrual, without connection to the management fees which are collected from the customer (for details regarding the reform on this matter, see this section 10.8.3.1 below).
- o For details regarding the payment of **special commissions** with respect to new first deposits (including one-time deposits which are due to the transfer of accrued balances) of contributions to provident funds which are managed by Clal Pension and Provident Funds, see the description of special commissions in the life insurance branch above.

Commission rates to third parties in the provident fund branch⁷⁰

⁶⁷ During the reporting year, the rate was affected, inter alia, by the reform regarding the separation of commissions from management fees, as specified in section 10.8.3.1 below.

⁶⁸ Not including payment to a license holder in accordance with the Distribution Regulations.

⁶⁹ See footnote 67 above.

⁷⁰ See footnote 68 above.

In 2017, the rate of commissions from managed assets in the provident funds which were paid to the insurance agents with respect to provident products amounted to 0.4% of total provident assets attributed to agents in provident products, as compared with 0.36% in 2016.

- Presented below is a description of the regulatory provisions which were published in the reporting year and in the preceding year, and which may affect the payment of commissions to pension marketers, agents and arrangement managers in the long-term savings segment:
 - o In April 2017, the amendment to the Control of Financial Services (Provident Funds) (Amendment No. 20) Law, 2017, entered into effect, in which it was determined that a distribution commission should not be calculated in connection with the rate of management fees which are collected from the member (the “**Legislative Amendment Regarding The Calculation Of Distribution Commissions**”). An industry-wide position preceded the amendment, which was published by the Commissioner, regarding payment by an institutional entity to a license holder, as well as a clarification which was given by her on the same matter.

In February 2017, the Commissioner published a consultation paper to the public, in which several example principles were specified, which may serve, in themselves or together with additional principles, as the basis for a compensation model to license holders which fulfills the condition according to which the distribution commission is not calculated in connection with management fees (the “**Consultation Paper**”). The consultation paper includes the following principles: (A) A commission which is paid to the license holder directly by the customer, as a one-time amount or as a fixed payment from their private account; (B) A commission which is determined between the license holder and the customer, and is paid out of the management fees collected by the institutional entity; (C) A commission which is paid to the license holder by the institutional entity as a fixed rate out of the total accrual and a fixed rate of the total deposits, and according to a uniform rate from all institutional entities, which is lower than the maximum rate prescribed in the Control of Financial Services Regulations (Provident Funds) (Management Fees), 2012, but regardless of the amount of management fees; (D) An update to the commission for license holders with respect to customers which they added will apply to the reduction of the commission only, with respect to future commissions only, at least three years after the addition to the pension product, in accordance with an evaluation of all transactions which were made in accordance with the agreement during the evaluated period, and according to criteria which are not based on the average management fees.

During the reporting year, the institutional entities in the Group worked to adjust the compensation model for agents according to the legislative amendment regarding the calculation of distribution commissions.

Clal Insurance and Clal Pension and Provident Funds prepared for the implementation of the new model in accordance with the legislative amendment regarding the calculation of distribution commissions during the reporting year, and are operating in accordance therewith. During the reporting year, the implementation of the aforementioned model had no significant implications on the Group, are resulted in a decrease in commissions in the short term; however, at this stage, it is not possible to estimate the implications of the amendment to the law regarding the calculation of distribution commissions in their entirety, which are expected to be determined over time, and which depend, inter alia, on the arrangements which will be determined with the distributing entities, on the management fee arrangements which will be determined with customers over time, on the conduct of competitors, distributing entities and customers, and on the ability to link income to expenses over time.

The information presented on all matters associated with the possible implications of the position paper and the amendment to the law regarding the calculation of the distribution commission constitutes forward looking information, which is based on assumptions and estimates made by Clal Insurance and Clal Pension and Provident Funds as of the publication date of the report. Actual implications may differ significantly from the estimated implications, and largely depend on the variables specified above.

- o In April 2017, the Commissioner published a industry-wide position paper regarding the obligations of a license holder (the “**Position Paper**”). In accordance with the position paper, it was determined, inter alia, that in cases where an employer is engaged in a business partnership with a license holder, and the employer's employees are customers of the license holder, such cases place the license holder in a conflict of interest towards the customers, which is reflected in a reduction of the license holder's interest to provide beneficial conditions their customers. In accordance with the position paper, the license holder is obligated to disclose to the employee that it has a conflict of interest, and to receive their advance written consent, before implementing the transaction with respect to its pension product. Additionally, according to the Commissioner's position, preference of the employer's interests over their employees' interests, with respect to the selection of pension products, and the receipt of beneficial conditions therein, is inconsistent with the fiduciary duty by which a license holder is bound towards its customers.

- o In February 2018, the Commissioner published a clarification regarding the process of pension marketing upon the addition of members to a pension product in Clal, and regarding the addition of members within the framework of a default product in particular (hereinafter: the “**Clarification Regarding The Pension Marketing Process**”), which primarily involves a provision stating that an insurance agent who performs a transaction with a pension product on behalf of a customer (including addition to a pension product) is obligated to perform a pension marketing process as determined in the provisions of the Law, and that an institutional entity is entitled to pay a distribution commission only in case the pension insurance agent has performed a “transaction” as part of the pension marketing process. Insofar as a pension marketing process was not performed, the institutional entity is not entitled to pay a distribution commission. The Commissioner stated, in consideration of, inter alia, the scope of the current practice, that she does not intend to exercise the enforcement authorities which are vested in her with respect to the distribution commission which was paid to agents before the publication of the clarification regarding the performance of transactions without pension marketing.

In March 2018, the Commissioner notified the Association of Life Insurance Companies Ltd. that, in light of the inquiries which she received regarding the preparations which are required in order to implement the clarification regarding the pension marketing process, the Commissioner will not view as a breach a situation wherein a managing company pays a distribution commission to a pension insurance agent until September 30, 2018 (hereinafter: the “**Preparatory Period**”), with respect to a transaction without a pension marketing process, which was performed before the publication of the aforementioned clarification, provided that, with respect to those for whom a pension marketing process will not be performed until the end of the preparatory period, the Company will work to reimburse the distribution commission which was paid during the preparatory period.

The Company is working to implement the provisions of the clarification regarding the pension marketing process, which is expected to affect the engagements of institutional entities and employers with the insurance agents, and the payments thereto, primarily in the pension segment, including the practice of adding many customers together to a pension product (default product), including with respect to members who were added in this way in the past, and together with the provisions regarding the default fund circular and the amendment to the default fund circular, may affect both the retention of customers and the future addition to the pension products of the Group's institutional entities. At this preliminary stage, it is not possible to estimate the full impact of the clarification, which could be significant, and which depend, inter alia, on the commercial relationships with marketing entities, on the conduct of competing entities, employers and customers, and on the combined impact of the provisions of the clarification, as well as additional directives, including the provisions regarding the default fund circular, and the provisions regarding the consolidation of inactive accounts in pension funds (see sections 6.2.3(a) and 6.2.3(d) above).

The information presented on all matters associated with the possible implications of the clarification regarding the pension marketing process constitutes forward looking information, which is based on assumptions and estimates made by the Group's institutional entities as of the

publication date of the report. Actual implications may differ significantly from the estimated implications, due to the preliminary status of the arrangement, and the factors specified above.

B. Payment to pension advisors

- o The distribution commission rate paid to pension advisors was determined in the **Control of Financial Services Regulations (Provident Funds) (Distribution Commissions), 2006** (the “**Distribution Regulations**”), which determine that a pension adviser, and with respect to study funds also an investments adviser, is entitled to receive distribution commissions from an institutional entity with respect to the distribution of provident funds, pension funds and study funds, due to deposits to the provident fund, at an annual rate of 0.25% out of the total sum available to the customer in the provident fund, except with respect to accrued funds which are due to deposits which were performed until December 31, 2005, into provident funds which were defined in the aforementioned regulations, in which case, the commission rate which the adviser is entitled to receive from the institutional entity will be 0.1% instead of 0.25%, provided that the pension adviser receives uniform compensation from all of the product producers.

In November 2016, a draft amendment to the distribution regulations was published, in which it was proposed to determine that a pension adviser will be entitled to receive a distribution commission also with respect to the distribution of managers' insurance policies and with respect to provident funds for investment. The draft amendment to the distribution regulations also determines that compensation to a license holder will be given by way of monetary payment only, and not by way of other benefits.

In March 2017, a second draft of the distribution regulations was published, in which it is proposed to allow a pension adviser to sign distribution agreements with a managing company under different conditions with respect to give different product groups (annuity paying provident fund and provident fund for savings; provident fund for compensation; personal provident fund for severance pay; study fund; and provident fund for investment).

Insofar as the provisions of the draft amendment to the distribution regulations will be accepted and will become binding, the possibility of compensating license holders who market pension products through non-monetary benefits, such international travel, will be disallowed.

Additionally, insofar as the draft amendment to the distribution regulations, according to its current version, becomes binding, it may, on the one hand, result in the opening of an additional marketing channel for insurance products and provident funds for investment, while on the other hand, it may result in changes to the scope of producers' acquisition expenses, and may affect the profitability rate of the products, including products which were sold in the past, due to the fact that the structure of distribution commissions which will be paid to pension advisors (primarily in banks), with respect to each product group, does not distinguish between products which were sold in the past, and new products. As a result, an impact on profitability is expected in cases where the insurance product was marketed previously by an insurance agent, in light of the structure of the commissions which were paid to the insurance agents, which is based on the increased payment of commissions in the first years of the policy's lifetime, and reduced payment in later years, and in light of the agreements vis-à-vis insurance agents with respect to the portfolios which they manage. Additionally, the draft does not take into account, with respect to insurance products which were sold in the past, the rate of management fees which the policyholder effectively pays to the institutional entity, as determined with it in the agreement.

The information presented on all matters associated with the draft amendment to the distribution regulations constitutes forward looking information, which is based on assumptions and estimates made by the institutional entities in the Group, as of the publication date of the report. Actual implications may differ significantly from the estimated implications, and are largely dependent upon the final version of the regulations, as published.

10.8.3.2. **Non-life insurance**

Marketing and distribution methods in the non-life insurance segment

The Group markets its products in the non-life insurance segment both through insurance agents, including the Group's agencies, and directly.

A. Insurance agents

The insurance agents are the central distribution channel in the segment to end customers, i.e., policyholders. Insurance agents generally engage with several insurance companies. As of the publication date of the report, the Group operates in the non-life insurance segment through approximately 1,446 active insurance agents⁷¹.

The Group has no insurance agent whose scope of activities in this segment exceeds 10% of the scope of activities in the non-life insurance segment.

The rate of sales through insurance agents in this segment, out of the total sales in the non-life insurance segment during the reporting year, is approximately 91.0%, as compared with approximately 91.5% in 2016.

Out of the total premiums in the non-life insurance segment in Israel, approximately 3.69% are due to activities of the Group's agencies, as compared with approximately 4.68% in 2016.

B. Direct sales

Some of the products in the segment are marketed through direct sales, without going through insurance agents. The direct activity is primarily vis-à-vis large business customers. The Company directly markets, inter alia, compulsory motor and motor property insurance policies, and guarantee policies, and also, through Clal Credit Insurance, credit and foreign trade risks insurance. Upon the establishment of the customers unit, as specified in section 10.8 above, HaClal HaRishon also began the direct sale of motor insurance policies, primarily through the digital platform, to customers who, in general, do not operate vis-à-vis the Group through agents.

The rate of direct sales in this segment out of total sales in the non-life insurance segment in 2017 is approximately 9.0%, as compared with approximately 8.5% in 2016.

C. Mortgage banks

The Company engaged in agreements for the provision of insurance services through mortgages with some of the mortgage banks which control agencies, as stated above.

Commission structure in the non-life insurance segment:

A. Commission structure

For insurance agency services, Clal Insurance pays to the insurance agents commissions in cash and/or cash equivalents. The commission amount is generally determined as a rate of the net premium (excluding fees), and is fees conditional upon the scope of the agent's sales, activity and/or profitability.

⁷¹ Including agents who made sales in 2017 in an amount exceeding NIS 50,000.

In general, in collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately.

With respect to some of the aforementioned commissions, advance payments are made to agents from time to time.

B. Average commission rate

The average commission rate out of total gross premiums in the non-life insurance segment⁷² during the reporting year amounted to approximately 14.8%, as compared with approximately 14.5% in 2016.

Health insurance

Marketing and distribution methods in the health insurance segment

The distribution of products in the segment is performed by both agents and insurance agencies, including the Group's agencies, and directly.

A. Distribution through agents and agencies

During the reporting year, individual health insurance policies of Clal Insurance were mostly marketed by insurance agents.

There are also collaborations with selected agents, in which the Company's employees sell to the agent's customers, in his name and with his permission, health products of the Company.

As of the publication date of the report, the Group operates in the health insurance segment through approximately 852 insurance agents⁷³. Most of the agents are also engaged with additional insurance companies.

The Group does not have any insurance agent whose scope of activities in this segment exceeds 10% of the Group's scope of activities in the health insurance segment.

Out of the total premiums in the health insurance segment which were collected by the Company during the reporting year, approximately 3.8% are due to the activities of the Group's agencies, as compared with 3.6% in 2016.

B. Direct distribution

Some of the products in the segment are marketed through direct sales to customers and employers.

The distribution of products in the segment is also performed through HaClal HaRishon and through the Company's collaborations with selected agents, in which the Company's employees sell to the agent's customers, in his name and with his permission, health products of the Company.

For details regarding the creation of the customers unit, see section 10.8 above.

Commission structure in the health insurance segment

In long term individual insurance, the commissions are generally paid as follows:

⁷² Not including commissions which were paid by Clal Credit Insurance or premiums which were collected by it.

⁷³ Including agents who made sales in 2017 in an amount exceeding NIS 10,000.

Routine commissions - Commissions which are derived from the premiums and paid throughout the entire policy lifetime, on a routine basis.

For details regarding the payment of **special commissions** with respect to new annualized premiums in health insurance, see the description of special commissions in the life insurance branch above. Advance payments were made to agents with respect to some of the commissions.

The average commission rate during the reporting year, out of the total gross premiums in the various products of the segment, amounts to approximately 29%, similarly to 2016.

In collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately.

10.8.4. Dependence on distribution channels

The Company is dependent on the direct distribution channel and on the distribution channel through agents and arrangement managers. However, the Company is not dependent on any particular distribution entity (any particular marketer or agent) in either of the aforementioned distribution channels.

10.9. Suppliers and service providers

The Group's member companies acquire products and services from a large number of suppliers and service providers. Expenses in connection with suppliers and service providers include, inter alia, the following:

- A. Direct expenses in connection with claims which are directly charged to the cost of insurance claims, including payments to assessors, loss adjusters, legal service providers, investigators, damage repair services, medical services, etc., as well as payments to entities which provide associated coverages to policyholders ("**Riders**").
- B. Expenses in connection with insurance agents, pension advisors, portfolio managers, marketers and financial advisers.

For details regarding marketing and distribution, see section 10.8 above.

- C. Expenses in connection with operating services for the operation of provident funds which are managed by Clal Pension and Provident Funds. For additional details, see Note 43(b) to the financial statements.
- D. General expenses of the Company to various suppliers, including: rent and office maintenance, payroll processing services, vehicle leasing services, advertising services, telecommunication and postal services, operating services, legal collection, audit services, communication and data communication services, professional consulting, maintenance, licensing and leasing of hardware and software, automation services and depreciation. These expenses are charged to indirect claim settlement expenses, marketing expenses, other acquisition expenses, and other general and administrative expenses (for additional details, see Note 35 to the financial statements).
- E. There are also additional expenses which are discounted for assets in the financial statements, and which include, inter alia, automation, construction and equipment expenses.

For details regarding Clalbit Systems, a wholly owned subsidiary of the Company, which is responsible for the provision of automation services to the Group's member companies (and which acquires services in the automation segments), and regarding the Group's expenses with respect to automation during the reporting year, see sections 10.10.3.1 and 10.10.3.2 below, and Note 35 to the financial statements.

There is no primary supplier upon which the Company is unambiguously dependent, save for Sapiens Technologies (1982) Ltd. ("**Sapiens**"), with whom Clal Pension and Provident Funds engaged in an agreement for the acquisition of a system for the management of members' rights in pension funds, and for the provision of development and maintenance services for the system. During the reporting year, the Group paid to Sapiens a total of approximately NIS 33 million with respect to the aforementioned development and maintenance

services, as compared with a total of approximately NIS 32 million in 2016. (For additional details, see section 10.10.3.1 below and Note 43(d)(1) to the financial statements.) However, due to the nature of circumstances, within the framework of the work done by suppliers in the Group, in certain cases, the suppliers gain unique know-how, or provide services which sometimes create a dependence on them for the Company, for a short period, due, inter alia, to the need to create the projects and/or to perform services in the determined timeframe in accordance with regulatory requirements. For details regarding suppliers, as stated above, with whom the Company has engaged, see Note 43(d)(2) to the financial statements. For details regarding the aforementioned suppliers with whom Clal Pension and Provident Funds engaged, see Note 43(b) to the financial statements.

10.10. Property, plant and equipment

Presented below are data regarding the Company's property, plant and equipment which primarily includes rented and owned buildings, vehicles, furniture, office equipment and IT equipment.

10.10.1. Data regarding rented and owned buildings for self use, in square meters, for the years 2016 and 2017

Company / Unit	Location	As of December 31, 2017		As of December 31, 2016	
		Owned area (square meters)	Rented area (in square meters) ⁶	Owned area (square meters)	Rented area (in square meters) ⁶
Clal Insurance	Tel Aviv ¹	-	34,068	-	33,832
	Petach Tikva ²	-	2,460	-	2,769
	Haifa ³	2,862	-	2,862	-
	Jerusalem	-	1,593	-	1,403
	Beer Sheva	-	1,739	-	829
	Herzliya ²	-	250	-	250
Clal Credit ⁴ and Finance	Tel Aviv	-	1,013	-	1,185
Clal Pension and Provident Funds	Tel Aviv	-	5,226	-	4,861
	Petach Tikva	-	937	-	897
	Jerusalem	-	73	-	73
	Beer Sheva	-	735	-	735
HaClal HaRishon	Petach Tikva	-	3,143	-	2,877
Clalbit Systems	Tel Aviv	-	7,907	-	8,336
Agencies under control ⁵	Throughout Israel	1,027	3,214	1,027	3,214
Clal US	New York	-	93	-	93
Total		3,889	62,451	3,889	61,354

* Excluding parking lot areas.

1- Including area of Canaf.

2- Including backup sites for the Group's IT systems. 3 sites (2 sites in Israel and one in Greece, with an immaterial area).

- 3- 78 square meters, leased to Clal Pension and Provident Funds.
- 4- Including Clal Credit Insurance and Clal Mortgages.
- 5- Including Batach and Tmura.
- 6- Excluding properties which were vacated in 2014, and regarding which the Company is still obligated to pay rent.

Regarding which are held employed through rental, the rental periods vary from building to building, where the largest rental period is until 2030, with respect to the Company's offices in Kiryat Atidim. In some of the rental agreements, the Company has the option to extend the rental period.

The Company is working to fill the occupancy of areas which were rented by it and are unoccupied, by renting them out to sublessees, or by assigning the rental rights to alternative lessees. As a result of the foregoing, the Company is expected to pay rent which it is required to pay according to the rental agreements in areas which were not rented out by it through sublets, and also with respect to the difference, if any, between the rent which it is required to pay under the rental agreements and the rent which is paid by the alternative lessees. As of December 31, 2017, the Company has an obligation to pay rent for properties which were vacated by it at a scope of approximately 10,935 square meters, of which 6,889 were subleased. For additional details in connection with the rent payments which are paid by the Company, and which are paid to it, see Note 27 to the financial statements.

Data regarding buildings which constitute a part of the nostro investment portfolio of Clal Insurance, in square meters, for the years 2017 and 2016*

Place	Designation	As of December 31, 2017	As of December 31, 2016
Gush Dan area	Offices	37,371	37,333
North	Trading	3,108	3,108
Germany	Offices	-	5,954
HaSharon area	Offices	19,086	18,271
Haifa	Offices	3,096	3,096
England and Scotland	Offices	12,547	12,569
Jerusalem	Offices and commercial	6,219	6,110
United States	Offices, commercial and multifamily	53,097	53,213
Total		134,524	139,654

* Additionally, there are holdings in these assets and/or other assets, out of funds managed for others (members and/or policyholders) in the Group - see Note 10 to the financial statements.

10.10.2. Leasehold improvements, furniture and office equipment

In general, the leasehold improvements, furniture and office equipment which are used in the main site and in the end units are owned by the Group.

10.10.3. IT equipment and peripheral equipment

10.10.3.1. **IT systems of the Group in Israel**

The Group's information systems are critical to the management of its business affairs, and the Group considers some of them as strategic assets. The Group's member companies own a wide variety of IT equipment, including servers, infrastructure and communication equipment, terminals and other peripheral equipment. The Company also has a wide variety of ownership rights and/or usage rights with respect to various software programs, including self-developed software programs.

For the purpose of its various operations, the Group uses the IT systems, inter alia, for the purpose of fund management (including funds of the Group's customers), management of customers and their rights, as well as back office systems, organizational systems and decision support systems.

The activities in the IT department are done through Clalbit Systems, which is a wholly owned subsidiary of the Company. Clalbit Systems Ltd. is responsible for providing automation services to the Group's member companies, and as of the reporting date, does not provide services to companies outside of the Group. Clalbit engages with external suppliers for the performance some services.

the Group has a backup site which is intended to allow the continued activity of the Group's critical IT systems in times of emergency. There is also a third site abroad, which is used for data backup only.

The Group's core systems:

Presented below are details regarding the main core systems which are used by the Group for the purpose of managing its business activities in the various operating segments:

- **Pension and provident** - The operation of the business activities in the pension branch is performed, beginning in January 2015, through the Nissan system, which was purchased from Sapiens. In the old pension sub-branch, Atudot Havatika is operated through an external operator, and relies on its systems. In the provident branch, activities are performed through external operators, as specified in Note 43(b) to the financial statements.
- **Life insurance** - The majority of business activities in life insurance are managed by means of an MSS system and an ALIS which connect, inter alia, to systems used for the management of cash, collection and payments. During the reporting year, a decision was reached to conduct an evaluation regarding the feasibility of converting the ALIS system into the BariNet system, which is used in the health insurance segment, while performing the required adjustments.
- **Non-life insurance** - Most of the business activities, including the product production and development, are performed using the TOGO production system, as well as several other self developed systems. The claims unit in non-life insurance is managed through the insurance claims management system of SAP, which underwent adjustments for the Group's purposes. Credit insurance activities are performed through the Hotam system, which is a self developed system of the Group.
- **Health insurance** - The Company's business activities are performed through a self developed system (BariNet) which is used to manage its products, policyholders and suppliers.
- **Investments** - The operational system (back office) is based on a system of Danel Ltd., and is used to concentrate and reevaluate the Group's investment assets. There is also a self developed system, the metro system, which is used for planning, registration and monitoring of the trading orders, and separation of the trading orders between the various accounts, and which allows preventive monitoring in order to identify deviations from the investment restrictions and regulations.

Auxiliary systems:

- **Systems to support insurance business operations** - The core insurance and business systems are supported by various auxiliary systems, including, inter alia, systems for the management of the Group's agents, a document management system, a SAP-based CRM system, a system for the management of reinsurance and reinsurers, and systems for the management of risks and actuarial processes.
- **Systems to support headquarter operations** - The Group has several systems to support headquarter operations. Some of the systems are SAP-based, including the systems for the management of human resources, financial management and budgets, finance management and purchasing.
- **Digital** - The Company provides digital information services to its customers on the Company's website, and provides digital solutions to agents with respect to sales, information and the performance of actions. In 2017, the Company invested in the digitization infrastructure, primarily including an expansion of the information and services to agents, and an expansion of the information and the ability to perform actions

for the Company's customers, through a new customer site, which was developed on a modern digital infrastructure, and which is scheduled for launch in February 2018. The new customer website allows the online performance of a wide variety of operational actions, including the filing of claims, and allows the sale of a wide variety of insurance and savings products of Clal Group. In 2018, the Company plans to continue investing in the digitization infrastructure, in expanding the information and services to agents, and in increasing the accessibility of information and the possibility to perform actions for the Company's customers. For details regarding circulars and regulatory directives which were published during the reporting year on the subject of the digitization of institutional entities, see section 10.10.3.3 below.

- **Engagements with suppliers**

Clalbit Systems operates providers of software and hardware (including as regards maintenance service) which are engaged in agreements with the Group's member companies. The engagements with these suppliers are of a variable nature: engagements at a fixed price per project, engagements based on actual work hours, and engagements based on a price per unit, or a combination of the above.

For details regarding the engagement with Sapiens, see Note 43(d)(1) to the financial statements.

For details regarding the engagement with a third party in an agreement for the performance central parts of the automation road map in the life insurance segment, including upgrading and expanding the core systems in this segment, see below and Note 43(d)(2) to the financial statements.

10.10.3.2. **Investments of the Group in IT systems**

The Group is working to develop and upgrade the IT systems, from time to time, in accordance with its needs and the needs of the Group's member companies. Presented below is a description of the material activities which were performed in the Group's IT systems, by operating segments. The described activities refer to the reporting year, and some are also expected to continue after the reporting year:

Non-life insurance systems -

During the reporting year, the Group continued the implementation of improvements and changes in the division's systems.

Pension and provident systems -

Pension - During the reporting year, additional adjustments and improvements were performed to the Nissan system, a system for the management of members' rights, in continuation of the adjustments to the Group's needs, which were performed thereto during the reporting year, and for the purpose of complying with regulatory directives. **For additional details, see Note 43(d)(1) to the financial statements.**

Provident funds - In the provident branch, the Group received, during the reporting year, operating services (which also include automation of the activity) from third parties, of which the main party is Bank Leumi. In the first quarter of 2018, the transition of the operation of all of the Group's provident funds to Bank Leumi was completed. For details on this matter, see Note 43(b) to the financial statements.

Additionally, following the reform regarding the separation of commissions from management fees (for details, see section 10.8.3.1 above), the Company performed the required adjustments to the commissions management systems which are used for pension and provident products. Additionally, adjustments were made to the collection management systems, in order to adjust them according to the provisions of the Payment Regulations - for additional details, see section 6.2.3(c)(2) above.

Life insurance systems -

In the life insurance segment, Clal Insurance works through two main core systems of a previous technological generation, which were developed many years ago. The functional redundancy of these systems increases operating and maintenance costs in this segment, and places burdens on the adjustment of the systems to all of the Company's needs, including on all matters associated with external data and regulatory interfaces, the requirements for which have been expanded in recent years. For details regarding these requirements, see section 6.2.3(c) above. In recent years, the Company has been working, and continues to work, to expand and improve the core systems of the life insurance branch, in a manner which will increase the efficiency of the current core systems, and is taking supplementary control and operational actions, in order to ensure the adequacy of the supported processes.

In 2014, Clal Insurance formulated a detailed "road map" for tasks which will be performed within the framework of the expansion of the core systems in the coming years. By means of the "road map", the Company works to significantly improve its ability to serve its customers by managing their rights and by being able to represent these rights with high availability and reliability, including by completing rights calculations within the core systems, in parallel with the cleansing of data and the automation of the calculations and processes (including as part of the data cleansing process), the addition of built in structures, and with the aim of reducing the reliance on supplementary processes and compensatory controls. In light of the complexity of the automation systems, and the many layers which were added thereto over the years, the implementation of the "road map" is a complex and proceeding process, which requires a great deal of knowledge and expertise, and the scope of tasks handled therein continuously expands, as more progress is made on the project. For the purpose of implementing the "road map", the Company engaged with an external supplier, as stated in Note 43(d)(2) to the financial statements. The Company is in advanced stages towards the conclusion of the road map project, and is working to complete the entire project in the coming months, including automation of calculations in certain primary core processes. The road map project improved the performance of the systems, and accordingly, the operational ability of the using entities. For additional details regarding the data cleansing project, see section 6.2.6 above, and Note 42(a4)(2) to the financial statements. _

In light of the complexity, limitations and redundancy of the aforementioned systems, the Company is performing a comprehensive evaluation of the long term processes which are required for implementation in the future, for the purpose of improving its automational capabilities on all matters associated with the management of members' rights. As part of the foregoing, Clal Insurance recently decided to perform a feasibility evaluation regarding the conversion of the ALIS system into the BariNet system, for the purpose of reducing redundancies and changing to an innovative automation system. Additionally, a decision was reached to create a modern data warehouse for the life insurance segment.

Discussions are being held between the Company and the Commissioner in connection with the Company's progress regarding the automation systems in the long term savings segment, in which the road map was presented to the Commissioner, and the Company's progress in connection with its implementation is presented on a routine basis.

In recognition of the importance of having efficient and modern automation systems, the Company has prioritized this issue, and in recent years, the Company has invested hundreds of millions of NIS in upgrading and improving the automation systems in the life insurance segment, including the collection management systems (in accordance with the provisions of the Payment Regulations - see section 6.2.3(c)(2) above). For additional details, see Note 6 to the financial statements.

Following the reform regarding the separation of commissions from management fees (for details, see section 10.8.3.1 above), the Company made the required adjustments to the commission management systems which are used in life insurance.

Health systems -

During the reporting year, the Group continued to implement improvements and changes to the division's systems, including the creation of the platform "BariNet express", which is used to allow the Group's agents to directly produce policies, the creation of a reinsurance management system based on the BariNet platform, and the performance of adjustments in compliance with the relevant regulatory directives.

Systems of the investments and finance division -

During the reporting year, the Group continued the implementation of improvements and changes in the division's systems, including the implementation of an investment fund system.

10.10.3.3. Investments in infrastructure

The Group invests in IT infrastructure, in the IT facilities which are used by it, and in end-user units, and operates on a virtual infrastructure, both in terms of servers and in terms of the personal computer workstations of some of its employees. Through these infrastructures, the Group implements disaster recovery (DR) capabilities, including on the level of telephony, which allow the ability to transition from the main site to the backup site, and vice versa. According to the Group's estimate, its current IT systems will serve the Group's needs for the upcoming period. In recent years, a significant expansion has occurred in the application of regulatory provisions to the activities of the Group's institutional entities (inter alia, as specified above), which create material changes and significant and frequent reforms in insurance activities in general, and in the long term savings segment in particular. The Group is currently in an ongoing process of adjusting its IT systems to the regulatory directives and to the changes and reforms implemented therein, of upgrading its IT systems which supported its operations to advanced systems, and ensuring compliance of the IT systems with the terms of the products offered by the Company (such as insurance policies and regulations of pension funds and provident funds).

According to the Group's estimate, the process adjusting the IT systems in accordance with the regulatory directives, and of upgrading the IT systems which support its operations, in a manner which will ensure support for all of the Group's products in the long term savings segment, will continue in the coming years, and will involve significant costs and operational preparations on the part of the institutional entities in the Group. The development requirements are derived both from the requirements of the business operations and regulatory directives.

For details regarding automation expenses in the Group, see Note 35 to the financial statements. For details regarding the scope of acquisitions and self-development, and the amortization of software programs and computers, see Notes 6(a) and 8(a) to the financial statements.

Digital vision, circulars and provisions in the field of automation and digitization

Further to the document "Digital Vision" of the Capital Market, Insurance and Savings Authority from 2016, in which the Authority's vision on the subject of digitization is set forth, and further to the Company's strategic goals on the matter, the Company worked, during the reporting year, to strengthen the digital channels, to increase the transparency and availability of information to customers, in accordance with the relevant regulatory requirements, while working to improve the quality of customer service, and the customer experience, and with the aim of increasing the use of those channels for the purpose of performing actions and receiving information.

The Group has set for itself the goal of continuing to promote digital innovation, with an emphasis on providing information, performing actions independently in the Company's digital channels (agents, customers, employers) and sales. The Group believe that the investments in automation and digitization will result, over the long term, in increased efficiency and will meet customer requirements.

For details regarding the creation of a new website, see section 10.10.3.1 above.

Subsequently, and in accordance with the circulars which were published by the Authority, with the aim of increasing the transparency of information for policyholders, and improving the quality of customer service, all by digital means, the Company completed, during the reporting year, or is working to complete, the implementation of regulatory directives pertaining to digital activities, including the following provisions: the circular regarding "management of cybersecurity risks in institutional entities", the transfer of information to the interface for identification of a policyholder's insurance products at all insurance companies - the "Insurance Mountain"⁷⁴, the implementation of the provisions of the circular regarding "Retrieval of personal information" - which allows customers to access the personal information in their online account on the websites of the institutional entities (both information regarding the insurance and savings products, and information regarding claims), the implementation of the provisions of the circular "Cancellation of insurance policies", which allows, inter alia, the cancellation of insurance policies by digital means, and the provisions of the amendment to the circular "annual report and quarterly report to members and policyholders of institutional entities", pertaining to provisions which obligate the institutional entities to send the annual report by digital means, insofar as they have details to send, as stated above, unless the customer has requested otherwise.

Additionally, in January 2017, provisions were published regarding the "integration of digital tools in customer service of insurance companies", and "integration of digital tools in the customer service of institutional entities - pension savings", which were intended to promote the integration of digital tools in order to improve the quality of customer service in the insurance and savings market. The provisions included the determination of various parameters with which the digital service channels of the institutional entities are required to comply, including providing customers with the option to choose among several different human and digital channels, providing the option to perform a significant variety of core activities, as well as the receipt of information, reliability, security, up to date information and accessibility. These parameters will be measured by the Authority within the framework of the evaluation of service given by the institutional entities to their customers. For additional details, see section 10.2.12 above.

According to the Company's estimate, the integration of digital tools into the Company's activity is expected to improve the process of making information and services accessible to customers, and to improve the customer experience, increase competition and, over the long term, possibly also result in increased operational efficiency.

The information presented on all matters associated with the possible implications of the aforementioned provisions constitutes forward looking information, which is based on the Company's estimates and assumptions, and actual results may differ significantly from the forecast, inter alia, in light of the uncertainty with respect to the conduct of members and policyholders, with respect to their products, and with respect to the conduct of institutional entities regarding the scope of integration of digital tools within the framework of the services which they provide.

10.10.3.4. Management of cybersecurity risks in the Company

- The Company is working to implement the cybersecurity policy which was approved by the Company's Board of Directors.
- The cybersecurity protections which are implemented by the Company are designated in accordance with the risk assessment which is relevant to the Company, and include: evaluations regarding employee

⁷⁴ In February 2018, a draft amendment to the circular regarding the "Insurance Mountain" was published, which, insofar as it will be accepted in its current wording, will expand the information which is submitted to the interface, including with respect to collective long-term care insurance policies, and with respect to motor property claims. For additional details, see section 7.1.1.2c2 above.

recruitment processes, and engagement with suppliers; increasing employee awareness; physical security measures; network protection; protection of systems and applications; permission compartmentalization processes, separation of responsibilities, and monitoring and control tools.

- On all matters pertaining to the receipt of outsourcing services, the Company implements a structured risk management process, including an undertaking by the supplier to meet the information security requirements which were determined by the Company, and additionally, the Company performs, from time to time, information security audits at the aforementioned suppliers.
- From time to time, the Company tests the resiliency of the security apparatus, with the assistance of entities specialized in the performance of penetration tests and security surveys.

For additional details regarding the Group's exposure to cybersecurity risks, see section 10.16(c)(6) below.

10.11. Seasonality

10.11.1. Long term savings

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

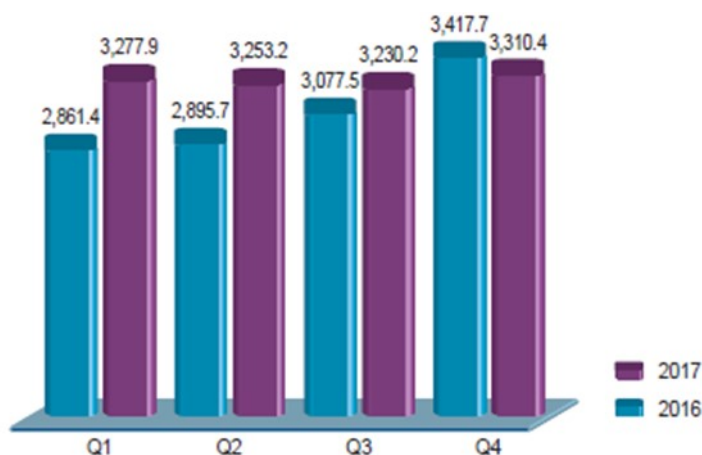
However, due to the timing of the end of the tax year, a certain degree of seasonality exists with respect to deposits from premiums/benefits contributions to pension savings products in December, since substantial amounts are deposited during that month by employees and self-employed persons who initiate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

Presented below is the distribution of the gross premiums and contributions in the long term savings division over the last two years, by quarters (NIS in thousands):

2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums and contributions, NIS in thousands	3,277.9	3,253.2	3,230.2	3,310.4	13,071.7

2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums and contributions, NIS in thousands	2,861.4	2,895.7	3,077.5	3,417.7	12,252.3

Distribution of gross premiums in life insurance and contributions
By quarters in 2016-2017
NIS in millions



10.11.2. Non-life insurance

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

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

Presented below is the distribution of gross premiums in the non-life insurance division over the last two years, by quarters (NIS in thousands):

2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums, NIS in thousands	698,197	554,591	544,041	502,134	2,298,963
2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums, NIS in thousands	669,103	538,511	509,100	515,966	2,232,680

**Distribution of gross premiums in non-
life insurance
By quarters in 2016-2017
NIS in millions**



10.11.3. Other operating segments

Income from premiums in the health insurance segment is not characterized by clear seasonality.

10.12. Intangible assets

10.12.1. Intellectual property

The name "Clal" is registered as a trademark under the name of IDB Development. The Group uses, for the purpose of its operations, the names and logos of the Group's member companies, most of which are not registered as trademarks.

The Group's member companies use, for the purpose of their operations, software programs which are owned by member companies in the Group and/or for which usage licenses were acquired. For additional details, see section 10.10.3.1 above.

The Company develops, through its employees and through suppliers, software programs for self use to which it owns copyrights.

The Company owns internet domains.

For additional details regarding intangible assets, see Note 6 to the financial statements.

10.12.2. Databases

The Group's member companies have databases which include, inter alia, data regarding customers, agents and service providers, which are used, inter alia, for marketing activities, using advanced software programs (CRM), which allow segmentation of the data in various ways. The Company's marketing strategy is based on the databases, which are critical to the management of the Company's business affairs.

The Group works on a routine basis to register its databases in Israel in the records of the Registrar of Databases, in accordance with the provisions of the law. Some of the databases are currently in registration processes and/or evaluation and preparation for the purpose of registration.

10.13. Legal proceedings

Material legal proceedings are currently pending against the Group, including class actions in accordance with the Class Action Law, and derivative claims. For details regarding material claims whose filing as class actions was approved; pending motions to approve class action status for material claims; motions to approve class action status for material claims which were dismissed during the reporting year; material class actions which concluded during the reporting year and until the publication date of the report; immaterial class actions; derivative claims; and material claims against the Group which are not in the ordinary course of business, see Note 42 to the financial statements.

For details regarding legal risk factors in connection with class actions, see section 10.16(b)(5) below.

For details regarding the exposure to the risk associated with class actions, see Note 42(a) to the financial statements.

For summary details regarding the Company's exposure to legal proceedings, see Note 42(c) to the financial statements.

10.14. Financing

10.14.1. Rating

For details regarding the ratings of member companies in the Group and regarding liability certificates which were issued as of the publication date of the report, see Note 25(e) to the financial statements.

10.14.2. Credit

For details concerning the interest rates on loans which applied during the reporting period, see Note 25 to the financial statements.

For details regarding restrictions which apply to the Company regarding the receipt of credit, see Note 25 to the financial statements.

For details regarding credit amounts which were received during the reporting period, see Note 25 to the financial statements.

For details regarding deferred liability notes which constitute Tier 2 capital for the purpose of the economic solvency regime and for the purpose of the accounting solvency regime, see Note 25(b) to the financial statements.

10.14.3. Raising of sources to funds the operation of the Company's business

Based on the assessment of Clal Insurance regarding its capital status, both in accordance with the provisions regarding the implementation of the economic solvency regime, and in accordance with the accounting solvency regime, as specified in Note 16(e) to the financial statements and in Part B - board of directors' report, section 3.2.3, Clal Insurance does not predict a significant capacity for the issuance of Tier 2 capital in the coming year. Accordingly, the Company estimates that Clal Insurance will not be required to raise, in the coming year, sources for the operation of its business, and therefore, the Company also estimates that it will not be required to do so.

The information presented on all matters associated with the raising of funds to cover the Company's routine business operations in the coming year constitutes forward looking information, which is based on the Company's estimates and assumptions as of the publication date of the report. Actual implementation may differ significantly from the forecast, inter alia, due to regulatory requirements which will be determined, the state of capital markets, the business position of the subsidiaries in the Group, actions taken to optimize the capital and debt management in the Group, and the materialization of the risk factors specified in section 10.16 below.

10.15. Taxation

For a description of the taxation arrangements which apply to the Group, see Note 23 to the financial statements.

10.16. Discussion regarding risk factors

This section, which discusses the risk factors with respect to the Company, also includes forward looking information. Forward looking information is uncertain information regarding the future, which is based on information which is available to the Company as of the reporting date, and which includes the Company's estimates and intentions as of the reporting date. Actual results may differ significantly from the results forecasted or implied based on such information, inter alia, due to changes in the business environment any other party in risk factors, including future risk factors.

The institutional entities are obligated to appoint a Chief Risk Officer. For a description of the responsibilities of the Group's Chief Risk Officer, and for details regarding the risk management policy and regarding risk management processes and methods in the Group, including a description of the work process and the methods used to identify the risks and controls which exist in the Group's member companies, see Note 39 to the financial statements.

Risk factors	Risk factor's impact on the Group		
	Significant impact	Medium impact	Limited impact
<u>A. Macro risks</u>			
Economic downturn in Israel	X		
Overall market risk	X		
Specific market risks:			
Interest rate risk	X		
Credit margin risk		X	
Inflation risk		X	
Exchange rate risk		X	
Stock price risk	X		
Other assets price risk		X	
International economic downturn and price drops in capital markets	X		
Credit risks	X		
<u>B. Branch-specific risks</u>			
Insurance risks	X		
Portfolio retention	X		
Catastrophe risks:			
Earthquake in Israel		X	
Terror attack and/or war in Israel		X	
Stability of reinsurers		X	
Strategic risks:			
Changes in legislation and regulations	X		
Competition risks	X		
Legal risks	X		
<u>C. Risks on the level of the Group</u>			
Compliance with regulatory requirements	X		

Liquidity risk			X
Risks associated with the pricing and assessment of insurance liabilities		X	
Operational risks	X		
Information system risks	X		
Cybersecurity risks		X	
Reputation risk	X		
Engagements with external suppliers		X	
Realization of undertaking to indemnify			X

Presented in the following table are risk factors, according distributed by macro risks, branch-specific risks and risks which are unique to the Group, as well as details regarding the risk factors.

The impact of the foregoing risk factors is based on the judgment of group management, based on the information which is available as of the estimation date, refers to each risk independently, and takes into account the probability of the materialization of each risk and its potential results. The estimation of the extent of the risk factors' impact refers to the direct implications on the Company, and does not take into account indirect effects.

A. Macro-economic risks

(1) Economic downturn in Israel

The Group is materially exposed to the state of the Israeli economy, and a downturn in the Israeli economy could affect the scope of the Group's business, particularly in the long-term savings segment, including: a reduction in the volume of savings made by the public, possible arrears in contributions, an increase in withdrawals, an increase in the number of people who are laid off and unemployed, and a reduction in wages, which may result in an increased number of cancellations, and in a decline in the premiums and contributions collected by the institutional entities in the Group, as well as in an increase in the scope of claims. Additionally, as a result of an economic downturn, as stated above, the risk associated with the Group's exposure to entities in Israel through its investments may increase (see credit risks and market risks below). A downturn of this kind may be caused by local and/or international economic factors and/or political or security developments in the region.

(2) Overall market risk

The prices of assets and returns in the capital markets in Israel and around the world very significantly affect the Group's business results. The Group's self investment ("Nostro") portfolio, as well as the asset portfolios of members and policyholders in investment-linked policies, provident funds and pension funds ("Portfolios Managed for Others") are invested in various assets, in Israel and abroad, and their value is subject to volatility which is due, inter alia, to changes in interest rates, in inflation rates, in foreign currency exchange rates, in prices of stocks and other assets, and in credit margins in the market. The Group is exposed to losses with respect to changes in these risk factors, both directly and through their impact on the value of the assets in the Group's nostro portfolio, and indirectly, through the impact of the returns which are achieved in portfolios managed for others on management fees. The materialization of market risks and market conditions characterized by low rates of return may cause non-achievement of the returns which were used to price the products and to calculate the insurance liabilities, and as a result, may lead to harm to the Group's business results. The sensitivity to this risk is particularly high in cases where returns are guaranteed to policyholders / members. For details regarding the main undertakings in which guarantees of this kind have been given, see section 10.5.1(d) above.

The Group is exposed to overall market risk, including as a result of the impact on the Group's profits of portfolios managed for others. Within the framework of the Group's activities with respect to the management of these funds, the Group's member companies collect fixed management fees from the accrual, the scope of

which may be harmed as the scope of managed assets decreases, as a result of negative returns and/or a decrease in the scope of deposits and/or redemptions and/or transfers.

In accordance with the provisions of the law, in some of the investment-linked policies which were sold in the years 1991 to 2003 (hereinafter: "**Profit-Sharing Policies**"), Clal Insurance collects, in addition to fixed management fees, also variable management fees, which are calculated as a proportion of the real returns of the investment portfolio, after deducting fixed management fees and direct expenses due to the performance of transactions (hereinafter in this section: the "**Addition**"). The addition is calculated on an annual basis, according to positive or negative values. In accordance with the provisions of the law, insurers may only collect a positive addition; however, in the calculation of each positive addition, the negative addition which accrued in previous periods will be included. The aforementioned addition affects the Group's profitability. For details regarding the quantitative impact of the exposure to market risks which is due to the management of such funds as of December 31, 2017, see Note 39(c) to the financial statements. Since the calculation of variable management fees in a given calendar year is conducted on a cumulative basis, management fees are collected or returned throughout the year from/to policyholders, according to the returns which were charged for the quarter, which may result in a great deal of fluctuation in income from management fees from quarter to quarter.

(3) Specific market risks

Full correspondence does not exist between the assets in the nostro portfolio and the liabilities held against them, in terms of cash flows, linkage basis and currency and full symmetry does not exist with respect to the accounting treatment of liabilities and assets. For this reason, the economic equity, accounting equity and net profit of the Group are exposed to changes in risk factors, of which the main ones are specified below. The Group's financial statements are prepared in accordance with accounting rules. The capital requirements which apply to Clal Insurance in accordance with the economic solvency regime are based on economic principles, and in parallel, until a full audit has been conducted regarding the calculation of the economic equity requirement, Clal Insurance is also subject to the provisions of the accounting solvency regime. A portfolio composition which is optimal from an economic perspective is not necessarily optimal from an accounting perspective, and vice versa. It is noted that the types of risks which will be specified below also exist in portfolios managed for others in Otzma, since they are not necessarily identical to those described regarding the nostro portfolios.

- Interest rate risk - From an economic perspective, the Group's main exposure is to an interest rate decrease, due to the fact that the average lifetime of its liabilities is significantly longer than the average lifetime of its assets. The economic solvency regime includes an interest rate decrease which may adversely affect solvency ratio. In the current interest rate environment, the Group is also exposed from an accounting perspective to losses in particular scenarios of interest rate decrease, primarily due to the impact of such changes on the calculation of the reserves, inter alia, with respect to the discount rates which are used in the calculation of the liability adequacy test (LAT), the calculation of the K factor, and the calculation of pension reserves, in a scope which may exceed the capital gains which will be created in that scenario with respect to assets which are sensitive to interest rates (see Note 39(e1) to the financial statements). However, the Group may also be exposed to certain scenarios involving interest rate increases, due to the relatively long average lifetime of the assets, in consideration of the long term nature of most of the liabilities, due to the fact that, in accordance with the currently practiced accounting method, in certain scenarios involving changes to interest rates, there is not necessarily full correspondence between the change in the market interest rate and the discount rate which is used to discount the various insurance liabilities. It is noted that, in the long term, the Group's is also exposed to an ongoing low level of interest rates, with an emphasis on the index-linked interest rate, which may make it difficult to achieve the guaranteed rate of return for guaranteed-return products, and to achieve the returns that were used to price other insurance products, and to require a renewed evaluation of the actuarial assessment of the Group's insurance liabilities (for details concerning the interest rate which is used in the calculation of insurance liabilities, see Note 39(e1) to the financial statements).

- Credit margin risk - The Group is exposed to the risk of loss due to the effects of changes in the credit margin in the market, on the value of marketable debt assets, and due to a certain effect on the calculation of part of the insurance reserves.
- Inflation risk - The Group is exposed to increases in the inflation rate, due to the fact that the majority of the Group's insurance liabilities are adjusted on a quarterly basis to the inflation rate, while the assets held against them are not necessarily CPI-linked. Additionally, some of the Group's financial debt is CPI-linked, and increases in the inflation rate will result in an increase in the Group's financing expenses. Additionally, due to the fact that the collection of variable management fees in the profit-sharing portfolio depends on the real returns which were achieved, an increase in the inflation rate may reduce the Group's income from management fees.
- Exchange rate risk - The Group is exposed to changes in foreign currency rates, primarily with respect to the foreign investment portfolio, which is not fully hedged against changes in exchange rates.
- Stock price risk - The Group is exposed to changes in the prices of marketable stocks which are characterized by high potential volatility, both in the nostro portfolio and in portfolios managed for others. In light of the scope of the exposure of the profit-sharing portfolio to volatility, the volatility in stock prices may significantly affect the scope of variable management fees collected by Clal Insurance.
- Other assets price risk - Some of the Group's assets and assets managed for others are invested in alternative investments, which include investments in real estate and real estate funds, in investment funds, in non-marketable shares and in additional investment instruments. These assets are exposed to changes in their value, which may result, inter alia, from changes in capital markets in Israel and around the world, changes in prices of commodities and real estate, and business specific risks. Due to the nature of these investments, the response time the responsibility of changes in their value may be long, and this factor may increase the intensity of price risk.

For details regarding sensitivity tests to market risks, see Note 39(c)(2) to the financial statements.

(4) International economic downturn and price drops in capital markets

The Group is exposed to harm to the value of its investments in financial assets in international capital markets, and in other assets abroad. A global economic downturn could also affect the results of Clal Credit Insurance, which insures the debts of debtors in various countries, who are affected by the economic situation in those countries. Additionally, the stability of the reinsurers with which the Group engaged may be reduced as a result of price drops in international capital markets, or an economic downturn in the countries where they operate.

(5) Credit risks

The Group is exposed to the possibility of financial loss as a result a decrease in credit quality and insolvency of borrowers and other debtors, both through its exposure to financial assets, and through insurance operating segments of the Group which include policies in accordance with the Sales Law and credit insurance, and as a result of its exposure to other debtors, including agents, employers and policyholders. With respect to its holdings in debt assets, the Group is exposed to decreased asset value as a result harm to the debtor's financial stability (including debt settlements) and/or as a result of the increase in the credit margin in the market.

Additionally, an increase in business insolvency cases in Israel may also affect the scopes of claims in the directors and officers liability insurance branch, in which the Group operates (see section 7.1.2c above), the scope of employers' debts with respect to non-transfer of payments to pension insurance for their employees, which requires the Group's institutional entities to initiate collection proceedings, and the insurance risks in the operations of Clal Credit Insurance (see below under "insurance risks").

Within the framework of its assets portfolio, the Group is exposed to various market branches, of which the primary ones are the banking and finance branch (which also includes exposure through deposits), the

infrastructure and energy branch and the real estate branch in Israel. The exposure to the banking segment and to the financial segment is also due to the fact that the Group holds most of its assets and of its customers' assets in accounts at banks, financial institutions and brokers in Israel and abroad, and receives clearing services through banks. Additionally, the Group is exposed to reinsurers (see below: "exposure to the stability of reinsurers"). Despite the fact that the Group is working to increase the distribution where possible, the exposure to the banking segment in Israel is characterized by exposure to a relatively small number of borrowers with high ratings, as a result of the concentration-oriented structure of the branch in Israel. A deterioration in financial stability, non-fulfillment of the liabilities of those entities, or an insolvency event in any of the aforementioned entities, may have a significantly adverse effect on the Group's business results.

For additional details concerning credit risks, see Note 39(f) to the financial statements.

B. Branch-specific risks

(1) Insurance risks

In the insurance operations, the Group is primarily exposed to risks associated with changes in risk factors, as compared with the actuarial assumptions, and to risk of a single large damage or to the accumulation of damages due to a catastrophic event.

The actuarial models which are used by the Group's insurance companies to price products and to estimate of insurance reserves which they hold, are mostly based on the assumption that past behavior patterns and past claims will represent future occurrences. Changes in the risk factors which affect the prevalence and severity of events, as compared with the estimates in the actuarial model, may significantly affect the Group's business results:

In non-life insurance business operations, the main insurance risks are due to the difference between the risk at the time of pricing and at the time of the estimation of insurance liabilities, and their actual occurrence. The gaps may be due to incidental changes in insurance business results, and to changes in the average cost of claims and/or in the prevalence of claims due to various factors. In particular, in the liabilities branches, there is significant uncertainty regarding the cost of claims, inter alia, due to the existence of time gaps between the event date, the disclosure date and the payment date (long tail claims).

In credit insurance business operations, the main insurance risks are credit risks, due to the ability of debtors to service their liabilities, and also depending on the state of the economy. Foreign trade risks insurance also involves foreign political risk. additionally, catastrophic events such as war or strike involve credit risks, due to their impact on the ability of debtors to service their liabilities.

In life and health insurance business operations, the main risk factors include demographic risks, such as changes in the mortality rates, changes in morbidity and disability, and medical developments, as well as risks pertaining to the conduct of policyholders (for sensitivity tests regarding the actuarial assumptions, see Note 39(e1) to the financial statements). In life insurance specifically, an increase in life expectancy and/or an increase in the rate of policyholders who withdraw, as an annuity, the funds which accrued in the insurance funds which are managed by the Group and which have a guaranteed life expectancy annuity factor, and/or changes in the choices of policyholders with respect to the annuity receipt track, among the tracks which are available in the policies, may result in the need to increase its insurance liabilities, and primarily in insurance funds in which the annuity factor was determined based on mortality tables which are different from the current or future mortality tables. Additionally, there is the risk that the level of expenses throughout the lifetime of the portfolio will be higher than the estimate, inter alia, due to changes in the conduct of members or policyholders, the scope of realizations of the option to transfer the accrued amounts in the fund or in the policy, and regulatory changes. In the health and long term care insurance branches specifically, and in coverages with respect to loss of working capacity, the main risk is increase in morbidity and disability rates which affect the number of claims, the duration thereof, and the cost thereof. Such an increase may also be affected by changes in the interpretation of the insurance event by the regulator and/or by the courts. An

additional risk factor is the realization rate of the option for continuity without underwriting in collective insurance policies, where a risk exists that the option may be used by policyholders with greater insurance risk.

(2) Portfolio retention level

The portfolio retention rate, which depends on the cancellation, suspension and transfer rates, constitutes a significant insurance risk in the life and health insurance business operations, due to the fact that the profitability in this segment is based on a margin in premiums and the collection of management fees throughout the lifetime of the policy (for sensitivity tests regarding the assumptions with respect to cancellations, see Note 39(e1)(b)(4) to the financial statements). It is noted that the cancellation of the policies also causes the write off of deferred acquisition costs with respect to those policies.

(3) Catastrophe risks

The Group is exposed to the risk that a single event with great impact (a catastrophe), such as an earthquake, natural disasters, war, terror attack or epidemic, will result in a significant accumulation of damages.

- **Earthquake in Israel** - The most significant catastrophic event to which the Group is exposed in Israel is an earthquake, primarily due to its exposure in the property insurance and life and health insurance branches.
- **Risks of war and terror attack in Israel** - The Company is exposed to an event of this kind primarily in life and health insurance.

Clal Insurance acquires partial protection against the accumulation of insurance events, including, inter alia, against earthquakes, natural disasters, and war and terrorism damages. The scope of acquired coverage is based on model-based assessments and/or on studies concerning the extent of damages expected to result from a catastrophic event, and there is no certainty regarding the materialization of the associated forecasts. In the event that actual damages are higher, the Group will bear the excess damage, which may be significant. For details regarding the scope of the protection which is acquired against catastrophic events, see section 10.6.7 above.

(4) Stability of reinsurers

The insurance companies in the Group insure some of their business operations in reinsurance, mostly through foreign reinsurers. However, the reinsurance does not release the direct insurers from their obligation towards their policyholders according to the insurance policies. The Group is exposed to risks which are due to uncertainty regarding the ability of reinsurers to pay their share in the insurance to the Group's member companies. Despite the fact that the exposure of the Group's member companies is backed by reinsurance which is distributed between various reinsurers, and the main exposures are to reinsurers with high international ratings, the collapse of one of the large reinsurers with which the Company has engaged could have a significant impact on the Group. The Group has very significant exposure in case of a catastrophic event simultaneously with the collapse of a large reinsurer which insures the Company against an event of this kind. However, the probability of the materialization of an event of this kind is estimated to be low, due to the fact that the two events have low probability, and the factor linking them is not high. For details regarding the exposure of the Group's member companies to reinsurers, see Note 39(f)(8) to the financial statements.

(5) Strategic risks

The Group is exposed to changes in its operating environment, which may affect its business operations, and particularly:

- Changes in legislation and regulation - The Group is exposed to changes in legislation and regulation which pertain to its operating segments, some of which constitute significant reforms. In particular, some of the regulatory changes which were implemented in recent years, and those which are proposed, some as non-final drafts, may constitute a threat on components in the branch's business model. Additionally,

changes in legislation and in regulation, including circulars, determinations in principle, position papers and directives which the Commissioner is authorized to impose in connection with changes in policy terms, including tariffs, may affect the Company also with respect to products which were sold in the past, including by way of cancellation and replacement of products, by way of retroactive application, and due to their impact on the interpretation of agreements which were signed in the past. For details regarding the known regulatory changes which may affect the Group, see, inter alia, sections 6.1.3, 6.2, 7.1.1.1b(1), 7.1.1.1c(1), 7.1.1.1d(1), 7.1.1.1d(2), 7.1.1.2(b3), 7.1.1.2(c2), 7.1.1.4a, 8.1.2(1a), 8.1.2(1c), 8.1.2(2), 8.1.2(1c)(b), 8.2, 10.2, 10.8.3.1 and 10.10.3.3 above, as well as Note 42(d) to the financial statements.

- **Competition risks** - The Group is exposed to a high level of competition in all of its operating segments. The increased competition is also affected by the aforementioned regulatory changes, which may harm the Group's profitability, both due to their direct effect on the profitability of the products and services in which the Group is engaged, and due to increased operating, marketing and distribution costs, and increased competition in the Group's operating segments.
- **Legal risks** - The complexity and scope of the Group's operations, and particularly, the long validity period of the insurance agreements, create significant exposure to legal risks which may arise due to deficiencies in legal documents, including policies and reinsurance contracts, to operational deficiencies in the implementation of agreements, and to changes over time in interpretation or in the determination of standards of conduct, including with respect to products which were sold many years ago, including through retrospective application. Additional risks are due, inter alia, to legal precedents pertaining to the payment of claims, and which may increase the amount of claims which the Group's member companies will be required to pay, and the instructions and determinations of the Commissioner. All of the above may expose the Group to material claims which are not in the ordinary course of business, and which may affect the operations and/or financial results of the Group's member companies, or the need to increase the insurance liabilities.

In particular, the Group has significant exposure to class actions and derivative claims, both those for which legal proceedings have been initiated, and those regarding which the potential exposure to the filing of a class action or a derivative claim was brought to the attention of the Group's member companies through self-disclosure and/or through inquiries by customers or third parties, by various means, and those regarding which the Group's member companies is unaware, as stated above. In recent years, a trend of increase has occurred, both in the number of motions to approve class actions, and in the number of claims approved by the court as class actions. According to the Company's estimate, the matter is affected, inter alia, by the change in the general approach of the courts with respect to class actions in general, and the unique characteristics of the insurance, pension and provident segment in particular. (For details regarding the exposure to class actions and derivative claims, see Notes 42(a) and 42(b) to the financial statements.)

C. **Risks on the level of the Group**

Presented below are details regarding the risks which may materialize on the level of the Group without materializing simultaneously in all or most the companies operating in the same branch:

(1) **Compliance with regulatory requirements**

The ability of the Group's institutional entities and agencies to operate in its areas of activity is conditional upon the holding of the licenses and permits which are required in order to engage in those areas of activity, including compliance with regulatory capital requirements. For details, see section 10.3.1.2 above. Additionally, significant operations in the Group are subject to specific and complex regulations. In particular, the insurance and long term savings operations are subject to various regulatory provisions, which change from time to time, with respect to products which were sold over many years, and which have long insurance coverage periods and/or savings periods. Non-fulfillment of regulatory requirements may result in sanctions including, inter alia, revocation of licenses and permits, and financial sanctions against the Group, and orders of reimbursement, including as part of audits by supervisory entities or complaints or defects which have been identified, and may serve as the basis for lawsuits filed against it. For additional details, see Note 42(d) to the financial statements.

The Company is subject to restrictions and terms by virtue of control permits for the institutional entities under its control, including a requirement to maintain capital (see Note 16(e) to the financial statements). Failure to comply with this requirement may result in the imposition of sanctions against the Company and its controlling shareholders.

(2) Liquidity risks

The Group is exposed to risks due to the uncertainty regarding the date when the Group's member companies will be required to pay financial liabilities, claims and other benefits to other policyholders and creditors, relative to the scope of funds which will be available for this purpose at that time. The possible need to raise sources unexpectedly and in a short time may require significant realization of assets under pressure conditions, and the sale thereof at prices lower than the market prices. Liquidity risk also exists with respect to the activities of the Company itself, which relies on dividends from its investee companies to pay its liabilities, however, in consideration of the low scope of the liabilities of the Company itself, and the scope of its own sources, this risk is estimated as low. In the Group's insurance activities, liquidity risk is not estimated to be material due to the high scope of liquid assets in the nostro portfolio, the high scope of current incoming cash flows from premiums, and the fact that the payment of claims is conditional upon the fulfillment of insurance events. However, liquidity risk may increase upon the materialization of a significant catastrophic event.

(3) Risks associated with the pricing and assessment of insurance liabilities

The Group is exposed in its insurance activities to **model risk** - The risk that the wrong model will be chosen for pricing and/or for the evaluation of insurance liabilities; **Regarding parameter risk** - the risk of the use of incorrect parameters in models, and **regarding underwriting risk** - the risk of the use of incorrect pricing due to deficiencies in the underwriting process.

(4) Operational risks

The Group is exposed to operational risks, i.e., the risk of loss due to the inadequacy or failure of internal processes, people or systems, or due to external events. The Group's exposure is due to processes which include, inter alia, processes involving purchasing, payroll, investment, collection, policy production, policy operation and long term savings, including the implementation of changes thereto, and the attribution of funds to the product's various components and layers, and processes involving activities vis-a-vis insurance agents, employers, salary bureaus, pension clearing house, institutional entities, claim payments, manual operations, data entry into the information systems, production of reports, calculation of reserves, contractual engagements with foreign entities, including foreign brokers and clearing houses, and engagements with reinsurers and service providers. Inter alia, the Group is exposed to operational risks also with respect to negligence by its employees, agents and third parties operating on its behalf, and with respect to malicious actions which may lead to claims in material scopes against the Group and/or to damages in material scopes for the Group. The Group is also exposed to fraudulent actions on the part of its customers and additional entities with which it works. These exposures to operational risks are due, inter alia, to the complexity of the products and services which are currently marketed by the Group, and which were marketed by it in the past, and to the complexity of regulation which applies to its operations, which increase the risk that a dispute may arise with a customer regarding the interpretation or implementation of the provisions of the law or of an agreement, or to a malfunction in the operation of the products and services. This exposure is greater in long term products, and particularly in life insurance products, due to the high operational complexity of the products, and due to the fact that they are exposed to frequent regulatory changes. In this regard, it is noted that the routine activities involving the cleansing of data regarding members' rights in the long-term savings segment may lead to operational implications and to additional monetary implications, which the Group is unable to fully estimate (for details, see section 6.2.6 above). Additionally, the implementation process of the provisions of the law regarding the method for depositing of payments in provident funds, which includes an interface with many factors, is highly complex, and is accompanied by significant operational difficulties in the short term, although, in the longer term, it is expected to reduce the operational risks involved in the relevant activity (for details, see section 6.2.3c(2) above). In light of the scope of activities of the Group, which currently manages, as of December 31, 2017, assets in the amount of approximately NIS 181 billion, of which approximately NIS

150 billion are assets managed for others (see Part B of the report - board of directors' report, section 3.2.1), and despite the steps taken by it to identify the risks and to determine adequate controls, the scope of its exposure to operational risks of the type specified above is significant.

(5) Information system risks

A significant part of the Group's activities is based on various information systems. Information systems support the management processes, including the calculation of the rights of the Group's customers. The absence of sufficient infrastructure and/or deficiencies and/or failures in the computerized information systems may cause significant damage to the Group's operations. As specified in section 10.10.3.2 above, the IT systems are subject to an ongoing process of adjustment to the frequently changing regulatory directives, in order to ensure the compatibility with the Group's products. A malfunction in information systems and/or information systems which do not comply with the regulatory directives and/or the absence of full compatibility between the IT systems and the terms of the products or the performed actions may expose the Group to non-fulfillment of the regulatory provisions, to errors in data interfaces, and to errors in the operation of products which are marketed by the Group, and which were marketed in the past.

(6) Cybersecurity risks

The Group is exposed to cybersecurity risks, including, inter alia, monetary damages, disruption to the adequate and continuous operation of work processes, the availability, completeness and confidentiality of its information, and harm to its reputation, as a result of unauthorized use of its information assets and/or deficiencies in its information security system and/or actions performed by hostile entities. For details regarding the management of cybersecurity risks in the Company, see section 10.10.3.4 above.

(7) Reputation risk

The Group's reputation serves as a critical component in its ability to operate in all of its operating segments. Therefore, the Group is exposed to risk of harm to its business position, as a result of harm to the Group's image and reputation as perceived by policyholders, members, institutional entities, investors, debt holders, business partners, supervision entities, agents, distribution entities, media and others, inter alia, due to the public mood, and criticism by any of the aforementioned entities regarding its method of conduct, including in connection with the settlement of claims. In this regard, it is noted that Clal Insurance and bonds which were issued by Clalbit Finance are rated by rating companies (see Note 25(e) to the financial statements) and the reduction of the rating given to Clal Insurance and/or to bonds which were issued by Clalbit Finance may significantly harm its activities. Additionally, a change in control of the Company may harm the Group's reputation, the availability of financing sources and the rating of Clal Insurance. The existence of clauses regarding change in control in certain agreements of member companies in the Group with third parties, including reinsurers, may require, upon the fulfillment of such circumstances involving a change in control, negotiating with those third parties in order to keep the agreements in effect.

(8) Engagements with external suppliers

Within the framework of its activities, the Group enters into agreements with various suppliers and service providers, including regarding the operation of provident funds, payroll management, loss adjusters, garages, plumbing service providers, medical service providers, legal service providers, IT service providers, and others. The Group is exposed to risk of harm to reputation and profitability as a result harm to the quality of services which will be provided to it or to its customers, in case the service quality given by those suppliers is in adequate, and is also exposed to the risk associated with the difficulty in finding an alternative supplier, if necessary.

(9) Realization of undertaking to indemnify

Within the framework of transactions involving the sale of assets and/or operations by the Company and/or by its subsidiaries, the selling companies made various representations regarding the sold assets and/or liabilities, and also undertook to indemnify the buyers with respect to inaccuracy of representations and/or with respect to claims which will be filed and whose grounds are due to events which preceded the sale date. The Company may be required to make payments by virtue of these liabilities. (For details regarding material indemnification undertakings, and for details regarding the approval of a class action which may impose an indemnification undertaking on the Company, as stated above, see Notes 42(f), 42(a1)(9), and 42(b1)(2) to the financial statements.)

10.17. Material agreements and collaboration agreements10.17.1. Presented below is a description of the material agreements to which the Company is party, or which pertain to the Company

- **Agreement for the rental of areas with Atidim - Science Based Industries Ltd.** - On March 12, 2013, the Company engaged in a binding memorandum of understanding with Atidim - Science Based Industries Ltd., according to which will rent, on its own behalf and on behalf of the Group's member companies, areas in the Atidim Tower in Ramat HaHayal, Tel Aviv.
- Collective agreement with the Histadrut Worker's Committee in the Group - On July 4, 2017, a new collective agreement (the "**Agreement**") was signed between the Company's subsidiaries: Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems, Clal Finance and Canaf (hereinafter: the "**Companies**") and the Histadrut New General Federation of Labor and the employee committee in the Group, which extended the first collective agreement which was signed in the Group (on January 2, 2014) for a period of 4 years, from January 1, 2017 to December 31, 2020, subject to the agreed-upon changes. For additional details regarding the agreement and regarding the negotiations which are being conducted between the parties regarding the signing of an annex to the agreement in connection with the employees of HaClal HaRishon, see section 10.7.3 above and Note 24(d) to the financial statements.
- For details regarding agreements regarding the automation of systems in long term savings, see Note 43(d)(1) to the financial statements.

For details regarding significant agreements which are immaterial and to which the Company is party, or which pertain to the Company, see Notes 43(b) and 43(d)(2) to the financial statements.

10.17.2. Presented below is a description of the collaboration agreements to which the Company is party or which pertain to the Company

- **Collaboration and shareholders agreement with Atradius Insurance Group** - Clal Insurance engaged with Atradius Group, the owner of 20% of the shares of Clal Credit Insurance, in an agreement which regulates the business collaboration with it as a strategic partner, and sets forth the relationship between the parties as shareholders in Clal Insurance (hereinafter: the "**Agreement**"). On December 29, 2015, the parties and Clal Credit Insurance signed an amendment to the agreement, and an extension thereof for an additional three years until December 31, 2018. The agreement establishes the right of Clal Credit Insurance to receive from Atradius Group professional assistance and information regarding foreign debtors and credit risks (hereinafter: "**Right to Receive Information**"), and formalizes the collaboration between the parties. Additionally, it was determined in the agreement that Atradius Group is entitled to be a leading reinsurer of Clal Credit Insurance, subject to the fulfillment of market conditions and the receipt of a minimum rating (hereinafter: the "**Reinsurance Right**"), and is also entitled to appoint a director in Clal Credit Insurance, who will have veto rights with respect to certain resolutions, as specified in the agreement. Additionally, in accordance with the agreement, Clal Insurance has right of first refusal towards Atradius Group for the acquisition of its shares in Clal Credit Insurance, Atradius Group has the right to

join the sale of shares of Clal Credit Insurance by Clal Insurance, under identical conditions as those of Clal Insurance, while Clal Insurance will be entitled to add Atradius Group to the sale of all of its shares in Clal Credit Insurance to a third party, in accordance with the conditions which were determined in the agreement. The agreement is in effect for 3 years, and is renewed automatically every 3 years, unless one of the parties to the Agreement has notified the other party 6 months before the end of the relevant period, regarding its desire to terminate the Agreement, or in case of termination of the agreement by one of the parties due to a fundamental breach by the other party. In case of termination of the agreement by Atradius Group, option will have the option to acquire from Atradius Group its shares in Clal Credit Insurance at a price which reflects market value. In case of the termination of the agreement by Clal Insurance, Atradius Group will be obligated to acquire, and Atradius Group will be obligated to sell, its shares in Clal Credit Insurance, at a price which reflects market value. In case of a fundamental breach of the agreement by Clal Insurance, Atradius Group will have the option to sell to Clal Insurance its shares in Clal Credit Insurance, at a price which reflects market value. In case of a fundamental breach of the agreement by Atradius Group, Clal Insurance will have the option to acquire from Atradius Group its shares in Clal Credit Insurance at a price which reflects market value.

It was further determined that if Clal Credit Insurance cancels the right of reinsurance, then without the act constituting a fundamental breach of the agreement, Atradius Group will be entitled to choose one of the following two options: (A) cancellation of the right to receive information, or (B) termination of the agreement, in which case, Clal Insurance will acquire the shares of Atradius Group in Clal Credit Insurance at a price which reflects market value. It was further determined that if Atradius Group cancels the right to receive information, then without the act constituting a fundamental breach of the agreement, Clal Insurance will be to choose from among the following two options: (A) cancellation of the right of reinsurance, or (B) termination of the agreement, in which case, Clal Insurance will acquire the shares of Atradius Group in Clal Credit Insurance at a price which reflects market value.

10.18. The Group's vision, goals and business strategy

The Group's vision - To be the leading group in the Israeli insurance and pension market, while striving to increase the Company's value and unlocking maximum value for shareholders, with an emphasis on increasing profitability, improving service for the Company's customers, innovation in services and products, technological and digital leadership, maintenance of high-quality human resources, and continuously striving towards excellence.

Business strategy - The Group prepares, in advance, its business work plan for the subsequent year, while evaluating its strategic plans from time to time, and, as required, updating its goals in accordance with developments in the business environment, in the competition map, in regulation and in the capital market.

The information presented on all matters associated with the strategic plan, as specified below, constitutes forward looking information which is based on the Group's estimates, intentions and strategy, as specified below, which reflect its policy and intentions as of the publication date of this report, and which are based on current estimates regarding the Group's operating segments and the Group's position as of the publication date of the report, and may change, entirely or partially, from time to time. There is no certainty regarding the realization of the Group's intentions or of this strategy. It is possible that the goals described below may not be realized in the future, or that the Group may decide not to implement the aforementioned strategy, in whole or in part, due, inter alia, to the following reasons: changes in economic profitability, changes in the business environment, changes in competitive market conditions and changes in the markets themselves, regulatory changes, changes in the capital market in Israel and around the world, and due to the other risk factors which apply to the Group's activities, as specified in section 10.16 above and in Note 39 to the financial statements.

Strategy - main methods of achieving the vision:

- Continued growth and business expansion in core business operations (non-life insurance, long-term savings and health insurance) in the individual branches, while emphasizing underwriting profit before market share, and return on equity;
- Continued strengthening of the Company's capital structure, and the increased solvency ratio of the Company (on a full basis) by creating profitability and evaluation of the activities in the organization, from the perspective of their contribution to profit and to the capital ratios in the Company, under the Solvency II regime, as well as the continued management of debt, while maintaining the financing expenses;
- Continued leadership in returns for members in all long-term savings segments, including expansion and development of the financial investment activities;
- Retention of the Group's customers;
- Improvement of net accruals in the long-term savings branches, with an emphasis on reducing transfers; Continued improvement of service given to customers and to the Company's agents;
- Establishment of the customers unit, while retaining and strengthening the distribution channel with agents;
- Promotion of digital innovation, with an emphasis on providing information and self service actions, and promotion of digital sales, all through the Company's digital channels (agents, customers, employers);
- Continued improvement of the information system in long-term savings (life insurance, pension and provident funds), while complying with regulatory targets;
- Creation of data infrastructure regarding the use of big data to support business processes;
- Continued close monitoring of compliance with regulatory requirements, control activities and risk management;
- Continued improvement in the satisfaction of Company employees, while maintaining high quality welfare services, and providing training sessions, continuing education and enrichment of professional and managerial knowledge for the Company's employees and managers.

Opportunities -

Presented below are details regarding the main opportunities in the Company's environment, which the Company can use to maximize its profitability and achieve a competitive advantage:

- Successful implementation of digital services to assist in the provision of customer service, strengthen the relationship with them, and bring about increased efficiency in the future;
- Strengthening relationships with customers, including by way of crating high-quality sale infrastructures in the direct channels;
- Business and operational optimization activities which were performed in recent years may allow placing an emphasis on the business development activities and growth in the coming years, while taking into account capital strengthening aspects;
- A broad, large and varied customer base, which can serve as a foundation for future growth;
- Employee loyalty and relationships with distributing entities may contribute to improved satisfaction and growth.

Threats:

For details regarding factors which may adversely affect the Company's ability to compete, grow and generate profits, see section 10.16 above.

Part V - Corporate Governance**11. Corporate governance**

The following sections are provided in this part of the Company's periodic report for 2017 in accordance with the Commissioner's directives regarding the description of the corporation's business for insurance companies; however, some of the information which is included herein is provided in accordance with the Securities Regulations, insofar as it is relevant.

11.1. Outside directors

During the reporting year, no changes occurred to the identity of outside directors currently holding office in the Company.

For details regarding the aforementioned outside directors, see Part D of the report - Additional Details Regarding the Corporation, section 17.

11.2. Directors with accounting and financial expertise

For a list of directors with accounting and financial expertise, and for details regarding their education, experience, qualifications and knowledge, based on which the Company's Board of Directors considers the aforementioned directors as possessing accounting and financial expertise, see Part D of the report - Additional Details Regarding the Corporation, section 17.

11.3. Internal auditor**11.3.1. Details of the internal auditor**

- Name: Eran Shachaf.
- Tenure commencement date: April 1, 2014.
- The internal auditor fulfills the conditions prescribed in section 3(a) of the Internal Audit Law, 1992 (hereinafter: the "**Internal Audit Law**").
- The internal auditor complies with the provisions of section 146(b) of the Companies Law, and with the provisions of section 8 of the Internal Audit Law.
- The internal auditor has no business relations with the Company or with any entity which is related thereto.
- The internal auditor is an employee of Clal Insurance and serves as an internal auditor in the Company, in Clal Insurance and in additional member companies in the Group.
- For details regarding the auditor's holdings in the Company's securities, see section 11.3.11 below.

11.3.2. Appointment method

The internal auditor was appointed in November 2013 by the Company's board of directors and Clal Insurance, further to the recommendation of the audit committee of the Company and Clal Insurance, and his tenure began in April 2014. The appointment of the internal auditor was done in light of his education, and the obligations and responsibilities of the internal auditor in accordance with the law in the Company and in Clal Insurance, in consideration of, inter alia, the Company's size, type, scope of activities and complexity. The authorities of the internal auditor are set forth in a positions and authorities document, which was last approved on December 24, 2017 and on December 28, 2017 by the audit committee and board of directors of the Company and of Clal Insurance, respectively.

11.3.3. Identity of the internal auditor's supervisor

In accordance with the provisions of section 148 of the Companies Law, the individual in the organization who supervises the internal auditor is the Chairman of the Company's Board of Directors.

11.3.4. Work plan

- The internal audit operates in accordance with a multi-annual work plan (for a period of 4 years), and in accordance with an annual work plan which is derived therefrom.
- The determination of audit subjects significantly depends on the risk level inherent in each audited operating segment, and on the probability of the materialization of the risk. The determination of the audit subjects and the frequency of audits therein is based, inter alia, on a risk survey which was performed by the internal audit unit in 2014, in which an emphasis was placed, inter alia, on the financial scope of the activity regarding which an audit is proposed, and on the exposure to operational, regulatory and other risks which are inherent in the aforementioned operation. In 2017, the internal audit unit conducted an updated risk survey regarding the determination of the audit issues and the frequency of performance of the audit thereof during the years 2018-2021.
- For the purpose of determining the internal auditor's work plan, the internal auditor consults with the Chairman of the Board, the audit committee Chairman, the Company's CEO and members of management.
- The internal auditor submits the work plan to the Company's audit committee for approval, in accordance with the provisions of section 149 of the Companies Law.
- The work plan allows judgment for the internal auditor to deviate from the plan, in cases such as regulatory changes, specific requirements of the Commissioner, changes in work processes or changes in the organizational structures which are relevant to the activities on which an audit was planned in accordance with the work plan, as approved by the audit committee. In case of an insignificant deviation from the work plan, the internal auditor is not subject to additional approvals, but submits updates to the audit committee regarding those changes.
- The internal audit unit performed, during the reporting year, an internal audit of the processes which were implemented in the Company in order to identify, evaluate and approve transactions with interested parties which constitute material transactions, as defined in the fourth addendum to the immediate report regulations. The internal audit unit also evaluated certain aspects associated with the performance of other material transactions within the framework of various audit reports.

The was invited to all meetings and attended most meetings of the board of directors and the audit committee, including meetings in which material transactions were discussed.

11.3.5. Audit of investee companies

The work plan of the internal audit unit for 2017 also addressed the activities of subsidiaries, and particularly, material investee corporation of the Company in Israel, as specified below:

Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds.

The aforementioned investee corporation did not have an additional internal auditor during the reporting year.

It is noted that Atudot Havatika has a separate internal auditor, whose activity is not associated with the Group's internal audit division.

11.3.6. Scope of employment

The internal auditor is employed by the Company in a full time position. The internal auditor was responsible, during the reporting year, for the internal audit departments in the Company's investee companies, excluding Atudot Havatika, as stated above. The scope of the audit in the investee companies is derived from the unique characteristics of the activity of each investee company, and from the scope of its activities relative to the scope of the Group's activities.

Presented below is the scope of internal audit work hours which were performed regarding the activity of the Company and of its investee companies during the reporting period:

Company name	Hours worked	Additional internal auditor	Outsourcing	Total
Clal Insurance ⁷⁵	31,600		700	32,300
Clal Credit Insurance	1,050			1,050
Clal Pension and Provident Funds	10,350		250	10,600
Atudot Havatika		900		900
Agencies under the Company's control	550			550
Total:	43,550	900	950	45,400

The total scope of audit work hours in the Group in 2017 (including 900 audit hours of Atudot Havatika) amounted to a total of approximately 45,400, similar to the total scope of hours in the Group in 2016. Atudot Havatika has an additional, separate internal auditor, whose activity is not associated with the Group's internal audit division.

11.3.7. Performance of audits

- Audits are performed in accordance with professional guidelines for the internal audit unit, and in accordance with the guidelines set forth in institutional entities circular 2007-9-14.
- The Company's board of directors is satisfactorily convinced that the internal audit unit is working in accordance with the requirements which were determined in the aforementioned guidelines, inter alia, based on various issues which were presented to the board of directors and/or to the audit committee for approval, including the letter of authorities for the internal audit unit, qualifications, and the resources of the internal audit unit, and routine maintenance and monitoring of the internal auditor's independence.

11.3.8. Access to information

As part of the work done by the internal audit unit, any document or information requested by the internal auditor and required for the performance of his responsibilities were presented to him. No restrictions were imposed on the work of the internal audit unit, and as part of the foregoing, the internal auditor was given free, continuous and immediate access to the Company's information systems and financial data.

11.3.9. Reports of the internal auditor

- The internal auditor's reports are submitted in writing.
- The internal audit reports are presented, on a routine basis, to the CEO of the audited company, for the purpose of holding a discussion regarding the findings of the audit, before presenting them to the relevant audit committee. The audit reports are available to the Board members.
- Presented below are the dates on which the reports regarding the internal auditor's findings were discussed in the audit committee of the Company and/or of Clal Insurance: January 23, 2017, February 15, 2017, March 16, 2017, April 20, 2017, May 29, 2017, June 15, 2017, July 16, 2017, August 13, 2017, September 14, 2017, October 19, 2017, November 19, 2017.

⁷⁵ The figure includes 100 audit hours in Clalbit Finance.

The audit reports are rated by the internal audit department by level of severity. It is noted that some of the internal audit reports are submitted for review to the audit committee members for information purposes only, and are not discussed in the committee's meetings, in cases where the audit report is rated by the audit report unit with a relatively low severity level, in a manner which does not require presenting the report for discussion. It is emphasized, also with respect to the internal audit reports which are presented for information purposes only, that each of the audit committee members has the possibility of requiring that a specific discussion be held regarding the findings and recommendations which are included in the report.

11.3.10. Board of directors' assessment of the internal auditor's work

In the opinion of the Company's board of directors, the scope, nature of continuity of the activities and work plan of the internal audit unit are reasonable in light of the circumstances, and are sufficient to achieve the goals of internal auditing in the Company.

11.3.11. Compensation

- The internal auditor is employed as an employee of Clal Insurance, with the status of Executive VP, in a full time position, and receives a monthly salary, including social fringe benefits.
- The internal auditor has a personal compensation plan with respect to the distribution of an annual bonus, as part of the general compensation policy adopted by the Company. The personal compensation plan of the internal auditor is based, inter alia, on the Company's profit, professional targets associated with the internal audit work plan, including in accordance with the assessment of the audit committee and the assessment of the chairman of the Company's board of directors regarding the internal auditor's work. The targets are approved on an annual basis by the Compensation Committee, audit committee and board of directors, as is the fulfillment thereof. For additional details, see the annex regarding the compensation policy.
- The total compensation to the internal auditor in 2017 amounted to approximately NIS 1.85 million.
- Over the years 2013 and 2014, 26,000 non-marketable warrants exercisable into ordinary company shares were allocated to the internal auditor as part of the 2013 options plan, which applies to corporate officers and employees in the Company and in the Group's member companies. As of the present date, he has 21,667 warrants, following the expiration of some of the warrants. For additional details, see Note 41(a)(2) to the financial statements.
- On March 18 and 22, 2018, the Compensation Committee, audit committee and board of directors evaluated the correspondence of the compensation received by the Company's internal auditor in 2017, as specified in this section above, to the terms of the Company's compensation policy, and found that the compensation corresponds to the terms of the Company's compensation policy.

The compensation policy of the Group's institutional entities applies to the internal auditor. For the transitional provisions which were determined in the compensation circular and in the amendment thereto, see section 10.7.5 above.

In light of the foregoing, in the assessment of the board of directors, the employment terms of the internal auditor are reasonable and fair, and reflect the internal auditor's fulfillment of his personal targets, and his contribution to the Company. The board of directors found that the fixed and variable component which were given to the internal auditor, as specified in regulation 21 of the Securities Regulations (Periodic and Immediate Reports), 1970, correspond to the compensation policy of the Company and of the institutional entities.

In light of the board of directors' impression regarding the personal integrity of the internal auditor and the quality of his work, and in light of the fact that the fixed salary constitutes the main component of the internal auditor's compensation package, the Company's board of directors believes that there is no concern regarding a conflict of interests in that the internal auditor was given warrants in the past, and

that, as part of his compensation plan, he may receive variable compensation, and the foregoing does not affect the internal audit work.

In light of the foregoing, the Company's board of directors believes that the compensation given to the internal auditor does not affect his professional judgment.

11.4. Auditor's Report

11.4.1. Details Regarding the Auditing Firms

- **Kost Forer Gabbay & Kasierer** - Tenure commenced in 1978. Name of responsible partner: Yair Koppel, C.P.A.
- **Somekh Chaikin** - Tenure commenced in 1998. Name of responsible partner: Avraham Fruchtman.

11.4.2. Payments to the auditors

NIS in thousands, excluding VAT

	2017				2016			
	Audit and tax services	Audit related services	Other services	Total	Audit and tax services	Audit related services	Other services	Total
The Company	100	-	-	100	100	-	-	100
Clal Insurance and subsidiaries	3,898	1,154	2,137	7,189	4,130	404	1,471	6,005
Clal Agency Holdings and subsidiaries	142	-	50	192	142	-	-	142
Other companies	34	-	-	34	34	-	-	34
Total companies	4,174	1,154	2,187	7,515	4,406	404	1,471	6,281

11.4.3. Auditors' work hours

	2017				2016			
	Audit and tax services	Audit related services	Other services	Total	Audit and tax services	Audit related services	Other services	Total
The Company	496	-	-	496	555	-	-	555
Clal Insurance and subsidiaries	19,790	4,236	7,891	31,917	21,578	928	5,218	27,724
Clal Agency Holdings and subsidiaries	910	-	188	1,098	950	-	-	950
Other	192	-	-	192	243	-	-	243

	2017				2016			
	Audit and tax services	Audit related services	Other services	Total	Audit and tax services	Audit related services	Other services	Total
companies								
Total companies	21,388	4,236	8,079	33,703	23,326	928	5,218	29,472

The overall scope of work hours of the auditors in the Group in 2017 amounted to 33,703 work hours, as compared with 29,472 hours in 2016.

The professional fees of the accountants with respect to the audit services were determined by the board of directors, in accordance with the recommendation of the audit committee. The professional fees with respect to the audit services were determined following negotiations with the auditors, in which the scope and complexity of the audit were evaluated, with reference to the auditor's salary, according to the conventional practice in the branch. The professional fees with respect to services which are not associated with auditing were determined primarily in accordance with the type of work, the scope of work hours and the audited subject.

11.5. The corporation's donations

As part of its social activities in 2017, the Group donated a total of approximately NIS 1,200 thousand million in Israel, in accordance with the strategy which was defined for 2017: support for associations assisting population groups with special needs, with an emphasis on children. Some of the activities also involved the Company's employees.

Presented below are details regarding the associations to which the Group donated over NIS 50,000 during the reporting year:

<u>Association name</u>	<u>Donation amount (in NIS)</u>
1. Jerusalem Music Center	200,000
2. Nahar HaYarden Village Association	200,000
3. Israel Accessibility Association	120,000
4. Etgarim Association	110,000
5. ALYN Hospital - Wheels of Love	50,000
6. The Association for Encouragement and Promotion of Community Centers in Israel - Reim Project	50,000
7. Knafayim Shel Krembo Association	50,000
8. Beit HaGalgalm Association	50,000

To the best of the Company's knowledge, there is no relationship between the donation recipient and the corporation, director, CEO, controlling shareholder or any relative thereof.

11.6. Effectiveness of internal control over financial reporting and disclosure -

11.6.1. The Securities Regulations

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

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

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

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

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

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

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

In accordance with the circulars published by the Commissioner, which are based on section 302 and section 404 of the **SOX Act**, and as described in the previous board of directors' reports of Clal Insurance, Clal Insurance acted and routinely acts to implement the process required in accordance with the foregoing provisions, including an evaluation of the work processes and internal controls which are implemented, in accordance with the stages and dates set forth in the circulars. In accordance with foregoing, Clal Insurance adopted the internal control model of the **Committee of Sponsoring Organizations of the Treadway Commission (COSO)**, which constitutes a defined and recognized framework for the evaluation of internal control, including the update which was implemented to the model and is required beginning on December 15, 2014.

The management of Clal Insurance (the institutional entity), in collaboration with the CEO, the Executive VP, the Investments, Finance, and Financial Services Division Manager and Senior VP, and the Deputy CEO and Chief Accountant of Clal Insurance ("**Management 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. Based on this evaluation, the management of Clal Insurance has concluded that, as at the end of the aforementioned period, the controls and procedures involving the disclosures made by Clal Insurance are effective for the purpose of recording, processing, summarizing and reporting the information which Clal Insurance is required to disclose in the annual report, in accordance with the provisions of the law, and the reporting provisions issued by the Commissioner, and by the date specified in those provisions.

During the covered period ended December 31, 2017, no change took place in the institutional entity's internal control over financial reporting which could have materially influenced, or which could have been reasonably expected to materially influence, the institutional entity's internal control over financial reporting.

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

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

11.7. Solvency II-based economic solvency regime-

Since June 30, 2017, the insurance companies in the Group have been subject to the provisions of an economic solvency regime, which are based on the provisions of the European Directive Solvency II, and which establish the method used to calculate recognized equity and required equity, on an economic basis. The Group has the organizational, business and automational infrastructure required to perform the calculations. The Group is also in the process of strengthening the calculation processes, controls and the scope of documentation, inter alia, by upgrading the supporting automational systems. At this stage, the calculations are neither audited nor reviewed. In accordance with the Commissioner's directives, the Group performed an evaluation of the gaps as required to meet the audit, with the assistance of its auditors, and intends to complete the audit, for the first time, in the calculation on the data for December 2018.

Clal Insurance Enterprises Holdings Ltd.

Danny Naveh
Chairman of the Board of
Directors

Izzy Cohen
Chief Executive Officer

March 22, 2018

* * *

Annex A

Compensation Policy

Clal Insurance Enterprises Holdings Ltd.

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1. Definitions

The terms used in this compensation policy will have the meanings specified alongside them below:

“**Financial Statements**” - The consolidated and audited financial statements of the company, published to the company’s shareholders.

“**Company**” - Clal Holdings, unless noted otherwise.

“**Transfer of Control**” - A transaction in which the trustee and/or any other party which holds the company’s control shares transfers the control of the company, and/or the company transfers the control of Clal Insurance, to a third party. The foregoing will include any transfer of control, as defined below, including a transfer by a trustee and an action which causes the status of the company to change from a company without a controlling shareholder to a company with a controlling shareholder, excluding a transfer of control which leads to a situation wherein the company is a company without a controlling shareholder.

“**Control**”, for this purpose, is as defined in the Securities Law, 5728-1968.

“**Linkage to the CPI**” - Linkage to increases in the consumer price index, relative to the base index or to another relevant index, as applicable. In the event that, during a certain period, the consumer price index has decreased, the rate of the aforementioned decrease will be subtracted from the future rate of increase, if any increase occurs, as stated above.

“**Base Index**” - The known index with respect to October 2016, unless expressly noted otherwise.

“**Compensation Circular**” - Institutional entities circular no. 2014-9-2, “Compensation policy of institutional entities”, dated April 10, 2014, as amended on October 7, 2015, within the framework of institutional entities circular 2015-9-31 (the “**Amendment To The Compensation Circular**”).

“**Companies Law**” - The Companies Law, 5759-1999.

“**Executive Compensation Law**” - The Compensation to Corporate officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes Due to Exceptional Compensation), 5776-2016.

“Solvency Ratio” - The ratio between the recognized capital and the required capital of Clal Insurance, in accordance with the applicable provisions of the law. It is hereby clarified that upon the adoption of the Solvency II regime, insofar as it will be adopted, the board of directors will be entitled to determine, for a determined period, that the aforementioned ratio will continue to be based on the current capital regime upon the adoption of this policy.

“Minimum Solvency Ratio” - A solvency ratio of 112% according to the current capital regime, or another minimum solvency ratio, as defined by the company’s board of directors from time to time, for the purpose of this compensation policy.

“Application Date” - The approval date of this policy by the competent organs.

“Clal Insurance” - Clal Insurance Company Ltd., a subsidiary of the company.

“Compensation Policy” - As defined in the compensation circular, including a compensation policy in accordance with section 267a(a) of the Companies Law.

“Severance package” - Any compensation which is paid to a corporate officer upon the conclusion of their period of employment, beyond the compensation with respect to the termination of employment, as determined for all employees who are employed in the group’s institutional entities.

“Trustee” - The trustee for the company’s control shares, who was appointed by Commissioner of Insurance in August 2013.

“Corporate Officer” - As defined in the compensation circular, excluding directors.¹²

¹ With respect to the definition of a corporate officer in accordance with the provisions of the Companies Law, it is noted that the company considers as corporate officers, managers who are directly subordinate to the CEO, or managers (even if they are not directly subordinate to the CEO) regarding whom the board of directors has determined that their position is of a type which is conventionally (according to the conventional practice in companies of a similar type as the company) performed by individuals subordinate to the CEO.

² For the sake of caution, an equivalence has been created between the corporate officers of Clal Insurance and the corporate officers of the company. It is hereby clarified that the compensation policy of the group’s institutional entities, including Clal Insurance, will also apply to the company’s corporate officers. The compensation policy of the institutional entities in the company will not adversely affect this policy. Additional issues may be included in the compensation policies of the institutional entities, inter alia, in accordance with the compensation circular, which will not be included in this policy. Changes to the compensation policy of the group’s institutional entities, as stated above, with respect to the aforementioned issues, do not involve changes to this compensation policy.

“Employee” - Including corporate officers.

“Employment Cost” - Any payment with respect to employment, including employer’s provisions, retirement payment, vehicle and expenses associated with its use, and any other benefit or payment.

“Clal Group” or the **“Group”** - The member companies of Clal Holdings Group.

“Income” - The company’s comprehensive income (after tax), as presented in the company’s consolidated financial statements as of the end of the relevant year (including non-recurring income/loss, and including the financial performance of companies which will be acquired in the future by the company).

“Fixed component” or **“variable component”** - As defined in the compensation circular.

“Base monthly salary” - The monthly salary (gross), not including variable salary components (if any are paid) and associated salary components, such as various bonuses, vehicle, telephone, reimbursement of expenses, etc., as well as social benefits and fringe benefits (including provisions for managers’ insurance and/or pension funds, study funds, vacation days, convalescence pay, sick days, etc.).

“Terms of Tenure and Employment” - As defined in the Companies Law.

“Return on Capital” - (Comprehensive) income during the bonus year, divided by equity as of December 31, according to the annual financial statements for the year preceding the year of the bonus.

“Contract employees working at the company” - Employees of a manpower contractor, of which the company is the effective employer, and employees of a service contractor who are employed in the provision of service at the company; For this purpose,

“Manpower Contractor”, “Service Contractor”, “Actual Employer” - as defined in the Employment of Employees by Manpower Contractors Law, 5756 - 1996.

2. **General**

- 2.1 This document is intended to define, describe and outline the compensation policy for corporate officers and directors, as approved by the company's board of directors, following the recommendation of the company's compensation committee.
- 2.2 The compensation policy was determined in accordance with the provisions of amendment 20 to the Companies Law, and in consideration of the compensation circular.³
- 2.3 The compensation policy establishes rules, criteria and benchmarks which will be used to determine the terms of tenure and employment of the company's corporate officers, senior position holders and other employees in the company, with respect to the considerations underlying the determination thereof, in accordance with the specific characteristics of the operation for which the relevant employee is responsible, and in accordance with their experience, qualifications and performance in the position.
- 2.4 The compensation policy has been prepared in consideration of the characteristics of the group's institutional entities which manage public funds, and in consideration of the company's size, which is included on the Tel Aviv 100 Index.
- 2.5 This compensation policy is worded in the masculine gender for convenience purposes only, and refers to men and women alike.

3. **Objectives and considerations in the determination of the compensation policy**

The compensation policy is intended to assist in achieving the company's objectives and work plans over the long term, while taking into account its risk management policy, including, inter alia, the following considerations:

³ See footnote 2 above.

- 3.1 The scope of the group's assets and of the savings assets managed by the group's institutional entities, as well as the characteristics and complexity of its activity.
- 3.2 The financial position of the group in general and of the company in particular, including its liquidity and solvency ratio, and including those of the institutional entities in the group.
- 3.3 Guaranteeing the correspondence of incentives for wise management of savers' funds, through the institutional entities in the group, to returns and risk over the long term.
- 3.4 Cross-organizational considerations, such as desired differences in compensation between different ranks.
- 3.5 The ability to recruit and maintain high-quality managers and employees, with specific professional knowledge and areas of specialization, who are capable of leading the company to business success and dealing with the challenges which it faces.
- 3.6 The ability to incentivize managers and employees towards achieving a high level of business performance, while taking informed and reasonable risks, with reference to the company, institutional entities in the group, and of savers' funds.
- 3.7 The creation of an appropriate balance between various components of compensation, e.g., fixed vs. variable components, short term vs. long term and compensation in cash (including fringe benefits) vs. compensation with capital instruments.
- 3.8 The correspondence between the compensation terms and the size of the company, the group's institutional entities, and the characteristics of their activities.
- 3.9 The provisions of the Executive Compensation Law.

The formulation of the compensation policy included taking into account, inter alia, the salary levels and employment terms which are customarily practiced in the company and in similar companies, with an emphasis on increasing the company's competitiveness in recruiting and maintaining high-quality staff for

senior management positions in the group, while also taking into account cross-organizational considerations such as differences in desirable compensation between various ranks, and the provisions of the Executive Compensation Law were applied.

4. **Provisions of the law and expected regulations**

The company operates in accordance with the provisions of the Executive Compensation Law and position papers of the Commissioner of Capital Markets which are relevant to the compensation of senior position holders in institutional entities, and will take into account, in its determination of the maximum compensation to corporate officers and directors, expected regulations which may have a significant effect on the compensation policy, drafts of which have been published, including law memoranda.

5. **Compensation components**

A. Directors

5.1 Compensation of directors (excluding the Chairman of the Board) and investment committee members

The fees paid to outside directors, other directors in the company (excluding the Chairman of the Board) and members of the group's investment committees who are not employees of the group, who will hold office from time to time, will be the maximum compensation determined in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 5760-2000 (hereinafter: the "**Compensation Regulations**"), as updated from time to time, and in accordance with the provisions of institutional entities circular 2009-9-4 (hereinafter: the "**Compensation Circular Regarding Outside Directors**"). For this purpose, any particular skills of any particular director will not be taken into account. Additionally, the aforementioned directors will be entitled to receive reimbursement of expenses, in accordance with the Compensation Regulations. Directors and investment committee members, as stated above, will not

be entitled to a variable salary component due to their service in the company.⁴

In case of directors whose fees are paid by the company's controlling shareholder, and in the absence of any legal restriction preventing the matter, the settling of accounts with respect to their fees will be performed in accordance with the aforementioned principles, and within the framework of a manager agreement between the company and the controlling shareholder, which will be approved from time to time by the shareholders' meeting of the company.

The company may bear additional expenses with respect to directors and investment committee members who serve in the company during their periods of tenure, such as with respect to continuing education, participation in company participations, parking, benefits in individual products of the company to which company employees are entitled, holiday gifts, etc.

5.2 Chairman of the board of directors⁵

The Chairman of the Board of an institutional entity in the group will not be entitled to a variable salary component with respect to his service as Chairman⁶.

The compensation of the Chairman of the Board of an institutional entity in the group will be determined relative to the compensation of outside directors, as defined below, and as specified in this section below, and in accordance with the provisions of the Compensation

⁴ It is hereby clarified that the foregoing will not apply with respect to corporate officers in the company who also hold serve as directors in member companies in the group, with respect to the compensation which is paid to them by the entity in which they serve as directors. Additionally, and insofar as their position as directors is secondary to their position as corporate officers, their tenure as directors, as stated above, will not affect the variable compensation which will be paid to them by the company.

⁵ With respect to the employment terms of the company's Chairman of the Board, who serves as of the approval date of this compensation policy, which was approved in the shareholders' meeting on May 26, 2016, including regarding current rights which accrued in accordance with a previous agreement dated June 5, 2013 (the "**Current Agreement**"), see the meeting convention report regarding the general meeting of the company's shareholders which was held on April 21, 2016 (reference 2016-01-054490).

⁶ Except as regards previously accrued rights, see footnote 5 above.

Regulations and the circular regarding the compensation of outside directors (hereinafter: the “**Multiplication Ratio**”), in a manner whereby the maximum compensation which will be paid to the Chairman of the Board will not exceed the result of the multiplication of the outside director compensation by the multiplication ratio.

As part of its considerations regarding the determination of the multiplication ratio, the compensation committee will address the considerations specified in section 3 above. The multiplication ratio, for a full time position, will not exceed 13 times the compensation of an outside director, which is calculated for this purpose according to the minimum number of meetings of the board of directors and its committees which is required in Clal Insurance each year (“**Outside Director Compensation**”). As part of the above, weight will also be given to the tenure of the Chairman of the Board in additional entities in the group, and particularly, on all matters associated with tenure in public companies or in institutional entities in the group.

B. Corporate officers

5.3 The total compensation of a corporate officer may be comprise of (all or some of) the following primary components:

5.3.1 **Base salary (fixed component)** - This compensation component is intended to compensate the corporate officer for the performance of their role in the company, and for the time invested by them in the performance of the routine tasks involved with their role, on a daily basis. The salary reflects the corporate officer’s qualifications (such as their experience, the knowledge which they bring to the position, expertise in the field, education, professional authority, etc.), while taking into account the level of authority conferred upon them, and the requirements of the position, as derived therefrom.

5.3.2 **Fringe benefits** - This compensation component includes social benefits as required by law, and additional fringe

benefits, such as pension funds, managers' insurance policies, provisions for severance pay, loss of working capacity insurance, convalescence days, vacation days, sick days, travel expenses, study fund, provision of a vehicle, subsidization of meal expenses, etc.

5.3.3 **Variable compensation paid in cash (bonus)** - This compensation component is determined according to the performance of the corporate officer and the company's results, as specified extensively below.

5.3.4 **Variable capital compensation** - This compensation component is intended to create an equivalence of interests between all of the company's shareholders and the corporate officer, through the share price. This component is also intended to encourage and boost the identification of the recipients of such compensation with the company in general, and over the long term approach in particular. Additionally, the fact that the capital compensation plan is by nature a long term plan also constitutes a positive incentive for its recipients to continue working in the company over time, and to assist in realizing the company's objectives, work plan and policy. Additionally, the fact that the plan is long term strengthens the correspondence between this incentive component and the company's risk management policy.

5.4 It is hereby clarified that the compensation components specified in this compensation policy constitute an upper threshold against which the personal compensation plans for corporate officers will be determined. It is emphasized that the company is not obligated to provide all of the components specified above (except as required by law), and is not obligated to provide the maximum rate which was determined in each of the components. Insofar as compensation will be granted in an amount lower than the compensation specified in this compensation policy, including relative to the holder of similar

position to a position in the group, the foregoing will not constitute a deviation from this compensation policy.

5.5 The payment to a corporate officer who provides services to the company as an independent contractor or through a management company (insofar as the foregoing is permitted in accordance with the compensation circular) will reflect the cost of the compensation components (plus duly calculated taxes) in accordance with the compensation policy.

6. **Method used to determine the compensation, principles and rules**

6.1 The evaluation and approval of the corporate officer's terms of tenure and employment will include reference, inter alia, to the following subjects, insofar as they are relevant to them:

6.1.1 Their education, qualifications, expertise, professional experience and achievements⁷.

6.1.2 The corporate officer's position, areas of responsibility and expected contribution to meeting the company's objectives.

6.1.3 Previous salary agreements of the corporate officer.

6.1.4 The ratio between the employment cost of the corporate officer and the employment cost of the other employees of the group and of the contract workers who are employed in the company, and particularly, the ratio relative to the average employment cost and the median employment cost of the aforementioned other employees, and the impact of

7 It is noted, with respect to some of the corporate officers to whom this compensation policy applies, who serve as corporate officers in Clal Insurance, that Clal Insurance is subject to specific regulatory provisions which make the employment of the corporate officers conditional on the receipt of approval from the regulator (such as the CEO, Chairman of the Board, director, legal advisor, CFO, actuary, Chief Risk Officer, information systems administrator and internal auditor), and establishes the required qualifications for certain senior position holders, and therefore, with respect to those corporate officers, the company will also address the approvals and criteria which were determined in those provisions.

those differences on the working relationships in the group.⁸

6.1.5 The economic value of the overall compensation, including all of its components, including reference to the company's business results, and insofar as the compensation includes targets and metrics, an evaluation of the targets and metrics, inter alia, in light of the company's risk management policy, and in order to verify that the compensation policy does not create incentives for excessive risk taking.

6.1.6 A balance between the variable component, insofar as any will be paid, and the fixed component, in a manner whereby, in general, the rate of the corporate officer's annual variable component, with respect to a certain year, will not exceed 100% of the annual fixed component, subject to section 8.5.2 below.

In accordance with the provisions of the compensation circular, the fixed component will constitute a significant part of the senior position holder's total compensation. The determination of the appropriate balance between the fixed component and the variable component should include taking into account the senior position holder's experience, expertise, qualifications, seniority, responsibility and

8 As of the approval date of the policy, and in accordance with the provisions of the policy with respect to the employment cost of the CEO and Chairman, the ratio is as follows: CEO relative to employees in the group other than the CEO the - approximately 18.48 median and 13.44 average; Chairman relative to employees other than the CEO (normalized to a 100% position) - approximately 11.97 median and 16.48 average; corporate officers (average cost, including CEO and Chairman) relative to employees who are not corporate officers - 10.32 median and 13.59 average. These figures were calculated based on the actual compensation cost for the months October 2015 - September 2016, in accordance with the scope of position of employees in the group's member companies (excluding employees of the group's agencies, hourly employees and contract employees).

The compensation committee and board of directors have evaluated the aforementioned ratio between the terms of tenure and employment of the corporate officers, and the salary of the other employees in the group and of the contract employees who work in the group, and particularly, the ratio relative to the average salary and the median salary of the aforementioned employees, and believe that these differences are not expected to have a significant impact on the working relationships in the company.

performance, and the need to encourage conduct which supports the company's risk management framework, long term financial stability and cautious management of savers' funds.

6.1.7 The provisions of the Executive Compensation Law, in a manner whereby the projected expense with respect to it (fixed and variable compensation), according to the total employment cost per year (fixed and variable salary), calculated as of the approval date, in accordance with generally accepted accounting principles, will be in accordance with section 2 of the Executive Compensation Law,⁹ and will not exceed the higher of either (1) two million and a half New Israeli Shekels (NIS 2.5 million) per year¹⁰ (the "**Amount Limit**"), (2) a multiple of the expense due to the lowest compensation, according to the cost of a full time position (100%), which was paid by the company to an employee, directly or indirectly (including to a contract employee who is employed directly by the company, or to an employee who is employed by a service provider who is employed by the company), times 35¹¹ (hereinafter, respectively: the "**Minimum Salary**" and the "**Minimum Salary Limit**") (the minimum salary and the amount limit shall hereinafter be referred to jointly as: the "**Compensation Limit**").¹² It is hereby clarified that subject to the compensation limit, the board of directors is entitled to approve the compensation for a corporate officer

⁹ It is hereby clarified that the calculation of the compensation limit, as stated above, will not include taking into account compensation regarding which the expense is not expected in accordance with generally accepted accounting principles.

¹⁰ The calculation of the compensation limit, as stated above, will not include taking into account the provision for compensation, including loss of working capacity, and the provision for severance pay pursuant to the law.

¹¹ During the year preceding the date of the engagement, in accordance with the mechanism which will be determined by the compensation committee and the board of directors.

¹² The expense will be calculated in accordance with generally accepted accounting principles, as specified in the Executive Compensation Law, as these will be in effect from time to time, and as approved by the compensation committee and the board of directors.

even if, with respect to such compensation, the company will bear the additional tax cost with respect to the “excess expense cost”, i.e., due to the fact that such expense will not be deductible for tax purposes for the company, in accordance with the mechanism set forth in the Executive Compensation Law.

6.1.8 It is hereby clarified that the minimum salary limit may change, and will be linked to changes in the minimum salary, as stated in the Executive Compensation Law, and in the event that it is found that additional components (beyond the provision for compensation¹³ and the provision for severance pay, in accordance with the law) are not included in the amount limit or the minimum salary limit which was determined in the Executive Compensation Law (including compensation for overtime), the compensation will be updated, after approval has been received from the compensation committee and the board of directors, according to the appropriate rate, as stated above.

6.1.9 Notwithstanding all of the foregoing, it is hereby clarified that the total compensation, as defined in the Executive Compensation Law, will not exceed, in any case, a total of three million and a half New Israeli Shekels (NIS 3.5 million) per year.

7. **Base salary**

7.1 Base salary for corporate officers -

The maximum base monthly salary of corporate officers in the company is as follows:

7.1.1 **Chairman of the Board** - A total which will not exceed that stated in section 5.2 above.

¹³ Including loss of working capacity.

7.1.2 **CEO** - A total which will not exceed that stated in section 6.1.7 and 6.1.8 above. As of the present date, the base monthly salary of the company's CEO will not exceed a total of NIS 195,000¹⁴.

7.1.3 **Other corporate officers** - The fixed components of compensation will include a significant difference from the CEO's fixed compensation.

7.2 The maximum base monthly salary specified above is with respect to a 100% position.

7.3 The maximum base monthly salary does not include additional components associated with the base salary, which are grossed-up in the salary. Components of compensation may be converted into a base monthly salary, provided that such conversion will not increase the employment cost.

7.4 The maximum base monthly salary will be CPI-linked.

7.5 The determined salary level will reflect the qualifications of the corporate officer (including their experience, knowledge brought to the position, expertise in the relevant field, education, etc.), while taking into account their level of responsibility and the requirements of the position which apply to them, and may be CPI-linked.

¹⁴ With respect to the company's CEO who is currently serving as of the approval date of this compensation policy, it is noted that the company engaged him in an employment agreement for a set period of 5 years, which was approved by the company's competent organs (see the company's immediate report dated November 5, 2012, reference number 2012-01-271455), for details regarding the application of the policy on the existing agreements, see section 17 (transitional provisions) of this compensation policy. In accordance with the letter which was sent by the company to the CEO on October 9, 2016, the company's board of directors announced to the CEO that by the end of the set period of the agreement with him, his compensation terms will be adjusted in accordance with the provisions of the Executive Compensation Law, in a manner whereby, beginning on October 12, 2016, fixed compensation only will be paid to him, which will be restricted in a manner whereby he will not be entitled to compensation for which the annual projected expense, in accordance with generally accepted accounting principles, exceeds NIS 2.5 million, with the addition of the provision for severance pay and compensation, including loss of working capacity, in accordance with the law. For the avoidance of doubt, any change to the aforementioned conditions shall not derogate from any rights which accrued prior to that date. On November 7, 2016, the company's CEO notified the Chairman of the Board that he accepts the company's letter, while reserving his rights in accordance with the law and the agreement.

7.6 The company will be entitled to determine, in light of the corporate officers' status as holding positions of management or positions which require a special degree of personal trust, as defined in the Hours of Work and Rest Law, 5711 - 1951, this Law will not apply to the corporate officers, and they will not be entitled to compensation for overtime work or work during the weekly rest periods.

7.7 In addition to the base salary, it will be possible to determine, with respect to a corporate officer who serves as a control entity¹⁵, entitlement to an additional annual fixed component, which will not exceed two salaries, to be paid in addition to the base monthly salary (the "**Additional Component**"). Entitlement to social benefits will not arise with respect to the additional component. The additional component will not be included in the salary limits specified above. In the event that the aforementioned corporate officer is employed in part of a calendar year, they will be entitled to a proportional part of the additional component only.

8. Variable compensation - bonuses

8.1 General

The company's compensation policy is based, inter alia, on the assumption that the total compensation of some of the company's employees and corporate officers should be influenced by the company's business results, as reflected, inter alia, in the company's profitability, and the personal contribution of each employee towards achieving it, in consideration of the restrictions specified in the Executive Compensation Law.

8.2 For the avoidance of doubt, it is hereby clarified that subject to the provisions of the law, the variable compensation which will be paid to the corporate officer in accordance with the compensation policy, insofar as any will be paid, does not and will not be considered as part of the corporate officer's salary, and will not constitute any basis for the calculation and/or eligibility and/or accrual of any associated right,

¹⁵ Control entity - as defined in the compensation circular.

including and without derogating from the generality of the above, it will not be considered as a component which is included in vacation pay, severance pay, pension provisions, etc.

8.3 Outline for the determination of a corporate officer's personal variable component

- 8.3.1 For the purpose of paying a personal variable component which is paid in cash and in accordance with the principles specified below, each year, a program of personal targets and metrics will be established for all eligible corporate officers, which will be based on a series of targets and metrics on the level of the company, on the level of the organizational unit, and on the personal level, and which are derived, inter alia, from the company's work plan, up to a limit which will be determined in the aforementioned annual personal plan (hereinafter: **"Personal Compensation Plan"** and **"Targets of the Personal Compensation Plan"**).
- 8.3.2 The metrics and targets upon which the variable component for a certain year will be based will be determined in a which is intended to based variable component in the business processes and in the company's business conduct, with the aim of encouraging profitability over time, and while taking into account risk management.
- 8.3.3 A personal compensation plan which includes reference to a personal annual variable component for corporate officers in the company will be prepared based on the outline specified below, and subject to the principles set forth therein, and will be brought to the attention of each eligible corporate officer, as stated above. The personal compensation plan may be adjusted in accordance with updates to the company's work plan, or under other relevant

circumstances, including in case of a change or promotion
in the position.

8.4 Restrictions and preconditions for the variable component

8.4.1 The preconditions for the granting of the variable component to corporate officers with respect to a certain year, at the end of the year for which variable compensation is given, are as follows:

- A. A solvency ratio which is no less than the minimum solvency ratio.
- B. The company's achievement of a return on capital rate of at least 4% per year during the calendar year (the **"Returns Threshold"**). The compensation committee and the board of directors are entitled to determine, with respect to a calendar year, a higher threshold limit in connection with the company's work plan for that year.
- C. With respect to a variable capital component only - the board of directors is entitled to determine an additional condition regarding the non-fulfillment of suspending circumstances in connection with the liability certificates which were issued by Clalbit Finance Ltd. (**"Suspending Circumstances"**) (hereinafter: **"Preconditions"**).

All of the foregoing applies except for the part of the annual variable component which is paid in cash, and which is discretionary, as specified in section 8.5.6 (C) below, and a special bonus, if and insofar as any will be distributed, as specified in section 10 below, which is not conditional upon the fulfillment of preconditions, and subject to the approval of the compensation committee and the board of directors.

Any reference in this policy document to return on capital or to income means return on capital or income which was recorded in the company's financial statements, with respect to that year, based on generally accepted accounting

principles, the calculation of which took into account the amounts of the variable component which will be calculated with respect to that year, in accordance with this compensation policy. In other words, the company's fulfillment of a return on capital rate and income rate will be entitled following subtraction, from comprehensive income, of the expense, net of tax, which will be recorded in the financial statements with respect to the amount of the annual variable component which will be calculated with respect to that year (the "**Expense Subtraction**"). However, insofar as, with respect to the expense subtraction, the company has not met the relevant preconditions for the payment of the variable bonus for that year, the variable compensation will be subtracted, to the required extent, in a manner which results in the company's fulfillment of the preconditions.

8.5 Criteria for the determination of the variable component for corporate officers

- 8.5.1 The amount of the variable component which will be distributable to corporate officers will be determined in advance, and will be made conditional upon performance, as specified below, excluding fixed, monthly or annual payment, which is limited to the first work year of the corporate officer, restricted to a total equaling six salaries.
- 8.5.2 The cost of the annual variable component for a corporate officer will not exceed the cost of the fixed compensation components of that corporate officer with respect to that year. Notwithstanding the foregoing, the compensation committee and the board of directors are authorized to determine that the rate of the annual variable component of a corporate officer (excluding the CEO) will exceed 100% of the annual fixed component, provided that it does not exceed 200% of the annual fixed component - in the event

that the compensation committee and the board of directors have determined that extraordinary conditions have arisen which justify it, which pertain to special, one-time circumstances, which are not repeated each year, and which do not apply to a broad group of corporate officers, and that special reasons have been recorded on the matter.

(Hereinafter: the “**Maximum Annual Variable Component**”.)

- 8.5.3 Insofar as the cost of the annual variable component exceeds the maximum annual variable component, or the total employment cost exceeds the compensation limit, and also includes payment which was credited with respect to the severance package, the crediting of the severance package, or a part thereof, may be deferred, and in the foregoing case, in the event that a corporate officer has concluded their employment in the company, before crediting the entire severance package, the severance package and/or a part thereof will be subtracted accordingly.
- 8.5.4 The employee will be entitled to waive the capital or cash variable component, and/or a part thereof, in a manner whereby that component, or a part thereof, will not be considered as part of their salary, for all intents and purposes, and particularly with respect to the restrictions on their salary, by virtue of the provisions of the law.
- 8.5.5 For the purpose of determining the targets of the personal compensation plan, a target value will be determined for each corporate officer, in terms of a certain percentage of the income target, of the actual income, or in salary terms, in consideration of the corporate officer’s seniority, and the extent of their impact on the company’s financial results, in the event that the corporate officer has fulfilled 100% of the

targets of the personal compensation plan, and subject to the maximum annual variable component and the preconditions specified above (the “**Target Value**”). It is hereby clarified that the target value, with respect to corporate officers in the company, will be determined by the competent organs in accordance with the law.

Subject to the restrictions and conditions specified in section 8.4 above, for each corporate officer, with respect to each component of the categories of the personal targets, as specified in section 8.5.6 below, a factor will be determined which will reflect the method for achievement of each target in the personal plan which was determined for them. The aforementioned factor, with respect to each of the components, may be lower than 1 (if the corporate officer has achieved only some of the targets in their personal plan), and may be greater than 1 (if the performance of the corporate officer effectively exceeded the targets), provided that the value of the factor does not exceed 1.5.

The value of each of the factors, for each component of the personal plan, will be calculated in the following manner: in cases where the target fulfillment rate is lower than 70%, the value of the factor will be 0; in case the target fulfillment rate is in the range between 70.01% and 100%, the factor will range between 0.7 (for 70.01%) and 1 (for 100%), with the factor being calculated within the above range in a linear fashion; in case the target fulfillment rate is in the range between 100.01% and 130%, the factor will be calculated according to the target fulfillment rate (in percent) divided by 100, with this sum being multiplied by 150 and divided by 130 (for example, in case of a target fulfillment rate of 120%, the factor will equal 1.38). It is hereby clarified that a factor lower than 0.7, with respect to a certain component among the components of the personal

targets categories, will be considered non-fulfillment of that target, and will not confer upon the corporate officer a variable bonus with respect to that component.

The annual variable component which is paid in cash will be calculated for each component separately, and the total sum of the metrics of the annual variable component which is paid in cash, which will be calculated with respect to all of the components, in accordance with the relative weight which will be determined for each component, will constitute the annual variable component which is paid in cash and which is calculated for the corporate officer as a multiple of the target value.

The total variable component which is paid in cash will not exceed NIS 1 million. The compensation committee and the board of directors will be entitled to determine lower maximum limits for the variable component which is paid in cash, in accordance with the extent of the corporate officer's fulfillment of the personal plan which was determined for them, within the framework of the foregoing.

- 8.5.6 The targets of the personal compensation plan which will be determined for each corporate officer, for the purpose of payment the bonus which is paid in cash, will be based on quantitative and/or qualitative targets (measurable and non-measurable), and will be derived, inter alia, from the group's strategic work plan and from the work plans of the organizational unit to which the corporate officer belongs and/or for which they are responsible, and will be divided into measurement categories, as specified below, whereby each will be given a certain relative weight, as specified below:

(a) Targets on the level of the entire company:

The personal compensation plan will include, inter alia, the following targets:

- A target with respect to the return on members' assets, which will reflect the group's achievements with respect to the management of members' funds (in managers insurance, pension and provident funds), measured over a period of no less than three year, relative to the 4 other large insurance groups (and with respect to provident funds, relative to the 4 largest provident fund groups, at least) (the "**Members' Returns Metric**").
- Target in the field of risk management.

(b) Targets associated with the performance of the business unit / personal targets ("Personal Targets")

Business, professional and other targets, on the level of the organizational unit, including financial and accounting metrics, such as, inter alia: profitability metrics such as LR and VNB; Embedded value; Metrics with respect to members' returns and nostro returns; Growth index; Operational and service metrics; Metrics with respect to the achievement of milestones in significant projects; Targets in the field of risk management, including compliance with internal policies, handling of internal audit recommendations and SOX deficiencies, and compliance with the provisions of the law; And a metric regarding increased efficiency in costs and expenses, as well as targets derived from the work plan which was approved by the board of directors.

The weight given to targets in categories (a) and (b) together will be at least 80%.

It is noted that it can be determined that, in the appropriate cases, in accordance with the nature of the position, only targets from category (A) will be included.

Additionally, it is hereby clarified that targets which were listed as personal targets can also as company-wide targets.

(c) Discretionary targets:

Assessment of performance by the company's CEO or by the direct manager. The assessment will be based on the structured performance assessment process in the group, and will address, inter alia, non-financial criteria. The assessment by the company's CEO or by the direct manager will address, inter alia, the long term contribution of the corporate officer and their long term performance, and in any case, this component will be subject to the approval of the company's compensation committee and board of directors. With respect to the internal auditor, the performance assessment will be conducted by the board of directors after receiving the recommendation of the audit committee and the Chairman of the Board. The maximum weight given to this category will be to 20%.

It is hereby clarified that the weight given to all three aforementioned categories will be 100%.

Details of the targets in each measurement category, and the relative weight of each of the measurement categories, will be adjusted for each corporate officer, in accordance with their level of seniority, and according to the organizational unit to which they are associated and/or which they

supervise, and will be approved by the compensation committee and the board of directors.

- 8.5.7 With respect to a corporate officer who is included among the groups specified in section 8.5.13 below, the relevant targets specified in section 8.5.13 below will also be included.
- 8.5.8 The weight of quantifiable, financial targets, market variables or accounting variables (whether they are group-wide, company-wide, unit-wide, or personal), will be higher than 50%. Subject to the provisions of the law, the foregoing will not apply with respect to control entities and units supportive of business units.
- 8.5.9 The targets will also include target/s whose measurement period will be longer than one year (with various weights being given to each of the years), target/s which include comparison to other relevant companies in the branch, and targets which take into account risk management criteria.
- 8.5.10 The measurement period of a target which is associated with the results of the company's investment management, or of the funds of those saving through it, will be no less than three years.
- 8.5.11 With respect to long term targets - when determining the compensation of a corporate officer who is employed for a period shorter than the measurement period which was determined for a certain target, the measurement period for that corporate officer may be shorter than the measurement period which was determined for the other corporate officers.
- 8.5.12 The compensation committee and the board of directors will be entitled to determine the conditions of the variable component which is paid in cash with respect to each year,

including with respect to 2016, in accordance with the provisions of this compensation policy.

8.5.13 Outline for the determination of a personal annual bonus for special groups (who are corporate officers)

8.5.13.1 Corporate officers employed in actual investment management - Upon the determination of compensation for corporate officers in the investment management segment, parameters will be taken into account such as the fulfillment of investment targets, return vs. risk and relevant attribution metrics, and with respect to the management of savers' funds - also the returns of savers' funds, in consideration of the level of risk and the measurement period.

The measurement period of a variable component which is dependent on investment results will be no less than three years. However, it is hereby clarified, with respect to corporate officers who are employed for a period shorter than the measurement period which was determined, that the foregoing may be measured over a shorter period.

8.5.13.2 Corporate officers in the fields of marketing, sales and agency vis-à-vis customers - The determination of compensation will include reference to the company's risk management policy, in a manner whereby the compensation mechanism will not encourage unfair practices towards the company's customers.

8.5.13.3 **Corporate officers in the field of oversight and control -**

As part of the approval of the evaluated targets, for the purpose of determining the annual bonus for corporate officers in the field of oversight and control - the organ approving the targets will provide their opinion that the ratio between the variable compensation and the fixed compensation of corporate officers in the field of control tends in favor of fixed compensation, relative to this ratio for other corporate officers in the company, and that the rate of fixed compensation is at a minimum rate of 55%.

8.5.14 **Eligibility for the variable component with respect to partial period of employment**

In the event that a corporate officer works in the company during only a party of a calendar year which is relevant to the calculation of entitlement to the variable component, due to termination of the employment agreement, or dismissal, the corporate officer will be entitled a proportional part of the variable component with respect to that year, in accordance with their period of employment in the company during the foregoing year, out of the relevant calendar year in its entirety (based on a daily calculation, and including the advance notice period). In the event that the corporate officer works only during part of the calendar year which is relevant to the calculation of entitlement to the variable component, due to the commencement of their employment in the company, the company will be entitled to pay to them full variable compensation, with respect to that year, provided that they worked at least six (6) months during that year.

The company's CEO will be entitled to approve, for a corporate officer, entitlement to the variable component with respect to a partial period of employment, also in case of resignation, and the CEO's recommendation will be presented to the compensation committee and the board of directors for approval.

The foregoing will not derogate from the other arrangements which apply to the variable component in accordance with this compensation policy.

9. **Variable component - capital compensation**

9.1 The provision of capital compensation to corporate officers in the company is intended to involve them in the company's results of operations, and to constitute a positive incentive for the continued provision of their services to the company, with dedication and professionalism, over the long term.

Subject to the approval of the company's compensation committee and board of directors, the company may offer the corporate officers to participate in the plan for the allocation of restricted shares and/or share-based instrument and/or options exercisable into Company shares (hereinafter: "**Capital Instrument**"). In case of the provision of a variable component through options, the compensation committee will specify, in its recommendation, the priority of that capital instrument over shares. The board of directors will be entitled to allow a corporate officer to choose between a variable compensation which is paid in cash and variable capital compensation, or a combination of the two, as will be determined in accordance with the law.

9.2 Upon the provision of a capital instrument, the minimum holding and vesting period will be determined, which cumulatively will be no less than two years.

9.3 In case of the provision of a variable component through a capital instrument to corporate officers, the entitlement to the variable capital compensation for the corporate officers will be determined based on

any of the compensation targets specified in section 8.5.6(a) above, and according to a framework which will be adjusted to that instrument, and additional conditions may be added (“**Performance Targets**”).¹⁶

9.4 The plan will include, inter alia, the following details:

9.4.1 **Exercise price** - Insofar as options will be allocated, their exercise price on the allocation date, for each warrant which will be allocated, will be no less than the average closing price of the company’s share during the last 30 trading days on the Tel Aviv Stock Exchange Ltd., prior to the date of approval of the allocation by the compensation committee, and in any case, will be no less than the closing price of the company’s share on the last trading day on the Tel Aviv Stock Exchange Ltd., prior to the above date.

9.4.2 **Maximum bonus on the exercise date** - The bonus will be limited to a maximum limit which will not exceed 300% of the share price, in a manner whereby the method for exercise of the corporate officer’s rights, with respect to the capital instruments, will be restricted to a rate which will not exceed 300% of the share price, relative to its price on the allocation date of the capital instrument (in restricted shares, the fulfillment of the maximum limit for the bonus will be evaluated on the date of evaluation of the fulfillment of the performance targets).

9.4.3 **Expiration date of the warrants** - This date will be no later than four years after the vesting date of the last capital tranche which was provided to the offeree.

9.4.4 **The terms of exercise, expiration and acceleration** of the warrants, or of restricted shares, in case of departure from

¹⁶ It is hereby clarified, with respect to capital compensation which was provided prior to the approval of this compensation policy, that the performance conditions will continue to apply which are set forth in the compensation plan for 2015, as specified in the company’s immediate report dated June 22, 2015 (reference number 2015-01-054096).

the company (due to dismissal, resignation or in case of death or disability, Heaven forbid), if any.

9.4.5 Materialization of entitlement to the capital component -

The entitlement to capital compensation, and the scope thereof, will be determined shortly after the publication of the company's financial statements for the relevant year. Such entitlement will be determined in accordance with the fulfillment of the performance targets which were determined, as stated above.

9.4.6 Distribution of the allocation into tranches -

The allocation capital compensation may be performed by way of annual allocations, or advance allocation for several years, where the value of the capital compensation will be determined on the allocation date. For the purpose of determining a variable fixed ratio, as specified in section 6.1.6 above, the calculation of the capital compensation per year will be performed in a manner whereby the value of the capital compensation which was provided with respect to a certain year, as of the allocation date, will be attributed, in its entirety, to the year for which it was given, in accordance with the average value of the capital compensation which was given with respect to that year; however, in the event that the allocation in advance is performed in advance for several years, with respect to those years, the company will be entitled, subject to the provisions of any applicable law, to divide the total value as of the allocation date identically for each of the years.

9.5 In case of fulfillment of the performance targets which conferred entitlement to receive the capital component, the possibility to exercise the capital instrument will be made contingent upon the fulfillment of the preconditions for the release of the deferred part, which will be determined in advance, in accordance with section 11 of this compensation policy.

10. Special bonus

- 10.1 The board of directors and the compensation committee will be entitled to decide, from time to time, to provide a one-time bonus, inter alia, with respect to significant efforts on the part of the corporate officer, including within the framework of the performance of a transaction which is not in the company's ordinary course of business. A special bonus of the aforementioned kind will be given in special circumstances (hereinafter: "**Special Bonus**").
- 10.2 A special bonus of this kind will not exceed 3 base salaries per bonus, and in exceptional cases, will not exceed 6 base salaries per bonus. It is hereby clarified that, insofar as may be required by law, in the event that such bonus is given retroactively, without predetermined targets, said bonus will replace (all or some) of the discretionary annual variable component which is paid in cash, as specified in section 8.5.6(c) above.
- 10.3 Insofar as a special bonus will be paid to the corporate officer, it will be separate, and unrelated to the outline for the determination of a personal variable component. The bonus will be paid in cash; however, it will be subject to the provisions with respect to the ratio between the variable component and the fixed component, and to the payment arrangements which were determined for it, including distribution, which apply to corporate officers in accordance with this compensation policy.

11. Distribution of annual variable component

- 11.1. In order to substantiate the variable component which is paid in cash from a long term perspective, the variable component which is paid in cash will be distributed in a manner whereby the part which constitutes at least 50% of the total variable compensation of the corporate officer will be deferred for payment in future years, and will be paid only in the event that the company has fulfilled the conditions for its release which will be determined, subject to the provisions of

the compensation circular and the compensation policy of the group's institutional entities, according to its effective version from time to time. In any case, with respect to each calendar year, compensation will not be paid in an amount exceeding the compensation limit.

- 11.2. It is hereby clarified that, as specified in decision 2 on the agenda of the general meeting for the approval of this compensation policy, the compensation committee and the board of directors are entitled to impose the aforementioned rules regarding release also to parts of the variable bonus which were distributed in the past, and which have not yet been paid, in a manner whereby, with respect to those years, the deferred variable compensation component will be paid to the corporate officer only in the event that, during the relevant release year, all of the following conditions have been met: A. The solvency ratio will be no less than the minimum solvency ratio as of the first payment date of the variable component (hereinafter in this section: the “**Minimum Capital Condition**”); B. The company will record income (hereinafter in this section: the “**Income Condition**”) (jointly: the “**Preconditions for Release**”).

In the event that one of the preconditions for release has not been met during a certain year, the variable compensation component which was not released will be deferred, and will be paid in the subsequent year (the “**Subsequent Year**”), subject to the fulfillment of all of the relevant preconditions for release in the subsequent year. If the preconditions for the release are not met in the subsequent year as well, the corporate officer will lose their entitlement to that component.

- 11.3. It is hereby clarified that the distribution rate of the variable compensation may change insofar as the compensation circular allows it, and in accordance with the compensation policy of the group's institutional entities.
- 11.4. Insofar as the variable component for a senior position holder does not exceed 1/6 of the fixed component which was paid in that year, the

mechanism for distribution and deferral specified in this section will not apply.

- 11.5. The evaluation regarding the distribution of the variable component will apply to the variable component as a unit, in a manner whereby the distribution of a certain component of the variable component may come against the non-distribution of another component of the variable compensation, provided that the total variable compensation will be distributed as stated above.
- 11.6. The deferred payments in cash will be CPI-linked. For the purpose of this section, the “**base index**” means the known index on the first payment date of the annual variable component. The deferred payments may bear interest at a rate of which will be determined by the board of directors.

12. Repayment of amounts based on data which were later found to be incorrect

- 12.1. A corporate officer will repay to the company amounts which were paid to them as a variable component, within the framework of their terms of tenure and employment (hereinafter: “**Repayment**”), under conditions which will be determined, and upon the fulfillment of particularly extraordinary circumstances.
- 12.2. Without derogating from any remedy which is available to the company by law, the compensation committee and the board of directors will determine conditions and circumstances for repayment, including the amounts of repayment, or the rates of repayment which are appropriate for different types of circumstances, in accordance with and subject to the provisions of the compensation circular, according to its applicable version from time to time, and as will be determined by the compensation policy of institutional entities in the group, as applicable from time to time.
- 12.3. Amounts which have been paid to a corporate officer will be repayable for a period of five years after the allocation date of the variable component, including regarding deferred components (hereinafter: the “**Repayment Period**”). However, the repayment period with respect

to a variable component which has been paid to a corporate officer will be extended by an additional two years if, during the repayment period, the compensation committee and board of directors have determined that circumstances which require repayment have been met, as specified below:

12.3.1. The company has initiated internal investigation proceedings with respect to a material failure;

12.3.2. The company has become aware that a competent authority, including a competent authority outside of Israel, has initiated administrative investigation proceedings against the company, or against its corporate officers;

12.3.3. A competent authority has initiated investigation proceedings, as stated above, in connection with fraud or a breach of fiduciary duty by corporate officers in the company.

12.4. It is hereby clarified that a corporate officer will not be required to repay to the company amounts which exceed the payment which they actually received (net of tax).

13. Fringe benefits and additional benefits

13.1. Beyond the provisions of this policy, the compensation to corporate officers in the company may include additional components which the company sometimes grants to all or some of its employees, such as reimbursement of expenses, parking, holiday gifts, continuing education, discounts on the acquisition of Company products, vacations, etc.

13.2. The company will be entitled - and, in cases required by law, obligated - to approve for the corporate officers, as applicable, fringe benefits in addition to the base salary, inter alia, as specified below:

13.2.1. Pension provisions and loss of working capacity insurance -
The company will be entitled to set aside, for a corporate officer, with respect to his entire salary, provisions for a pension product which will be chosen by the corporate officer

in accordance with the provisions of the law. The performance of provisions by the company to pension insurance will be made conditional upon an appropriate deduction of the corporate officer's share in the provisions, out of the salary of the corporate officer, and may apply to all or some of the compensation components, including additional components associated with the base salary, which are included in the salary and/or grossed-up therein. Additionally, the company is entitled to over the corporate officer through loss of working capacity insurance. The company is entitled to allow the corporate officer to convert the amount of provisions with respect to compensation beyond the maximum salary limit which is recognized for tax purposes in accordance with the law, for the payment of salary, in a manner whereby their employment cost to the company will not increase.

13.2.2. Severance pay - The company will be entitled to pay to the corporate officer full severance pay, both upon dismissal and upon resignation.

13.2.3. Study fund - The company is entitled to provide amounts to a study fund, in accordance with the rates recognized in law, and will transfer these amounts to the study fund which as chosen by the corporate officer, based on their full base salary. The corporate officer will be entitled to convert the provision amounts beyond the maximum salary limit which is recognized for tax purposes by law, to the payment of salary, in a manner whereby their employment cost to the company will increase.

13.2.4. Vehicle - The company will be entitled to provide to its corporate officers, and for their use, a vehicle in accordance with the company's conventional practice, which will serve, inter alia, for the purpose of fulfilling their position, and possibly also with the addition of full grossing-up. The company will be entitled to bear the expenses associated with

the use and maintenance of the vehicle, in accordance with the conventional policies of the company. The company will be entitled to provide to the corporate officer equivalent payment in place of the foregoing.

13.2.5. Communication - The company is entitled to provide to the corporate officer a mobile telephone for their personal use, as chosen by the company, in accordance with the company's conventional practice, (with respect to the company's CEO and the Chairman of the Board, the company will bear the foregoing with the addition of full grossing-up). Additionally, the company will be entitled to provide to the corporate officer IT tools (laptop computer, etc.) for the purpose of their work, in accordance with Company policies.

13.2.6. Food and lodging expenses - The company will be entitled to allow the corporate officer to make use of a payment arrangement for food and lodging expenses during work hours, and will be entitled to allow the reimbursement of expenses, as determined in the company's policies, from time to time.

13.2.7. Annual vacation - The company will be entitled to provide an annual vacation to the corporate officer, at a scope which will not exceed 25 days per year, and in any case, no less than the amount prescribed in law. The company will be entitled to allow the corporate officer to accrue and redeem annual vacation days, as will be determined in the company's policies, from time to time.¹⁷

¹⁷ In October 2016, the company updated the policy, in a manner which allows, in special cases, an extension to the current period regarding deviation from the accrual (accrual of one annual quota for an employee, and two quotas for a corporate officer), with respect to employees and corporate officers, during one half year. If the deviation period exceeds two years, it will be implemented with respect to employees with the approval of the company's CEO, and with respect to corporate officers - with the approval of the board of directors, and in parallel, an extension has been approved for the CEO regarding the usage of his accrued vacation days, for which a routine accounting provision was performed, as of September 2016, until the end of the aforementioned agreement period.

13.2.8. Sick pay - The corporate officer will be entitled to be absent from work due to illness, provisions of the law the Sick Pay Law. The company will be entitled to pay to the corporate officer full payment for days during which they were absent for work due to an illness, beginning on the first date of absence, as determined in the company's policies, from time to time. Corporate officers will be entitled to accrue sick days as determined in the company's policies; however, they will not be entitled to redeem sick days.

13.2.9. Convalescence pay - The company will be entitled to pay to the corporate officer convalescence pay according to the conventional amount in the company; however, no less than that prescribed in law.

13.2.10. The company will be entitled to pay for corporate officers membership fees for professional associations.

13.2.11. The company will be entitled to pay for corporate officers subscription fees for newspapers and professional literature.

13.2.12. The company will be entitled to pay corporate officers with respect to continuing education, joining incentive trips for agents, screening tests and welfare activities.

13.2.13. Exemption, indemnification and insurance for corporate officers

13.2.13.1. The company will be entitled to provide indemnification letters, according to the wording which was decided upon and approved, and/or which will be approved, by the general meeting of the company's shareholders. Insofar as the company desires to implement changes to the indemnification letters, for any reason whatsoever, the company will present the amended indemnification letters to the competent organs, in accordance with the provisions of the law.

13.2.13.2. Without derogating from the foregoing, the company will be entitled to acquire, for the corporate officers in the group, corporate officers' liability insurance, in insurance amounts which will not exceed USD 400 million, and in consideration of an annual premium which will not exceed USD 1 million.

13.2.13.3. The company will be entitled to acquire runoff insurance for corporate officers in case of a transfer of the control of the company and/or a subsidiary.

13.2.13.4. The company will be entitled to provide an exemption from liability to the company's corporate officers, subject to the receipt of the authorizations which are required to provide said exemption by law. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder or any corporate officer in the company (including a different corporate officer than the one to whom the letter of exemption is given) has a personal interest.

14. Retirement arrangements

Retirement bonus

14.1. Beyond the payment of severance pay, and subject to the entitlement conditions specified in section 14.5 below, the company will be entitled to provide to a corporate officer a one-time severance package equivalent to up to 4 base salaries. A base salary for the severance package will also include associated salary components such as vehicle, telephone, reimbursement of expenses, social benefits and fringe benefits (including provisions for managers' insurance policies and/or pension funds, study funds, vacation days, convalescence pay, sick days, etc.) (hereinafter: "**Base Salary For The Severance**

Package”). The amount of the aforementioned severance package will be determined on the signing date of the employment agreement with the corporate officer, or thereafter, provided that it will not be determined proximate to the date of their departure. Additionally, upon the termination of employer - employee relationship, the company will be entitled, subject to the decision of the competent organs, to increase the severance package for the corporate officer, in the amount of up to additional 2 base salaries for the severance package. Additionally, the company reserves the right to exercise special discretion with respect to an increase to the severance package, in the event that the corporate officer has worked in the company (including in related companies) for a period exceeding 15 years, in the amount of up to additional 2 base salaries, for the severance package. Alternatively, instead of the severance package, as specified above, in exceptional and extraordinary cases, the company is entitled to determine that, in case the corporate officer has worked in the company (including in related companies) for a period exceeding 15 years, the corporate officer will be entitled to increased statutory severance pay in the amount of up to 200%, subject to the terms which will be determined, instead of any bonus (adjustment or retirement) as specified in this section above.

- 14.2. The considerations and criteria taken into account by the company in connection with the determination and increase of the severance package, as stated above, will include taking into account, inter alia, the circumstances of retirement, the tenure period, roles, qualifications, the performance of the company during the period of their tenure, and the contribution of the corporate officer towards achieving the company’s objectives, increasing its income, and managing savers’ funds through it, the annual compensation which they received during their tenure period, and the recommendation of the company’s CEO.
- 14.3. The severance package will be made conditional upon actual performance, will be considered as a variable component for all intents

and purposes, and will be distributed in accordance with the provisions of this compensation policy, for the purpose of a severance package, as specified below. For the avoidance of doubt, it is hereby clarified that any adjustments which will be performed to the provisions for the severance package during the years of employment will not be evaluated for the purpose of determining a variable fixed ratio, as specified in section 6.1.6 above.

- 14.4. The determination of the retirement terms of corporate officers will be subject to the approval of the board of directors, after having received the approval of the compensation committee.
- 14.5. The payment of variables retirement terms, as stated above, in an amount exceeding two base salaries per bonus, will be subject to payment deferral arrangements beyond the date of the corporate officer's departure, and to the application of retroactive adjustment mechanisms for performance, as specified in the compensation policies of the group's institutional entities, as will be determined by from time to time, and as required in accordance with the compensation circular.
- 14.6. The provisions of this section shall not derogate from any current or accrued rights.
- 14.7. A corporate officer will not be entitled to a severance package in the event that the termination of the working relationship was due to their resignation within two years after the commencement of their employment (except if the resignation took place within 12 months after the date of a transfer of the control of the company).
- 14.8. A corporate officer will not be entitled to a severance package in the event that their departure involves circumstances which justify the revocation of severance pay by law.
- 14.9. The scope of the bonus, as specified above, is the maximum scope which the compensation committee and the board of directors are authorized to determine in accordance with the principles specified above.

15. Post-employment arrangements

15.1. Non-competition

15.1.1. The corporate officers will undertake, in writing, on the signing date of their employment agreement in the company, to refrain from competing with the company, in its business areas, for a period of several months (3 to 9 months from the date of the advance notice), as determined in the employment agreement.

15.1.2. Subject to the provisions of the legislative arrangement, payment with respect to a non-competition undertaking period will not be considered a severance package, insofar as the corporate officer has refrained from working during this period in competing companies in the company's segment.

15.2. Advance notice

15.2.1. The corporate officer will be entitled to receive an advance notice which will not exceed 6 months (in special and extraordinary cases, as specified, not exceeding 9 months). The advance notice period for each corporate officer will be determined by the board of directors, with the recommendation of the compensation committee, prior to the signing of the employment agreement with the corporate officer.

15.2.2. During the advance notice period, the corporate officer will be required to continue fulfilling their position, unless the board of directors has decided, with the recommendation of the compensation committee, to release them from this commitment, in full or in part, and they will be entitled to the continuation of all of their terms of tenure and employment, with no changes.

16. General provisions, discretion, validity and liability

- 16.1. The compensation policy will be in effect for 3 years after its date of approval¹⁸ by the company's competent organs, and once every three years at least, will be presented for re-approval to the company's competent organs. Upon approval of the authorization, the employment terms will be evaluated against the conventional practice in the relevant comparison groups at that time.
- 16.2. Without derogating from the provisions of section 16.1 above, the compensation committee and the board of directors will evaluate, from time to time, and at least once per year, the method for implementation of the compensation policy, and the need to adjust and update it, in the event that a significant change has occurred in the circumstances which existed at the time of its determination, or for other reasons. Changes to the compensation policy, if any, will be approved in accordance with the provisions of the law.
- 16.3. With respect to each calendar year, the relevant organs of the company will be entitled to deviate from or change the current version of the compensation policy, in their discretion, in a manner which is not preferential relative to the total compensation terms of the corporate officers. Notwithstanding the foregoing, it is hereby clarified that the compensation committee and the board of directors will be entitled to changes the compensation policy for corporate officers, provided that the total annual scope of the compensation components does not exceed 10% with respect to each corporate officer.
- 16.4. It is noted that, in accordance with the provisions of the law, including the Executive Compensation Law, the company may bear additional costs with respect to the employment of its corporate officers, in accordance with the terms of this policy.

¹⁸ It is hereby clarified that the provisions of the policy as arising from the Executive Compensation Law will be in effect beginning on October 12, 2016.

- 16.5. It is emphasized that this document constitutes a policy and guidelines document, and therefore, it does not give rise to any right for the corporate officers and/or for any third party whatsoever, and as part of the above, none of the above will have any right to claim, towards the company, that It is obligated to act in accordance with the compensation policy. Subject to the law, the provisions of set forth in the employment agreements, and in the collective agreements (insofar as these are relevant) and the personal compensation plans which have been duly approved take precedence over the provisions of the compensation policy.
- 16.6. It is hereby clarified that the implementation of this compensation policy will be done provided that it does not constitute any breach of the provisions of the law, including labor laws, with an emphasis on protection of salary laws, including determinations or approvals which have given by the courts in specific cases.
- 16.7. This compensation policy will be backed by policies which will include a description of the entities which are involved in the process of planning, approval and monitoring the policy and the compensation agreements.

17. Transitional provisions

- 17.1. The provisions of this compensation policy will apply to compensation agreements which were approved from the application date and thereafter, unless stated otherwise.
- 17.2. Previous employment agreements between the company and its corporate officer will not be canceled upon the entry into effect of this compensation policy, and have been adjusted and will be adjusted accordingly and on the required date, in accordance with the relevant provisions of the law.¹⁹

¹⁹ In accordance with the letter which the company sent to the company's corporate officers in October 2016, in which it notified them that their compensation terms will be adjusted in accordance with the provisions of the Executive Compensation Law. For the avoidance of doubt,

17.3. Subject to the foregoing, for the avoidance of doubt, the compensation policy will not prejudice any rights of the corporate officers in connection with their tenure and employment in the company, which apply as of the application date, nor any rights which have accrued and/or which have materialized and/or which will be accrued with respect to previous periods, until the date of their adjustment to the policy, or until the date required for their adjustment, in accordance with the relevant provisions of the law, as stated above (hereinafter: “**Accrued Rights**”)²⁰.

17.4. It is hereby clarified that any rights which have accrued will not be taken into account for the purpose of calculating the maximum limits specified in this policy with respect to the compensation, even if their actual date of payment is later than the application date or than the application date of the provisions of the law, including options which were provided, as stated above, and for which payment has been provided.

17.5. It is hereby clarified that if and when, in accordance with the Executive Compensation Law, the projected annual expense with respect to the compensation of a corporate officer exceeds the compensation limit, the compensation of the corporate officer will be increased accordingly, in any of their compensation components.

It is hereby clarified that, with respect to 2016, the maximum compensation limit will be evaluated on a proportional basis, relative to the period beginning from the application date of the Executive Compensation Law, and the variable components of compensation which will be paid with respect to that year will be attributed accordingly.

any change to the aforementioned conditions will not prejudice any rights which accrued prior to this date. For details regarding the provision of notice to the CEO, see footnote 14 above.

²⁰ It is hereby clarified that the provisions of the compensation policy will be no more stringent than the transitional provisions set forth in the compensation circular and in the amendment to the circular and to the Executive Compensation Law, and shall not prejudice any rights which the transitional provisions are intended to protect.

- 17.6. Insofar as the provisions of the compensation circular will be updated in the future, the compensation terms may be adjusted accordingly, with the approval of the compensation committee and the board of directors.
- 17.7. Without derogating from that stated in section 16.6 above, it is hereby clarified that a corporate officer who announced their resignation by January 1, 2017, will not lose their entitlement to receive all of the rights which would have been due to them with respect to the termination of the employer - employee relationship, or the conclusion of tenure, had said relationship concluded before the entry into effect of the Executive Compensation Law (October 12, 2016).

* * *

**Clal Insurance Enterprises Holdings
Ltd.**



As of December 31, 2017

Board of Directors' Report

The board of directors' report regarding the state of the corporation's affairs for the period ended December 31, 2017 (hereinafter: the "**Board of Directors' Report**") reviews the principal changes which occurred in the operations of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") in 2017 (hereinafter: the "**Reporting Period**").

The board of directors' report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, with respect to insurance business operations, in accordance with the Insurance Business Control Regulations (Particulars of Report), 1998, and in accordance with circulars issued by the Commissioner of the Capital Markets, Insurance and Savings (hereinafter: the "**Commissioner**").

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1. Description of the Company

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

Shareholder	As of December 31, 2017		Proximate to the publication date of the report	
	Holding of voting rights	Holding of voting rights At full dilution ¹⁾	Holding of voting rights	Holding of voting rights At full dilution ¹⁾
	%			
IDB Development Corporation Ltd.	44.79	44.26	39.79	39.39
Bank Hapoalim	9.47	9.36	9.47	9.37

It is noted that IDB Development holds the Company's shares directly and indirectly, through a trustee who was appointed to hold the Company's control shares.

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

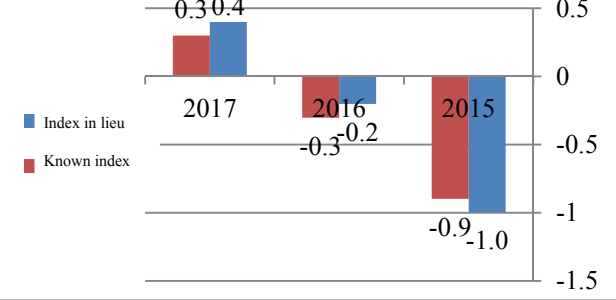
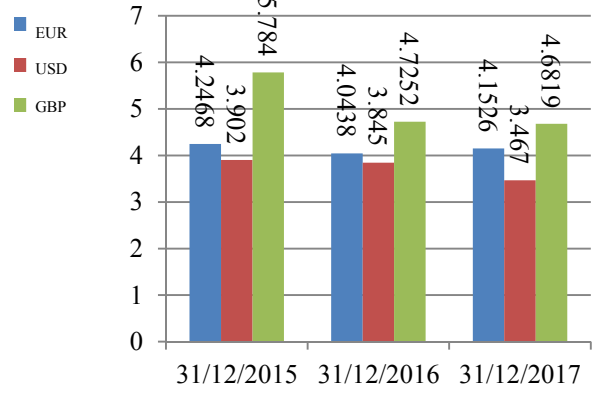
2. Description of the Business Environment

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

The total impact of the market developments specified below on the Group's results during the reporting period was reflected both in increases, both in the value of financial assets held against capital and insurance liabilities, primarily due to the increase in the stock and bond markets, and the increase in the value of insurance liabilities, due to the decrease in the interest rates which were used to calculate the insurance liabilities. For additional details, see Note 43(a) to the financial statements.

Parameter	Effect on the Group's activities	Data for the period
<u>Developments in the Israeli economy and employment rate</u>	Growth rates and work force participation rates, as well as the employment rate and salary levels, have an effect on the scope of premiums, mainly in the long-term savings segment, and may also have an effect on the scope of claims.	<p>According to the estimate of the Central Bureau of Statistics, the Israeli economy grew in 2017 by approximately 3.4% (1.4% per capita) - a lower growth rate than in 2016.</p> <p>Private consumption increased at a rate of 3.3%; public consumption increased at a rate of 3.2%; investments in fixed assets increased at a rate of 2.8%; and exports increased at a rate of 3.7%. In 2017, the surplus in the current account decreased to a rate of 3.0% of GDP.</p> <p>According to the assessment of the Bank of Israel's research division, in 2018, GDP is expected to grow at a rate of 3.4%, and in 2019, it is expected to grow at a rate of 3.5%. The inflation rate in the coming year is forecasted to be 1.1%. The monetary interest rate is expected to remain at its current level (0.1%) in the first three quarters of the year, and to rise to a rate of 0.25% in the last quarter.</p> <p>In 2017, the employment market improved. According to the data of the workforce survey conducted by the Central Bureau of Statistics, in 2017, the unemployment rate among persons aged 15 or older who are eligible to work is 4.2% (as compared with 4.8% in 2016), and the employment rate (percent employed out of the total population) among persons aged 15 or older was 61.3% (as compared with 61.1% in 2016), while the unemployment rate among those aged 25-64 who are eligible to work was 3.7% (as compared with 4.1% in 2016), and the employment rate among those age 25-64 was 77.1% (as compared with 76.6% in 2016).</p>

¹⁾ The holding rate, at full dilution, was prepared based on the theoretical assumption that all of the options will be exercised. For additional details, see Note 41 to the financial statements.

Parameter	Effect on the Group's activities	Data for the period
<p><u>Inflation data</u></p>	<p>The inflation rate may affect the Company's business results, primarily through 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.</p>	 <p>In the annual summary, there was a slight decline in inflation forecasts derived from the capital market in the long ranges, primarily due to the increase in value of the NIS vs. the USD. After the balance sheet date, the Central Bureau of Statistics published the price index for January, which decreased by 0.5%, and for February, which increased by approximately 0.1%.</p>
<p><u>Exchange rates</u></p>	<p>Changes in exchange rates have the potential to directly affect foreign assets in the nostro portfolio and in the members portfolio, and to affect premiums and claims which are linked to foreign currencies. Changes in exchange rates also have the potential to affect other market factors.</p>	 <p>The Bank of Israel continued its involvement in the foreign currency market, where some of the foreign currency purchases were performed as part of the plan to offset the impact of natural gas. Foreign currency balances in the Bank of Israel as of the end of the year amounted to approximately USD 113 billion.</p>
<p><u>Development of interest rate and yields</u></p>	<p>A decrease in the interest rate curve and changes in the curve's steepness could result, under certain conditions, in an increase to the Company's insurance liabilities following an adjustment of the discount rate which is used to calculate certain reserves, and following the liability adequacy test in life insurance and nursing insurance. On the other hand, a decrease of this kind may result in capital gains on the assets side. On the other hand, an increase in the interest rate curve and changes in its steepness may lead to the opposite. The combined impact is dependent upon the structure of the assets and liabilities, and on the characteristics of the change in the curve. The low interest rate in the market may impose difficulties on achieving guaranteed rates of return in guaranteed-return products in life and health insurance, on achieving the discount interest rate in the compulsory, liabilities and personal accidents branches in non-life insurance, and on achieving returns which will be used to price other insurance products, and may also result in a renewed evaluation of the actuarial estimates regarding the Group's insurance liabilities. For additional details, see Note 43(a) to the financial statements.</p>	<p>During the year, an additional decline occurred in the risk-free interest rate curve.</p> <p>For details regarding the linked risk-free interest rate in Israel (according to CPI-linked government bonds) for different periods, see section 3.1.1 below.</p> <p>The Bank of Israel left the interest rate unchanged during 2017, at 0.1%.</p>

Parameter	Effect on the Group's activities	Data for the period							
Developments in the Israeli capital market	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.	Stock indices							
		In percent	Reporting period			Q4			
		2017	2016	2017	2016	2017	2016	2017	2016
		Tel Aviv 35	2.7	(3.8)	6.2				1.9
		Tel Aviv 90	21.2		17.3	4.6			5.8
		Tel Aviv 125	6.4	(2.5)	5.6				1.6
		Tel Aviv Growth	4.5		24.7	(3.6)			2.4
		Bond indices							
		In percent	Reporting period			Q4			
		2017	2016	2017	2016	2017	2016	2017	2016
		General	4.7	2.1	1.3				(0.6)
		Telbond CPI-linke	5.6	2.4	1.6				(0.3)
		Telbond NIS-linke	7.5	2.4	1.5				0.5
		Government CPI-linked	3.4	0.7	1.5				(1.8)
		Government NIS-linked	3.7	1.2	0.8				(0.9)
Global stock markets	In local currency				In NIS				
	In percent	Reporting period			Reporting period			Q4	
	2017	2016	2017	2016	2017	2016	2017	2016	
	Dow Jones	25.1	13.4	10.3	7.9	12.8	11.8	8.4	10.4
	NASDAQ	28.2	7.5	6.3	1.3	15.6	5.9	4.4	3.7
	Nikkei Tokyo	19.1	0.4	11.8	16.2	11.6	1.8	10.0	2.7
	CAC - Paris	9.3	4.9	(0.3)	9.3	12.2	(0.2)	(0.4)	5.2
	FTSE - London	7.6	14.4	4.3	3.5	6.6	(6.5)	3.1	0.4
	DAX - Frankfurt	12.5	6.9	0.7	9.2	15.5	1.8	0.6	5.1
	MSCI WORLD	20.3	5.3	5.3	1.5	8.5	3.8	3.5	3.8
Global economic developments	<p>The global economy recorded a very strong year in 2017, with synchronized growth and positive surprises in economic parameters in the G7 countries. Real global growth was 3.7%, as compared with the forecast of 3.4%.</p> <p>USA - GDP in the United States grew this year by 2.3%. Accelerated growth of 2.7% is forecast in the coming year, thanks to the tax reform, which will provide an important economic incentive, and the significant recovery in the American manufacturing sector, in addition to strength of global growth. The Fed raised the monetary interest rate three times this year, in light of the improvements in economic data. In 2017, the Fed also announced a balance sheet reduction program by reducing the scope of its reinvestments, following the ongoing sale of the bonds in its balance sheet.</p> <p>Europe - In 2017, significant growth was apparent in the Euro Bloc, which amounted to 2.4%. In addition to the positive economic data in the Euro Bloc, a great deal of uncertainty was lifted in the political sphere, and a positive change was evident on the subject of reforms, e.g., in France. The Central Bank announced the extension of the quantitative easing program until September 2018. However, it also announced a gradual reduction of its scope, from January 2018 to September 2018.</p> <p>Japan - Estimated growth in 2017 amounts to approximately 1.8%. The continued tenure of Prime Minister Shinzo Abe brings a continuation of reforms in the state, and governmental stability.</p> <p>Emerging markets - In total, emerging economies grew by 5.5%, this year - the highest growth rate since 2011. The improvement in growth resulted in an increase in the gap of GDP between emerging markets and developed countries, in favor of the emerging markets. Recovery in trade activities is evident, in light of the resumption of demand from developed countries. The weaker economies, Brazil and Russia, recovered from severe recessions. India is benefiting from extensive structural reforms.</p> <p>China - In annual terms, the Chinese economy grew at a higher rate than expected, at a rate of 6.9%.</p>								

2.2. Developments in the Israeli insurance market

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

	As of December 31, 2017			As of December 31, 2016		
	Company	Market	Company % of the market	Company	Market	Company % of the market
NIS in millions						
Life insurance market						
Profit sharing life insurance - policies until December 31, 2003	38,862	168,320	23.1	36,347	157,775	23.0
Profit sharing life insurance - policies beginning from January 1, 2004	21,140	130,647	16.2	18,578	105,297	17.6
Total profit sharing life insurance assets	60,002	298,967	20.1	54,925	263,072	20.9
New pension assets	51,665	303,549	17.0	44,618	254,633	17.5
Benefits and personal severance pay funds	23,071	218,024	10.6	23,634	200,671	11.8
Study funds	7,510	206,768	3.6	7,227	183,576	3.9
Central severance pay funds	2,937	16,225	18.1	3,264	16,761	19.5
Provident fund for investment	102	3,559	2.9	-	483	-
Provident fund for investment - savings for each child	-	2,954	-	-	-	-
Total provident fund assets *)	33,620	447,529	7.5	34,124	401,491	8.5
Total profit sharing life insurance, new pension, provident* and life insurance assets	145,286	1,050,045	13.8	133,667	919,196	14.5

*) Excluding provident funds for other purposes. For details regarding the impairment of goodwill with respect to the provident fund management activity, see Note 6(b)(1).

2.2.2. Total scope of premiums in the Israeli insurance market

NIS in millions	For the period of nine months ended September 30						For the period of three months ended September 30						For the year ended December 31		
	2017		Compa ny % of the market	2016		Compa ny % of the market	2017		Compa ny % of the market	2016		Compa ny % of the market	2016		Compa ny % of the market
	Comp any	Market		Comp any	Market		Comp any	Market		Comp any	Market		Comp any	Market	
Life insurance	4,188	21,963	19.1	3,686	19,192	19.2	1,328	7,345	18.1	1,278	6,731	19.0	4,999	26,248	19.0
Non-life insurance*)	1,705	15,107	11.3	1,755	14,293	12.3	585	5,164	11.3	579	4,521	12.8	2,315	19,160	12.1
Health insurance **)	1,415	8,366	16.9	1,352	7,723	17.5	504	2,903	17.4	496	2,728	18.2	1,799	10,394	17.3
Total gross premiums earned in the insurance market in Israel ***)	7,307	45,434	16.1	6,793	41,207	16.5	2,417	15,412	15.7	2,353	13,980	16.8	9,111	55,801	16.3

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

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

***) After adjustments and offsets.

2.2.2.1. Total contributions in pension funds and provident funds on the Israeli market in accordance with the Commissioner's publications:

	For the year ended December 31						For the period of three months ended December 31					
	2017		% Comp any of the marke t	2016		% Comp any of the marke t	2017		% Comp any of the marke t	2016		% Comp any of the marke t
Com pany	Marke t	Com pany		Marke t	Compan y		Market	Com pany		Marke t	Com pany	
NIS in millions												
New pension funds	5,702	36,486	15.6	5,395	32,373	16.7	1,465	9,753	15.0	1,439	8,538	16.9
Benefits and personal severance pay funds	428	11,202	3.8	507	9,759	5.2	90	3,201	2.8	127	2,937	4.3
Study funds	1,124	23,081	4.9	1,100	21,214	5.2	333	6,699	5.0	340	6,355	5.4
Severance pay funds	1	93	1.5	-	91	-	1	19	3.5	0	23	0.2
Provident fund for investment	103	3,049	3.4	-	487	-	45	1,470	3.0	-	487	-
Provident fund for investment - savings for each child	-	2,833	-	-	-	-	-	458	-	-	-	-
Total provident funds *)	1,656	40,258	4.1	1,607	31,551	5.1	468	11,847	3.9	468	9,801	4.8
Total contributions	7,359	76,743	9.6	7,002	63,924	11.0	1,933	21,601	8.9	1,906	18,340	10.4

*) Excluding provident funds for other purposes.

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

Restrictions and supervision of the corporation's business

The Group is engaged in the following operating segments: Long-term savings, non-life insurance and health insurance. The Group also has additional areas of operation which are not included in the operating segments.

In recent years in general, and in the reporting year in particular, significant regulatory reforms were promoted and are being promoted in the various insurance and savings branches, primarily including reforms which are intended to directly or indirectly reduce premiums and management fees, through the use of various regulatory tools. Worthy of note, inter alia, was the establishment of a default pension fund by the Capital Market and Insurance Authority as a means of reducing management fees, the intervention in the terms and tariffs of loss of working capacity products, the significant change to the tariffs of compulsory insurance, the changes to the terms and tariffs of health products, through an effective reduction of the maximum limit for approved tariffs, without determining in advance the update mechanism for tariffs, during the insurance period.

The regulatory intervention is creating in the engagement structure and in the reciprocal relationships between institutional entities, agents, employers and customers, in a manner which could affect the ability of institutional entities to link their income to their expenses, impose on them significant operating expenses, and reduce its profitability. The application of some of the reforms began during the reporting period, and even before, while others are expected to be applied in the future and/or are in various stages of regulatory process or discussion. At this stage, it is not possible to estimate the full impact of the steps which are being implemented in the insurance and pension market in Israel. The entire set of applied and proposed changes, the intervention in tariffs and in management fees, the sale processes, the operational burden due to the pace, scope and complexity of the regulatory changes, and the need to implement adjustments to the automation systems and work processes, have implications on the business model in the branch, and currently affect and will continue to affect the insurance market in Israel in the coming years, and the profitability thereof, including, inter alia, the value of new business (VNB) which will be sold, the embedded value with respect to the Company's business operations, and the solvency ratio in accordance with the economic solvency regime which was applied during the reporting year.

For details regarding developments in laws, regulations, material circulars which were published during the reporting year, and regarding material drafts of the above, which were published by the Knesset, the Government or the Commissioner, as applicable, see the Description of the Corporation's Business, in the part regarding "Restrictions, legislation, standardization and special constraints", for each of the operating segments; and section 10.2, regarding restrictions and supervision of the corporation's activities.

The information presented on all matters associated with the regulatory changes constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report. These changes, and the actual implications thereof, may differ from the forecast, including, inter alia, in light of the uncertainty involving their occurrence, and involving all of their implications, which are dependent, inter alia, on the conduct of distributing entities, distributing entities and policyholders, and on the reciprocal relationship between the various reforms.

3.1 Financial information by operating segments (for details regarding operating segments, see Note 5 to the financial statements).

2017

Gross premiums earned in the reporting period amounted to a total of approximately NIS 9,729 million, as compared with a total of approximately NIS 9,110 million in the corresponding period last year. In life insurance, an increase of approximately NIS 536 million was recorded, primarily due to the increase in new sales of individual products, and the increase of deposits, in accordance with the extension order regarding the increase of the pension provision rates, as specified in section 6.2.2 to the report regarding the description of the corporation's business affairs for 2017. Additionally, in health insurance, an increase of approximately NIS 118 million was recorded, primarily due to the increase in individual product sales, while on the other hand, in non-life insurance, a decrease was recorded in the amount of approximately NIS 36 million, primarily due to the non-renewal of a students personal accident insurance transaction, which was partly offset by the increase in individual product sales.

Comprehensive income after tax attributable to company shareholders during the reporting period amounted to a total of approximately NIS 370 million, as compared with comprehensive income of approximately NIS 122 million

in the corresponding period last year. Income in the reporting period and in the corresponding period last year includes the special effects specified in the following table.

Return on equity during the reporting period amounted to a rate of 7.9%, as compared with a rate of 2.7% in the corresponding period last year.

After neutralization of the special effects, comprehensive income during the reporting period amounted to a total of approximately NIS 661 million, as compared with comprehensive income of approximately NIS 396 million in the corresponding period last year. The increase in income, after neutralization of the effects, was primarily due to the increase in investment income and the collection of variable management fees, as compared with the corresponding period last year.

During the reporting period, gross real returns in profit sharing policies amounted to a rate of 8.50%, as compared with a rate of return of 2.95% in the corresponding period last year. Due to the foregoing, during the reporting period, variable management fees were collected in life insurance in the amount of approximately NIS 352 million, as compared with collection of approximately NIS 106 million in the corresponding period last year.

The total financial margin in life insurance² amounted to a total of approximately NIS 1,016 million, as compared with a total of approximately NIS 686 million in the corresponding period last year.

Quarter 4 2017

Gross premiums earned in the three month period ended on the reporting date amounted to a total of approximately NIS 2,423 million, as compared with a total of approximately NIS 2,319 million in the corresponding period last year. In life insurance, an increase of approximately NIS 35 million was recorded, primarily due to the increase in new sales of individual and managers' insurance products, and the increase in deposits, as stated above. Additionally, an increase of approximately NIS 55 million was recorded in health insurance, primarily due to the increase in individual product sales, and an increase in the amount of approximately NIS 14 million was recorded in non-life insurance.

Comprehensive income after tax attributable to company shareholders in the current quarter amounted to a total of approximately NIS 188 million, as compared with comprehensive income of approximately NIS 479 million in the corresponding period last year. The decrease in income in the current quarter was primarily due to the special effects in the corresponding period last year, as specified below.

After neutralization of the aforementioned special effects, comprehensive income during the reporting period amounted to a total of approximately NIS 200 million, as compared with comprehensive income of approximately NIS 169 million in the corresponding period last year. The increase in income, after neutralization of the effects, was primarily due to the increase in investment income and the collection of variable management fees, as compared with the corresponding period last year.

In the three month period ended on the reporting date, gross real returns in profit sharing policies amounted to a positive rate of 2.70%, as compared with a rate of return of 2.05% in the corresponding period last year. Due to the foregoing, during the reporting period, variable management fees were collected in life insurance in the amount of approximately NIS 112 million, as compared with collection of approximately NIS 86 million in the corresponding period last year.

The total financial margin in life insurance² amounted to a total of approximately NIS 313 million, as compared with a total of approximately NIS 263 million in the corresponding period last year.

²The 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. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.

Special effects which were included in the operating segments:

NIS in millions	Item	Year		Q4	
		2017	2016	2017	2016
		Unaudited			
Comprehensive income (loss), as published in the report		370	122	188	479
After neutralization of special provisions					
Impact of the low interest rate environment:					
<u>Life insurance</u> - total impact of the low interest rate environment before tax	A	(259)	(194)	(9)	311
<u>Non-life insurance</u>					
Initial application of best practices	A	-	-	-	2
Impact of recommendations of the Winograd committee	B	(78)	(141)	18	(16)
<u>Long-term care insurance in the health segment</u>	A	-	-	-	180
Total income (loss) before tax with respect to the low interest rate environment		(337)	(335)	9	477
Additional special provisions in long term savings	C	(53)	(101)	-	1
Amortization of goodwill - provident funds	D	(108)	(25)	(27)	(25)
Update to the discount rate used to calculate liabilities for paid pensions	E	88	-	-	-
Other special effects	F	(38)	(24)	-	(7)
Total profit (loss) before tax with respect to special provisions		(448)	(485)	(18)	446
Total profit (loss) after tax with respect to special provisions		(291)	(311)	(12)	286
Impact of the update to tax rates		-	37	-	24
Comprehensive income after tax, after neutralization of the impact of special provisions		661	396	200	169

Section		Reporting period	Quarter
A	<u>Impact of the interest rate environment:</u>		
	<p>Clal Insurance's actuary updated the interest rates on the free assets which are used to discount the liabilities to supplement annuity reserves and paid pension reserves (2.2%-2.79% as of December 31, as compared with 2.3%-2.79% as of September 30, and as compared 2.4%-3.28% as of December 31, 2016), updated the K factor for profit-sharing policies (0.88% as compared with 0.92% as of September 30, 2017 and December 31, 2016) and the results of the liability adequacy test (LAT) were updated.</p>	<p>The reserves with respect to life insurance contracts increased by approximately NIS 259 million (a total of approximately NIS 168 million after tax), as compared with the increase of reserves in life insurance in the amount of approximately NIS 194 million (a total of approximately NIS 124 million after tax) in the corresponding period last year.</p> <p>It is noted that Clal Insurance's balance of the provision for the liability adequacy test (LAT) as of December 31, 2017 amounted to NIS 220 million.</p>	<p>The reserves with respect to life insurance contracts increased by approximately NIS 9 million (approximately NIS 6 million after tax), as compared with the release of reserves in life insurance and in long-term care insurance in the health segment, in the amount of approximately NIS 493 million (approximately NIS 316 million after tax) in the corresponding period last year.</p>
B	<u>Recommendations of the Winograd committee:</u>		
	<p>As specified in Note 39(e)(e2)(4)(g) to the annual financial statements, and in section 7.1.1.1(d)(2) in the chapter regarding the Description of the Corporation's Business, within the framework of the amendment to the interest rate which is used to discount annual annuities, in accordance with the Winograd committee's recommendations, the Company estimated the total possible effect due to the recommendations of the Winograd committee, which entered into effect on October 1, 2017, including amounts which Clal Insurance may be required to pay in other disability and death claims, while taking into account the uncertainty with respect to its actual impact and the manner of its occurrence, if any.</p>	<p>The Company increased the insurance liabilities as of December 31, 2017 in the compulsory motor and liabilities branches by approximately NIS 78 million, on retention and before tax (a total of approximately NIS 51 million after tax), as compared with an increase of the insurance liabilities with respect to the recommendations of the Winograd committee in the amount of approximately NIS 141 million on retention before tax in the corresponding period last year (a total of approximately NIS 90 million after tax). The increase during the reporting period was primarily due to the decrease in the returns from investment instruments which were used to calculate the estimate.</p> <p>It is noted that the total provision with respect to the Winograd committee's recommendations, from the date of their publication until the reporting date, amounts to approximately NIS 219 million.</p>	<p>The Company reduced the insurance liabilities as of December 31, 2017 in the compulsory motor and liabilities branches by approximately NIS 18 million, on retention and before tax (a total of approximately NIS 12 million after tax), as compared with an increase of the insurance liabilities with respect to the recommendations of the Winograd committee in the amount of approximately NIS 16 million on retention before tax in the corresponding period last year (a total of approximately NIS 10 million after tax).</p>
C	<u>Additional special provisions in long-term savings:</u>		
	<p>As specified in Note 42(a)(a4)(2), the Group updated the insurance liabilities for the data cleansing with respect to members' rights</p>	<p>in the amount of approximately NIS 53 million (approximately NIS 34 million after tax) in life insurance, as compared with the update in the amount of approximately NIS 58 million before tax in life insurance (approximately NIS 37 million after tax) in the corresponding period last year, and in the amount of approximately NIS 7 million before tax (approximately NIS 5 million after tax) in pension and provident funds in the corresponding period last year.</p> <p>Additionally, the Company performed, in the corresponding period last year, a</p>	

Section		Reporting period	Quarter
		provision with respect to the cancellation of arrears in premium charges with respect to life insurance policies in the amount of approximately NIS 36 million before tax (approximately NIS 23 million after tax), with no effect during the reporting period.	
D	<u>Impairment of goodwill - provident segment:</u>		
	As stated in Note 6(b)(1) to the financial statements, the rate of management fees in the provident fund segment has been subject to an ongoing decline, as a result of the competitive conditions in the segment, in a manner which makes it difficult to cover the managing company's expenses. Additionally, during the reporting period, the Company recorded negative net transfers.	Accordingly, in the second and fourth quarters, the Company evaluated the need to record a provision for impairment of the goodwill attributed to the provident fund management operation, through a valuation prepared by an external valuer. In accordance with the valuation, the book value of the provident fund operation as of June 30, 2017 and as of December 31, 2017 was higher than the value in use by approximately NIS 81 million (approximately NIS 53 million after tax) and approximately NIS 27 million (approximately NIS 18 million after tax), respectively, and therefore, the Company recognized impairment loss of goodwill in the reporting period and in the current quarter, as compared with impairment of approximately NIS 25 million in the corresponding period last year (approximately NIS 16 million after tax). The balance of goodwill as of the reporting date is NIS 239 million.	As stated above, in the fourth quarter, the Company evaluated the need to record a provision for impairment, primarily in light of the update regarding minimum management fees. Therefore, the Company recognized impairment loss in the current quarter in the amount of approximately NIS 27 million (approximately NIS 18 million after tax), as compared with impairment of approximately NIS 25 million in the corresponding period (approximately NIS 16 million after tax). For additional details, see Note 6(b)(1).
E	<u>Discount rate used to calculate liabilities for paid pensions:</u>		
	During the reporting period, Clal Insurance found that a correction was required in order to associate its liabilities to pension receiving policyholders, to various HETZ bond funds bearing guaranteed returns, and accordingly, contacted the Capital Market Authority to perform an effective allocation of HETZ bonds of the relevant series, in accordance with the aforementioned amendment. The allocation of bonds in accordance with the aforementioned re-attribution, which, according to the Company's estimate, is expected to take place, is expected to confer upon Clal Insurance, in the future, the right to receive a higher interest rate with respect to the liabilities to pension receiving policyholders. As a result, in	As a result, the insurance reserves decreased, and pre-tax profit increased in the amount of approximately NIS 88 million (of which, approximately NIS 22 million with respect to the decrease of the liability adequacy test (LAT) reserve), and accordingly, profit after tax increased in the amount of approximately NIS 57 million.	

Section	Reporting period	Quarter
<p>accordance with the provisions of Note 39(e)(e1)(b)(1)(c) to the financial statements, during the reporting period, Clal Insurance updated the discount rate which is used to discount liabilities with respect to paid pensions, in consideration of the estimated rate of return on the mix of assets which is expected in the future (which is subject to the actual allocation of HETZ bonds).</p>		
F	<u>Other special effects:</u>	
	<ol style="list-style-type: none"> 1. Voluntary retirement program for employees - In accordance with the acceptance of the retirement program, the Company recorded a non-recurring expense in the amount of approximately NIS 23 million (a total of approximately NIS 15 million after tax). For additional details, see Note 24(b) to the financial statements. 2. During the reporting period, the Company updated the provisions with respect to claims which were filed against the Company in provident funds, in the amount of approximately NIS 15 million before tax (NIS 8 million after tax). 3. In the corresponding period last year, as part of the exchange of deferred liability notes in the Group, exchange costs were created in the amount of approximately NIS 24 million before tax (approximately NIS 16 million after tax), with no effect during the reporting period. 	<p>As part of the exchange of deferred liability notes in the corresponding period last year, exchange costs were created in the amount of approximately NIS 7 million before tax (approximately NIS 5 million after tax), with no effect during the reporting period.</p>

Developments subsequent to the reporting period:

Subsequent to the reporting date, the risk-free interest rate curve decreased. Further to that stated in Note 39(e)(e1) and (e2) 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, to an increase in liabilities in life and long-term care insurance with respect to the supplementation of annuity reserves, and in paid pension liabilities in life insurance, and also as part of the liability adequacy test (LAT) and changes to the K factor.

At this stage, it is not possible to estimate the implications of the decreased risk-free interest rate curve during this period on the results for the first quarter of 2018, 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 continuing developments in financial markets until the end of the first quarter of 2018, and the above does not any estimate regarding the Company's expected financial results for the first quarter of 2018.

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

	Year			Rate of change In percent relative to the corresponding period		Q4		Rate of change In percent relative to last year
	2017	2016	2015	2017	2016	2017	2016	2017
NIS in millions								
Long term savings								
Gross earned life insurance premiums	5,535	4,999	4,861	11	3	1,347	1,312	3
Income from life insurance management fees	760	485	537	57	(10)	219	182	20
Impact of the decrease of interest rate on reserves in life insurance	(259)	(194)	(265)	34	(27)	(9)	311	#
Update to the discount rate used to calculate liabilities for paid pensions	88	-	-	#	#	-	-	#
Special provisions in life insurance	(53)	(94)	(26)	(44)	262	-	9	#
Financial margin including management fees	1,016	686	783	#	(12)	313	263	#
Income (loss) before tax in life insurance	236	(132)	60	#	#	82	448	(82)
Total comprehensive income (loss) before tax in life insurance	267	(113)	(65)	#	74	120	476	(75)
Income from pension management fees	282	277	270	2	3	74	72	3
Income before tax in pension funds	7	43	39	(84)	10	3	12	(75)
Total comprehensive income (loss) before tax in pension funds	11	43	39	(74)	10	5	12	(58)
Income from provident fund management fees	183	194	232	(6)	(16)	45	47	(4)
Amortization of goodwill - provident funds	(108)	(25)	-	332	#	(27)	(25)	-
Income before tax in provident funds	(102)	8	71	#	(89)	(28)	(22)	27
Total comprehensive income (loss) before tax in provident funds	(102)	8	71	#	(89)	(28)	(22)	27
Total income (loss) before tax in the long term savings division	141	(80)	170	#	#	57	439	(87)
Total comprehensive income (loss) before tax in the long term savings division	177	(61)	44	#	#	97	467	(79)
Non-life insurance segments								
Gross premiums earned	2,279	2,315	2,522	(2)	(8)	574	560	2
Premiums earned on retention	1,519	1,653	1,815	(8)	(9)	368	400	(8)
Impact of the decrease of interest rate on reserves in non-life insurance	-	-	-	#	#	-	2	#
Provision with respect to the Winograd committee	(78)	(141)	-	(45)	#	18	(15)	#
Income before tax in the non-life insurance division	14	16	334	(13)	(95)	35	(18)	#
Comprehensive income before tax in the non-life insurance division	62	(13)	268	#	#	51	(32)	#
Health insurance								
Gross premiums earned	1,917	1,799	1,674	7	7	502	447	12
Premiums earned on retention	1,655	1,586	1,487	4	7	429	389	11
Impact of the decrease of interest rate on reserves in health insurance	-	-	-	#	#	-	180	#
Income (loss) before tax in the health insurance division	129	203	198	(36)	3	58	253	(77)
Comprehensive income (loss) before tax in the health insurance division	184	216	178	(15)	21	80	255	(69)
Total income (loss) before tax from insurance branches	284	139	702	104	(80)	150	674	(78)
Total comprehensive income before taxes from insurance branches	423	142	490	198	(71)	229	690	(67)
Financing expenses	125	151	132	(17)	14	31	36	(14)
Total other income (loss) before tax and items which are not included in the insurance branches	249	114	87	118	31	85	33	158
Total income (loss) before tax	286	88	757	225	(88)	157	656	(76)
Total comprehensive income before tax	547	105	445	421	(76)	283	687	(59)
Taxes (tax benefit) in comprehensive income	171	(20)	157	#	#	94	207	(55)
Total comprehensive income (loss) for the year, net of tax	376	125	288	201	(57)	189	479	(61)
Total comprehensive income (loss) for the year attributable to company shareholders	370	122	285	203	(57)	188	479	(61)
Comprehensive income (loss) for the year attributable to non-controlling interests	5	3	2	67	50	1	-	#
Return on equity in annual terms (in percent) *)	7.9	2.7	6.7	195	(60)	15.5	45.7	(66)
Comprehensive income after tax, after neutralizing the impact of special provisions, attributable to company shareholders	661	396	468	67	(15)	200	169	18
Return on equity in annual terms (in percent) after neutralizing special effects *)	14.1	8.7	11.0	62	(21)	16.5	16.1	2

*) 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.

3.1.1. Long term savings
3.1.1.1. Life insurance operations

Life insurance	2017	2016	Q4 2017	Q4 2016	Note
Gross premiums earned	5,535	4,999	1,347	1,312	The increase in the reporting period and in the current quarter was primarily due to the increase in new sales of individual and managers' insurance products.
Comprehensive income (loss)	267	(113)	120	476	<p>Reporting period: The increase in income during the reporting period was due, inter alia, to the comprehensive process of data cleansing in systems in the long-term savings segment, in which the Group updated its insurance liabilities with respect to members' rights in the amount of approximately NIS 53 million before tax in the reporting period (approximately NIS 34 million after tax), as compared with an update in the amount of approximately NIS 58 million before tax (approximately NIS 37 million after tax) in the corresponding period last year, and the provision with respect to the cancellation of arrears in premium charges with respect to life insurance policies in the amount of approximately NIS 36 million before tax last year, with no effect during the reporting period (see section C above).</p> <p>Additionally, during the reporting period, the discount interest rate which is used to discount the liabilities with respect to paid pensions was updated in the amount of approximately NIS 88 million, with no effect in the corresponding period (see section E above).</p> <p>On the other hand, during the reporting period, provisions were recorded with respect to the low interest rate environment in the amount of approximately NIS 259 million, as compared with a total of approximately NIS 194 million in the corresponding period last year (see section A above).</p> <p>Current quarter: Insurance reserves were strengthened due to the decrease of the low risk-free interest rate curve, in the amount of approximately NIS 9 million, as compared with a decrease of the reserves in the amount of approximately NIS 311 million in the corresponding period last year.</p>
Comprehensive income (loss) after neutralization of special provisions	491	175	129	165	<p>Primarily influenced by the fact that, during the reporting period, a decrease was recorded in investment income, as compared with the corresponding period last year. During the reporting period, gross real returns in profit sharing policies amounted to a rate of 8.50%, as compared with a positive rate of 2.95% in the corresponding period last year, such that, during the reporting period, variable management fees were collected in the amount of approximately NIS 352 million, as compared with collection of approximately NIS 106 million in the corresponding period last year, as specified in section 3.1.1.2 below. The total financial margin in life insurance amounted to a total of approximately NIS 1,016 million, as compared with a total of approximately NIS 686 million in the corresponding period last year.</p> <p>Current quarter: The total financial margin in life insurance amounted to a total of approximately NIS 313 million, as compared with a total of approximately NIS 263 million in the corresponding period last year, as specified in section 3.1.1.2. During the reporting period, gross real returns in profit sharing policies amounted to a rate of 2.70%, as compared with a positive rate of 2.05% in the corresponding period last year, such that, during the reporting period, variable management fees were collected in the amount of approximately NIS 112 million, as compared with collection of approximately NIS 86 million in the corresponding period last year.</p>
The redemption rates of life insurance policies from the average reserve, in annual terms	2.1%	2.2%	2.1%	2.1%	
Investment income applied to policyholders after management fees	3,303	680	1,140	466	
Management fees (fixed and variable)	760	485	219	183	

3.1.1. Long-term savings (Cont.)

Presented below are the main parameters for the reporting period:

	31.12.17	30.09.17	30.06.17	31.03.17	31.12.16
Spot risk-free interest rate					
5 years	(0.3)	0.0	0.1	0.1	0.0
10 years	0.3	0.5	0.8	0.8	0.6
20 years	1.1	1.2	1.5	1.4	1.3
25 years	1.4	1.4	1.7	1.6	1.5
Discount rates used in the calculation of the reserve for postponed and paid annuities	2.20%-2.79%	2.30%-2.79%	2.60%-3.28%	2.60%-3.28%	2.40%-3.28%
K factor values - Profit sharing	0.88%	0.92%	0.96%	0.96%	0.96%
K factor values - Guaranteed-return	0.00%	0.00%	0.00%	0.00%	0.00%

Presented below is a description of the main results in life insurance, by product types, according to the specification provided in Note 20³ to the financial statements:

Life insurance	2017	2016	Note
Policies which include a savings component			
<u>Which were sold until December 31, 1990</u>			
Gross premiums earned	249	261	The decrease in premiums was primarily due to current settlements.
Comprehensive income (loss)	130	(43)	The transition from loss to income during the reporting period, as compared with the corresponding period last year, was primarily due to the decrease in the impact of the low interest rate environment, which was offset by the decrease in the financial margin. For additional details, see Note 39(e)(e1)(d)(1).
<u>Policies including a savings component which were sold from January 1, 1991 to December 31, 2003</u>			
Gross premiums earned	1,655	1,655	
Comprehensive income (loss)	231	76	The increase in comprehensive income in the reporting period, as compared with the corresponding period last year, was due to the increase in variable management fees, which amounted to a total of approximately NIS 346 million, as compared with a total of approximately NIS 104 million last year, due to the increase in gross real returns, to a rate of 8.50% during the reporting period, as compared with a rate of 2.95% last year.
<u>which were sold beginning on January 1, 2004</u>			
<u>Of the investment-linked type</u>			
Gross premiums earned	2,917	2,415	The increase in premiums in investment-linked policies was primarily due to the increase in individual product sales.
Comprehensive income (loss)	(165)	(168)	
<u>Of the guaranteed-return type</u>			
Gross premiums earned	9	13	
Comprehensive income (loss)	2	6	
Policies with no savings component			
<u>Coverage for risk sold as a single (individual) policy</u>			
Gross premiums earned	614	553	
Comprehensive income (loss)	46	(1)	The increase in income during the reporting period, as compared with the corresponding period last year, was primarily due to the performance of a provision with respect to the cancellation of arrears in premium charges with respect to life insurance policies in the corresponding period last year.
<u>Coverage for risk sold as a collective policy</u>			
Gross premiums earned	90	103	
Comprehensive income (loss)	22	16	The increase in comprehensive income was primarily due to the decrease in claims as compared with the corresponding period last year.

³ As noted, classifications were made in Note 20 to the financial statements regarding the amounts of insurance reserves between product generations, as well as classifications regarding the same product between types of insurance exposure. The classifications which were performed had no impact on the Company's comprehensive income.

3.1.1. Long-term savings (Cont.)

 3.1.1.2 Details regarding premiums earned, management fees and financial margin:

	Year						Q4			
	2017	% of total	2016	% of total	2015	% of total	2017	% of total	2016	% of total
NIS in millions										
Variable management fees	352	46%	106	22%	168	31%	112	51%	86	47%
Fixed management fees	408	54%	379	78%	369	69%	108	49%	96	53%
Total management fees	760	100%	485	100%	537	100%	220	100%	182	100%
Total financial margin and management fees	1,016		686		783		313		263	
Current premiums	5,226	94%	4,817	96%	4,740	98%	1,282	95%	1,251	95%
Non-recurring premiums	309	6%	182	4%	120	2%	65	5%	61	5%
Total gross premiums earned without pure savings	5,535	100%	4,999	100%	4,860	100%	1,347	100%	1,312	100%
Current premiums	82	28%	111	24%	132	17%	17	22%	24	27%
Non-recurring premiums	209	72%	358	76%	668	84%	59	78%	66	73%
Total premiums with respect to pure savings	291	100%	469	100%	800	100%	77	100%	90	100%
Current premiums	5,309	91%	4,928	90%	4,872	86%	1,299	91%	1,275	91%
Non-recurring premiums	517	9%	540	10%	788	14%	125	9%	127	9%
Total gross premiums earned	5,826	100%	5,469	100%	5,660	100%	1,424	100%	1,402	100%

Details regarding the rates of return in profit-sharing policies

	Policies issued during the years 1992 to 2003 (Fund J)						Policies issued beginning in 2004 (New Fund J)					
	Year		Q4				Year		Q4			
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Real return												
Before payment of management fees *)	8.50	2.95	4.33	2.70	2.05	2.57	8.12	2.46	3.49	2.67	1.70	2.44
After payment of management fees	6.72	2.01	3.19	2.19	1.62	2.07	6.93	1.32	2.45	2.39	1.42	2.16
Nominal return												
Before payment of management fees	8.82	2.64	3.40	2.80	1.74	1.85	8.45	2.15	2.56	2.77	1.39	1.73
After payment of management fees	7.04	1.70	2.26	2.29	1.31	1.36	7.25	1.01	1.53	2.49	1.11	1.45

*) For details regarding the change in the consumer price index, see section 2.1 above.

3.1.1.3 Provident fund operations

Provident fund operations	2017	2016	Q4 2017	Q4 2016	Note
Comprehensive income (loss)	(102)	8	(28)	(22)	Reporting period - The transition to loss from income was primarily due to the provision with respect to class actions in the amount of approximately NIS 15 million, and the amortization of goodwill in the amount of approximately NIS 108 million, as compared with the amortization in the amount of approximately NIS 25 million, and the expense for the data cleansing with respect to members' rights, in the amount of approximately NIS 5 million in the corresponding period last year. (For additional details, see Note 6(b)(1) to the financial statements.) Current quarter: The results of operations were primarily due to the amortization of goodwill in the amount of approximately NIS 27 million during the reporting period, and the amortization of goodwill in the amount of approximately NIS 25 million last year, as stated above.
Comprehensive income (loss) after neutralization of special provisions	6	38	(1)	3	Reporting period - The decrease in income, after neutralization of the aforementioned effects, was primarily due to a decrease in income from management fees, as a result of the competitive conditions in the segment.

3.1.1.4 Pension operations

Pension activity	2017	2016	Q4 2017	Q4 2016	Note
Comprehensive income (loss)	11	43	5	12	Reporting period and current quarter - The decrease in income was due to the increase in expenses, primarily in automation expenses, including depreciation, for the purpose of complying with the ongoing regulatory requirements, and the increase in expenses in light of the updates to the Group's general and administrative costs allocation model, as specified in Note 43(f) to the financial statements.

3.1.2. Non-life insurance - presented below is the distribution of premiums and comprehensive income *):

Gross premiums	2017	% of total	2016	% of total	Q4 2017	% of total	Q4 2016	% of total
Motor property	727	32%	635	28%	155	31%	143	28%
Compulsory motor	473	21%	438	20%	95	19%	93	18%
Property branches	666	29%	743	33%	164	33%	184	36%
Credit insurance	110	5%	107	5%	27	5%	27	5%
Liability branches	324	14%	310	14%	62	12%	69	13%
Total	2,299	100%	2,233	100%	502	100%	516	100%

Premiums on retention	2017	% of total	2016	% of total	Q4 2017	% of total	Q4 2016	% of total
Motor property	724	50%	632	40%	154	51%	143	41%
Compulsory motor	252	18%	423	27%	51	17%	89	26%
Property branches	194	14%	265	17%	40	13%	54	16%
Credit insurance	56	4%	54	3%	14	4%	14	4%
Liability branches	211	15%	213	13%	43	14%	48	14%
Total	1,437	100%	1,587	100%	302	100%	348	100%

Income (loss) before tax	2017	2016	Change in %	Q4 2017	Q4 2016	Change in %
Motor property	23	18	28	3	8	(63)
Compulsory motor	(19)	88	#	30	5	500
Property branches	7	(47)	#	(16)	(41)	(61)
Credit insurance	35	24	46	10	3	233
Liability branches	(32)	(68)	(53)	8	7	14
Total	14	16	(9)	34	(18)	#

Comprehensive income (loss) before tax	2017	2016	Change in %	Q4 2017	Q4 2016	Change in %
Motor property	27	16	69	4	7	(43)
Compulsory motor	1	73	(99)	37	(2)	#
Property branches	11	(50)	#	(14)	(42)	(67)
Credit insurance	41	24	71	12	2	500
Liability branches	(19)	(77)	(75)	13	3	333
Total	62	(13)	#	52	(34)	#

Comprehensive income (loss) before tax without the estimated provision with respect to the implications of Winograd	2017	2016	Change in %	Q4 2017	Q4 2016	Change in %
Compulsory motor	46	154	(70)	23	3	667
Liability branches	14	(16)	#	9	14	(36)
Total	140	128	9	34	(17)	#

	2017		2016		Q4 2017		Q4 2016	
	LR gross	LR on retention	LR gross	LR on retention	LR gross	LR on retention	LR gross	LR on retention
Motor property	70%	70%	70%	70%	73%	73%	67%	68%
Compulsory motor	98%	93%	59%	56%	103%	98%	86%	80%
Property branches	70%	52%	42%	71%	92%	89%	75%	116%
Credit insurance	23%	22%	45%	46%	10%	9%	41%	65%
Liability branches	98%	77%	106%	80%	58%	84%	102%	37%
Total	78%	72%	62%	67%	80%	79%	77%	75%

CR on retention	CR gross	CR on retention	CR gross	CR on retention	CR gross	CR on retention	CR gross	CR on retention
Motor property	98%	99%	98%	99%	102%	102%	96%	97%
Compulsory motor	117%	111%	78%	77%	125%	119%	108%	103%
Property branches	104%	104%	74%	118%	126%	144%	107%	165%
Credit insurance	48%	42%	67%	59%	40%	35%	64%	80%
Liability branches	131%	120%	139%	123%	93%	128%	136%	80%
Total	106%	103%	90%	99%	109%	112%	106%	107%

Non-life insurance - total segment	2017	2016	Q4 2017	Q4 2016	Note
Gross premiums	2,299	2,233	502	516	<p>Reporting period: After implementing a business optimization process, as part of the Company's strategy, which resulted in a reduction of premiums in recent years, an increase was recorded in gross premiums in the amount of approximately NIS 66 million relative to last year, mostly due to the increase in individual business operations in the compulsory motor and property branches.</p> <p>Current quarter: The decrease in premiums in the current quarter was primarily due to timing differences with respect to long term policies in the property branches.</p>
Comprehensive income	62	(13)	52	(33)	<p>Reporting period: During the reporting period, a provision was recorded with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 78 million, as compared with a provision in the amount of approximately NIS 141 million in the corresponding period last year.</p> <p>Current quarter: A decrease was recorded in the aforementioned provision, as a result of the update to the estimated implications in the amount of approximately NIS 18 million, as compared with an increase in the amount of approximately NIS 16 million last year. In the current quarter, surplus investment income over the income required to cover the increase in insurance liabilities due to discounting and linkage increased by approximately NIS 52 million relative to the corresponding quarter.</p>
Comprehensive income neutralized by the Winograd provision	140	128	34	(17)	<p>Reporting period: The increase in income, after neutralization of the aforementioned provision, was primarily due to the decrease in loss in the students personal accident insurance branch, and the transition from loss to income in the property and liabilities branches, and the increase in income in the motor property branch, due to the improvement in underwriting results as compared with the corresponding period last year, as a result of the underwriting improvement in individual business operations. However, in the compulsory motor branch, income decreased relative to the corresponding period, due to the predicted deterioration in the average claim, which was reflected in the actuarial model, as compared with the improvement in the actuarial model and the corresponding release of reserves last year.</p> <p>Current quarter: The increase in income, after neutralization of the aforementioned provision, was due to the improvement in the results of the compulsory motor branch, as a result of the surplus investment income over the income required to cover the increase in insurance liabilities due to discounting and linkage, and the decrease in loss in students personal accident insurance, as compared with the corresponding period last year.</p>
LR on retention After neutralizing the provision with respect to Winograd	72%	67%	79%	75%	<p>Reporting period and current quarter: The increase was due to the deterioration in average claims in the compulsory motor branch, as specified above, which was partly offset by the underwriting improvement in property and liabilities branches</p>
CR on retention After neutralizing the provision with respect to Winograd	103%	99%	112%	107%	
LR on retention after neutralization of the provision with respect to the Winograd committee, and excluding the compulsory motor branch	66%	71%	75%	73%	<p>Reporting period: The decrease was primarily due to the underwriting improvement in the property and other branch</p> <p>Current quarter: The increase was due to the deterioration of underwriting in the motor property and liabilities branches, which was partly offset by the underwriting improvement in the property and other branch</p>
CR on retention after neutralization of the provision with respect to Winograd, and excluding the compulsory motor branch	101%	107%	111%	108%	

	2017	2016	Q4 2017	Q4 2016	Note
Motor property					
Gross premiums	727	635	155	143	The increase in gross premiums in the reporting period and in the current quarter was primarily due to the increase in individual business operations, as part of the Company's strategy.
Comprehensive income before tax	27	16	4	7	The increase in income was primarily due to the improvement in underwriting results in individual business operations, and due to business optimization, as part of the Company's strategy in recent years, and due to the increase in investment income.
LR on retention	70%	70%	73%	68%	
CR on retention	99%	99%	102%	97%	
Compulsory motor					
Gross premiums	473	438	95	93	Reporting period: The increase in gross premiums was primarily due to the increase in individual business operations, as part of the Company's strategy.
Comprehensive income (loss)	1	73	37	(2)	Reporting period: During the reporting period, a provision was recorded with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 45 million, as compared with a total of approximately NIS 81 million in the corresponding period last year. Current quarter: A decrease in the provision was recorded in the amount of approximately NIS 14 million, as compared with an increase of the provision in the amount of NIS 5 million in the corresponding quarter last year.
Comprehensive income neutralized by the Winograd provision	46	154	23	3	Reporting period: The decrease in income, after neutralizing the provisions, as stated above, was due to the predicted deterioration in the average claim, which was reflected in the actuarial model, as compared with the improvement in the actuarial model and the release of reserves accordingly last year. Current quarter: The increase in income, after neutralization of the aforementioned provision, was due to the improvement in surplus investment income over the income required to cover the increase in insurance liabilities due to discounting and linkage
LR on retention after neutralizing the provision with respect to Winograd	93%	56%	98%	80%	The increase was primarily due to the deterioration in the average claim, as specified above.
CR on retention after neutralizing the provision with respect to Winograd	111%	77%	119%	103%	
Property and others branches					
Gross premiums	666	743	164	184	The decrease in gross premiums, in the amount of approximately NIS 77 million, was primarily due to the non-renewal of a transaction in the students personal accident insurance branch, and timing differences with respect to long term policies.
Comprehensive income (loss)	11	(50)	(14)	(42)	Reporting period and current quarter: The transition from loss to income during the reporting period, and the decrease in loss in the current quarter, were primarily due to the improvement in the comprehensive apartment and fire and property branches, due to business optimization and the discontinuation of losing business operations which were performed in previous years, and also due to the smaller amount of loss than last year in the students personal accident insurance branch
LR on retention	52%	71%	89%	116%	Reporting period and current quarter: The decrease was primarily due to the business optimization which was performed, as stated above.
CR on retention	104%	118%	144%	165%	
Credit insurance					
Gross premiums	110	107	27	27	
Comprehensive income	41	25	12	2	Reporting period and current quarter: The increase in income was primarily due to the decrease in the rate of claims during the reporting period, relative to the corresponding period last year.
LR on retention	22%	46%	9%	65%	Reporting period and current quarter: The decrease was primarily due to the moderation in the rate of claims, as stated above.
CR on retention	42%	59%	35%	80%	

	2017	2016	Q4 2017	Q4 2016	Note
Liability branches					
Gross premiums	324	310	62	69	
Comprehensive income	(19)	(77)	13	3	<p>Reporting period: During the reporting period, a provision was recorded with respect to the possible implications of the amendment to the Discounting Regulations, in light of the recommendations of the Winograd committee, in the amount of approximately NIS 33 million, as compared with a provision in the amount of approximately NIS 61 million in the corresponding period last year.</p> <p>Current quarter: In the current quarter, the provision with respect to the Winograd committee's recommendations decreased in the amount of approximately NIS 4 million, as compared with the increased of the provision in the amount of approximately NIS 11 million last year.</p>
Comprehensive income neutralized by the Winograd provision	14	(16)	9	14	<p>Reporting period: The transition from loss to income was due to the underwriting improvement in the portfolio.</p> <p>Current quarter: The decrease was mostly due to the deterioration of underwriting in the portfolio, after setting off surplus investment income over the income required to cover the increase in insurance liabilities.</p>
LR on retention	77%	80%	84%	37%	
CR on retention	120%	123%	128%	80%	

3.1.3 Health insurance

	2017	2016	Q4 2017	Q4 2016	Note
Gross premiums earned	1,917	1,799	502	447	The increase in premiums was primarily due to the increase in the Company's individual business operations.
Comprehensive income (loss)	184	216	80	255	Reporting period: The decrease in income, as compared with the corresponding period last year, was primarily due to the negative development in claims in the long-term care branch in the first quarter, and the increase in the reserve due to the update to estimates, primarily with respect to the changes in the cancellation and morbidity rates, relative to the corresponding period last year. Current quarter: The decrease in comprehensive income was primarily due to the liability adequacy test (LAT) in the corresponding period last year, which resulted in a release of the reserve in the amount of approximately NIS 180 million (with respect to non-investment-linked long-term care policies in the amount of approximately NIS 81 million and with respect to investment-linked long-term care policies in the amount of approximately NIS 99 million), with no impact in the current quarter.
Comprehensive income after neutralization of LAT	184	216	80	75	

	2017	2016	Note
Long-term care branch - comprehensive income			
Individual	44	11	The increase in income during the reporting period, as compared with the corresponding period last year, was primarily due to the increase in surplus investment income over the income required to cover the increase in insurance liabilities, which was partly offset due to the negative development in claims during the reporting period.
Collectives, including health fund collectives	32	91	The decrease in income during the reporting period as compared with the corresponding period last year was primarily due to the material negative development in claims in the long-term care branch during the year.
Illness and hospitalization branch - comprehensive income			
Long term	94	92	
Short term	14	21	The decrease during the reporting period was primarily due to investment loss as a result of the sharp decline of the USD exchange rate in 2017, as compared with investment income last year.

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

NIS in millions	Profit sharing long-term care policies of the individual and collective types			
	Year		Q4	
	2017	2016	2017	2016
Investment income (loss) credited to policyholders	282	63	101	47

3.1.4. Other and items not included in the insurance branches

	2017	2016	Q4 2017	Q4 2016	Note
Income from investments, net, and financing income	193	136	56	33	
General and administrative expenses	89	57	31	14	During the reporting period, expenses were recorded, inter alia, with respect to the new collective agreement. For additional details, see Note 24(d) to the financial statements.
Other expenses (income)	3	5	(1)	6	
Pre-tax profit from other activities which were not allocated to segments	23	24	8	8	
Other adjustments	3	2	4	(3)	
Total income (loss) before tax	127	100	38	18	
Total comprehensive income (loss) before tax	249	114	85	33	

3.1.5. General and administrative expenses
Reporting period

Other general and administrative expenses amounted to a total of approximately NIS 872 million, as compared with a total of approximately NIS 773 million last year. The increase was mostly due to the increase in expenses, inter alia, with respect to early retirement, and the increase in payroll expenses in accordance with the new collective agreement, as well as employee bonus expenses, as compared with the absence of a bonus last year, and the increase in the reporting period was also due to increase in automation expenses, inter alia, with respect to the improvements and expansions which the Company is implementing to the automation systems in the long term savings segment, as specified in Note 43(d) to the financial statements, relative to the corresponding period last year.

Current quarter:

Other general and administrative expenses in the current quarter amounted to a total of approximately NIS 243 million, as compared with a total of approximately NIS 203 million last year. The increase was primarily due to the increase in automation and payroll expenses, as stated above.

3.1.6. Financing expenses in operations which are not allocated to segments

The Group's financing expenses are affected primarily by the change in the known consumer price index, see section 2.1 above, by the cost of exchange of deferred liability notes, as specified below, and by raisings and repayments of debt in Clal Holdings and in Clal Insurance.

Reporting period

Financing expenses in the reporting period amounted to a total of approximately NIS 125 million, as compared with approximately NIS 151 million in the corresponding period last year. The decrease in financing expenses was primarily due to the cost of replacement of deferred liability notes in the amount of approximately NIS 17 million in the corresponding period last year, with no effect in the current period.

Current quarter

Financing expenses for the three month period ended on the reporting date amounted to a total of approximately NIS 31 million, as compared with a total of approximately NIS 36 million in the corresponding period last year.

3.2 Principal data from the consolidated statements of financial position

3.2.1. Assets

	As of December 31		Rate of
	2017	2016	change
			%
NIS in millions			
Other financial investments ¹⁾	31,457	30,340	4
Assets managed for others (non-nostro) in the Group			
For investment-linked insurance contracts and investment contracts	64,310	58,396	10
For provident fund members ¹⁾	33,620	34,133	(2)
For pension fund members *)	61,751	53,948	14
Total assets managed for others	159,681	146,477	9
Total managed assets	191,138	176,817	8
*) Out of this amount, total assets managed by Atudot Havatika	10,086	9,330	8

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 financial statements.

3.2.2. Liabilities

During the reporting period, the Group continued implementing its strategy of reducing the Group's debt balances which are not for capital purposes in the insurance companies, and performed, during the reporting period, an initiated early repayment of the balance of a loan from an interested party bank in the amount of approximately NIS 70 million, which was due for repayment in installments by the end of 2019. In light of the above, as of the balance sheet date, the Group has no debit balances which are not for capital purposes in insurance companies.

3.2.3. Capital and capital requirements

The Board of Directors of Clal Insurance has not yet determined the solvency ratio target based on the provisions of the economic solvency regime, as stated above. This determination constitutes a precondition for a dividend distribution.

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

For additional details regarding the capital requirements which apply to the Group's member companies, and regarding restrictions on dividends, see Note 16 to the financial statements:

A. Capital requirements pursuant to the Capital Regulations

	As of December 31		Rate of
	2017	2016	change
			%
NIS in millions			
Company			
Total capital attributable to Company shareholders	5,047	4,674	8.0
Total capital required of the Company ¹⁾	2,862	2,851	0.4
Surplus	2,184	1,823	19.8
Rate of surplus over required capital	76.3%	63.9%	19.3
Clal Insurance			
Total capital and required capital surplus	4,777	4,793	(0.3)
Total Tier 1 capital	4,870	4,513	7.9
Total Tier 2 and Tier 3 capital	3,170	3,009	5.3
Total recognized capital	8,040	7,522	6.9
Surplus	3,263	2,729	17.8
Rate of surplus over capital and required capital surplus	68.3%	56.9%	17.1
Rate of Tier 2 and Tier 3 capital out of total recognized capital	39.4%	40.0%	(1.4)

1. For details regarding the capital requirements in accordance with the permit for control of an insurer, and the Commissioner's announcement dated May 8, 2014, regarding the cancellation of the permit, see Note 16(e)(5) to the financial statements.

B. Capital requirements in accordance with the directives for implementation of the Solvency II-based economic solvency regime
1. Solvency ratio -

	As of December 2016
	<u>Unaudited and unreviewed</u>
NIS in millions	
Without taking into account the provisions for the distribution period, and including adjustment of the stock scenario:	
Equity for the purpose of the solvency capital requirement	8,866
Solvency capital requirement	7,969
Surplus (deficit)	897
Solvency ratio	111%
Fulfillment of milestones, in consideration of the provisions for the distribution period and the adjustment of the stock scenario:	
Equity for the purpose of the solvency capital requirement	7,887
Solvency capital requirement	4,418
Surplus (deficit)	3,469

2. Minimum capital requirement (MCR)

	As of December 2016
	<u>Unaudited and unreviewed</u>
NIS in millions	
Equity for the purpose of MCR	6,009
MCR	1,655

- 1) The capital requirement applies to Clal Insurance, including the consolidation of Clal Credit Insurance.
- 2) The data presented above have not been audited or reviewed by the auditors as part of the audit of the financial reports.
- 3) In accordance with the provisions during the distribution period, the solvency capital requirement as of December 31, 2016 amounts to 60% of the solvency capital requirement which is calculated in accordance with the adjustment of the stock scenario. The Company is expected to calculate the economic solvency ratio as of December 31, 2017 until the publication date of the financial statements with respect to the second quarter of 2018. For additional details, see Note 16(e)(4).

3.3. 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 current liabilities, guarantees and letters of indemnity which it provided for the liabilities of wholly owned investee companies (see Note 39(d)(1) to the annual financial statements), and also to support, insofar as required, the capital needs of Clal Insurance and the liquidity needs with respect to the operations of other investee companies in the Group. Additional financing sources include, inter alia, dividend distributions from investee companies and the option to dispose investments in investee companies, debt raisings from the banking system and/or from the public, and capital raisings.

3.3.1. Liquid resources and credit facilities *)

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

NIS in millions	As of December 2017	Proximate to the publication date of the report
	<u>43</u>	<u>43</u>
Liquid resources of the Company (solo)		

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

3.3.2. Financing characteristics

- A. The Company, due to its status as a holding company, evaluates, within the context of financing and liquidity, the value of its assets against its liabilities, as well as the existence of liquid resources available to it, and also evaluates the reasonable accessibility of those resources, as required to continue its operations and to repay its debts.
- B. The Company's operations (debt repayments, investments, general and administrative expenses and dividend distributions) are generally financed by dividends received from investee companies, by loans from banking corporations, and by considerations received from the sale of assets.
- C. For details regarding 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.
- D. For details regarding the Company's distributable earnings, which are adjusted to the Company's capital requirements, and regarding capital and capital requirements in the consolidated institutional entities and other companies in the Group, see section 3.3.3 above and Note 16(d) to the financial statements.
- E. During the reporting period, the Company performed an initiated repayment of the entire balance of its liabilities to banks.

4. Exposure to and management of market risks

Effect of market risks on business results

The term "market risks" refers to the effect of changes in interest rates, inflation, foreign currency exchange rates, stock prices and other risk factors on the business results, equity, cash flows, and financial assets and liabilities of the corporation and its value.

The Group's business results are materially affected by changes in market risk factors. The sensitivity of operations to market risks is due both to the direct effect of these changes on the nostro investments of the institutional entities in the Group, and to the indirect effect of returns of funds of members and policyholders in investment-linked policies, provident funds and pension funds, which are managed by those entities, on the management fees which are charged by them. For details regarding the exposure to market risks and methods for the management thereof in all of the Group's operations, see Note 40 to the financial statements.

It is hereby clarified that in accordance with the Securities Regulations, sensitivity to changes in specific risk factors which refer to exposures to market risks in operations which are not performed by the insurance companies in the Group, i.e., financial exposures (assets and liabilities) with respect to the operations of Clal Agencies and of the Company itself, as well as exposures which are due to the balance of an operation which was performed in the past by subsidiaries of Clal Credit and Finance Ltd., a company wholly owned by the Company, an operation which the Company decided to gradually close down. The Company's sensitivity, in this activity, to changes in market risk factors, is negligible.

4.1 Individual responsible for the management of market risks in the corporation

The individual responsible for the management of market risks in the Company is Ms. Hila Conforti. Ms. Conforti holds a Master's degree in Economics, and served as the manager of the audit unit in the Banking Supervision Department, before her appointment as the Risk Manager of the institutional entities in the Group in 2007.

4.2 Description of market risks and the corporation's policy regarding the management and oversight of market risks

The main risks to which the Group is exposed are risks associated with the insurance operation, which is the Group's main operation. For a description of these risks, and methods for the management and oversight thereof, on the level of the Group and on the level of the Company itself, see Note 40 to the financial statements.

Means of oversight and policy implementation

Oversight of the fulfillment of the Group's policy regarding the exposure to market risks is performed by the management and board of directors of each of the Group's member companies, with the assistance of the risk management unit, as applicable, and through data from their investment and accounting systems.

The Board of Directors believes that the quality of risk management in the Company is appropriate, in light of the circumstances.

4.3 Events subsequent to the reporting period

Subsequent to the reporting period, no events occurred which significantly affected the Company's exposure to market risks.

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

Danny Naveh
Chairman of the Board

Izzy Cohen
Chief Executive Officer

Tel Aviv, March 22, 2018

Part C

Financial Statements

Clal Insurance Enterprises Holdings Ltd.

**Consolidated Financial Statements
As of December 31, 2017**

Clal Insurance Enterprises Holdings Ltd.
Consolidated Financial Statements as of December 31, 2017

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Auditor's Report

To the Shareholders of Clal Insurance Enterprise Holdings Ltd.

We have audited the attached consolidated statements of financial position of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") as of December 31, 2017 and 2016, as well as the consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We have not audited the financial statements of associate companies accounted by the equity method, the investment in which amounted to approximately NIS 63 million and approximately NIS 15 million as of December 31, 2017 and 2016, respectively, and where the Company's share in their income amounted to approximately NIS 4,659 thousand, approximately NIS 170 thousand, and approximately NIS 316 thousand for the years ended December 31, 2017, 2016 and 2015, respectively. The financial statements of those companies were audited by other auditors, whose reports were presented to us, and our opinion, inasmuch as it refers to the amounts included for those companies, is based on the reports provided by the other auditors.

We have conducted our audit in accordance with generally accepted accounting principles in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 1973. Pursuant to these standards, we are required to plan the audit and to perform it in order to obtain a reasonable measure of assurance that the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes performing an evaluation of the accounting principles used, and of the significant estimates made by the Company's management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit, along with the reports provided by the other auditors, provides a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports provided by the other auditors, the aforementioned consolidated financial statements adequately reflect, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2017 and 2016, as well as their results of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, in accordance with International Financial Reporting Standards (IFRS), and in accordance with the disclosure requirements which were determined by the Commissioner of Capital Markets, Insurance and Savings, in accordance with the Control of Financial Services (Insurance) Law, 1981.

Furthermore, we believe that the aforementioned financial statements have been prepared in accordance with the provisions of the Securities Regulations (Annual Financial Statements), 2010, to the extent to which these regulations apply to a corporation which consolidates insurance companies.

Without qualifying our opinion, we hereby call the reader's attention to that stated in Note 42 to the consolidated financial statements, regarding the exposure to contingent liabilities.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of internal controls over financial reporting", including the amendments thereto, the Company's internal controls over financial reporting as of December 31, 2017, and our reporting dated March 22, 2018 includes an unqualified opinion regarding the effective existence of those controls.

Tel Aviv,
March 22, 2018

Somekh Chaikin
Certified Public Accountants

Kost Forer Gabbay and Kasierer
Certified Public Accountants

Joint Auditors

Report as of December 31, 2017

Consolidated Statements of Financial Position as of December 31

		As of December 31 2017	As of December 31 2016
	Note	NIS in thousands	
Assets			
Intangible assets	6	1,391,753	1,505,403
Deferred tax assets	23	8,637	10,344
Deferred acquisition costs	7	1,944,574	1,923,364
Property, plant and equipment	8	231,670	252,567
Investments in investee companies accounted by the equity method	9	296,172	270,044
Investment property for investment-linked contracts	10,13	2,869,967	2,742,180
Other investment property	10	1,212,109	1,185,907
Reinsurance assets	17,18	2,801,776	2,228,039
Current tax assets	23	176,496	135,969
Other accounts receivable	11	507,089	292,204
Outstanding premiums	12	893,842	866,518
Financial investments for investment-linked contracts	13	56,230,961	52,194,494
Other financial investments:			
Marketable debt assets	14(A)	5,532,612	5,575,059
Non-marketable debt assets	14(C)	21,833,094	21,281,713
Stocks	14(D)	1,367,841	1,139,560
Others	14(E)	2,723,604	2,343,481
Total other financial investments		31,457,151	30,339,813
Cash and cash equivalents for investment-linked contracts	13,15(A)	4,529,446	2,953,235
Other cash and cash equivalents	15(C)	1,405,863	1,390,775
Total assets		105,957,506	98,290,856
Total assets for investment-linked contracts	13	64,310,320	58,395,620

The notes to the consolidated financial statements constitute an inseparable part thereof.

Report as of December 31, 2017

Consolidated Statements of Financial Position as of December 31

	Note	As of December 31 2017	As of December 31 2016
<u>NIS in thousands</u>			
Capital			
Share capital	16	143,367	143,216
Premium on shares		1,001,880	977,898
Capital reserves		649,964	484,165
Retained earnings		3,251,608	3,068,909
Total capital attributable to Company shareholders		5,046,819	4,674,188
Non-controlling interests		44,382	39,017
Total capital		5,091,201	4,713,205
Liabilities			
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	17,19,20,21,22	30,184,292	29,768,979
Liabilities with respect to investment-linked insurance contracts and investment contracts	18,20,21,22	63,346,079	57,275,793
Deferred tax liabilities	23	511,333	423,293
Liabilities with respect to employee benefits, net	24	84,252	74,577
Other accounts payable	26	3,322,132	2,398,660
Current tax liabilities	23	5,163	1,354
Financial liabilities	25	3,413,054	3,634,995
Total liabilities		100,866,305	93,577,651
Total capital and liabilities		105,957,506	98,290,856

The notes to the consolidated financial statements constitute an inseparable part thereof.

March 22, 2018

Approval date of the financial statements

Danny Naveh
Chairman of
the Board of
Directors

Izzy Cohen
Chief Executive
Officer

Anath Levin
Executive VP
Investments, Finance
and Credit Division
Manager

Tal Cohen
Senior VP
Chief
Accounting
Division
Manager

Report as of December 31, 2017

Consolidated Statements of Income for the Year Ended December 31

NIS in thousands	Note	2017	2016	2015
Gross premiums earned		9,729,203	9,110,003	9,054,725
Premiums earned by reinsurers		<u>1,190,281</u>	<u>1,042,247</u>	<u>1,057,382</u>
Premiums earned on retention	28	8,538,922	8,067,756	7,997,343
Income (loss) from investments, net, and financing income	29	6,234,548	2,616,374	3,010,393
Income from management fees	30	1,226,483	956,457	1,039,397
Income from commissions	31	267,113	226,418	238,723
Other income	32	3,558	1,419	2,095
Total income		<u>16,270,624</u>	<u>11,868,424</u>	<u>12,287,951</u>
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross		14,008,748	9,684,807	9,542,339
Share of reinsurers in payments and change in liabilities with respect to insurance contracts		<u>(1,103,954)</u>	<u>(657,026)</u>	<u>(742,620)</u>
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	33	12,904,794	9,027,781	8,799,719
Commissions, marketing expenses and other acquisition costs	34	1,956,552	1,814,199	1,830,230
General and administrative expenses	35	872,061	773,352	753,126
Impairment of intangible assets	6	121,637	34,246	4,634
Other expenses	36	23,773	14,762	32,777
Financing expenses	37	<u>134,455</u>	<u>159,695</u>	<u>139,188</u>
Total expenses		<u>16,013,272</u>	<u>11,824,035</u>	<u>11,559,674</u>
Share in the results of investee companies accounted by the equity method, net	9	<u>25,581</u>	41,479	26,792
Income before taxes on income		<u>282,933</u>	85,868	755,069
Taxes on income (tax benefit)	23	<u>75,247</u>	<u>(13,713)</u>	274,630
Income (loss) for the period		<u>207,686</u>	99,581	480,439
Attributable to:				
Company shareholders		203,096	96,401	477,285
Non-controlling interests		<u>4,590</u>	<u>3,180</u>	<u>3,154</u>
Income (loss) for the period		<u>207,686</u>	99,581	480,439
Earnings per share attributable to Company shareholders:	38			
Basic earnings per share (NIS)		<u>3.66</u>	1.74	8.62
Diluted earnings per share (NIS)		<u>3.65</u>	1.74	8.60
Number of shares used to calculate earnings per share:	38			
Basic		<u>55,447</u>	55,412	55,390
Diluted		<u>55,618</u>	55,412	55,484

The notes to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

Report as of December 31, 2017

NIS in thousands	Note	2017	2016	2015
Income for the period		207,686	99,581	480,439
Other comprehensive income:				
Components of other comprehensive income which, following initial recognition in comprehensive income, have been or will be transferred to profit and loss:				
Foreign currency translation differences for foreign operations applied to capital reserves		(31,982)	(22,006)	(6,024)
Foreign currency translation differences for foreign operations applied to the statement of income		-	(553)	-
Change, net, in the fair value of available for sale financial assets applied to capital reserves		521,858	196,885	100,050
Change, net, in the fair value of available for sale financial assets transferred to profit and loss		(245,258)	(234,497)	(451,734)
Impairment loss with respect to available for sale financial assets transferred to profit and loss		14,277	73,761	38,318
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax		258,895	13,590	(319,390)
Tax (tax benefit) with respect to available-for-sale financial assets		99,492	(3,271)	(118,914)
Tax (tax benefit) with respect to other components		(7,169)	(6,710)	(1,607)
Tax (tax benefit) with respect to components of other comprehensive income which have been or will be transferred to profit and loss	23(D)	92,323	(9,981)	(120,521)
Other comprehensive income which, following initial recognition under comprehensive income, has been or will be transferred to profit and loss, net of tax		166,572	23,571	(198,869)
Components of other comprehensive income which will not be transferred to profit and loss:				
Actuarial income (loss) from defined benefit plan		1,932	3,166	9,166
Other comprehensive income (loss) for the period, before tax		1,932	3,166	9,166
Tax (tax benefit) with respect to components of other comprehensive income which will not be transferred to profit and loss	23(D)	753	938	2,935
Other comprehensive income (loss) which will not be transferred to profit and loss, net of tax		1,179	2,228	6,231
Other comprehensive income (loss) for the period		167,751	25,799	(192,638)
Total comprehensive income for the period		375,437	125,380	287,801
Attributable to:				
Company shareholders		370,072	122,240	285,310
Non-controlling interests		5,365	3,140	2,491
Total comprehensive income for the period		375,437	125,380	287,801

The notes to the consolidated financial statements constitute an inseparable part thereof.

Report as of December 31, 2017

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders							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
NIS in thousands										
For the year ended December 31, 2017										
As of January 1, 2017	143,216	977,898	384	342,761	180,329	(39,309)	3,068,909	4,674,188	39,017	4,713,205
Income for the period	-	-	-	-	-	-	203,096	203,096	4,590	207,686
Components of other comprehensive income (loss):										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	(31,982)	-	-	-	-	(31,982)	-	(31,982)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	520,436	-	-	-	520,436	1,422	521,858
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(244,979)	-	-	-	(244,979)	(279)	(245,258)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	14,246	-	-	-	14,246	31	14,277
Actuarial gains (losses) from defined benefit plan	-	-	-	-	-	-	1,929	1,929	3	1,932
Tax with respect to components of comprehensive income (loss)	-	-	7,169	(99,091)	-	-	(752)	(92,674)	(402)	(93,076)
Other comprehensive income (loss) for the period, net of tax	-	-	(24,813)	190,612	-	-	1,177	166,976	775	167,751
Total comprehensive income (loss) for the period	-	-	(24,813)	190,612	-	-	204,273	370,072	5,365	375,437
Transactions with shareholders which were applied directly to equity:										
Exercise and expiration of warrants for senior employees	151	23,982	-	-	-	-	(24,133)	-	-	-
Share-based payments	-	-	-	-	-	-	2,559	2,559	-	2,559
As of December 31, 2017	143,367	1,001,880	(24,429)	533,373	180,329	(39,309)	3,251,608	5,046,819	44,382	5,091,201

The notes to the consolidated financial statements constitute an inseparable part thereof.

Report as of December 31, 2017

Consolidated Statements of Changes in Equity

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

The notes to the consolidated financial statements constitute an inseparable part thereof.

Report as of December 31, 2017

Consolidated Statements of Changes in Equity

	Attributable to Company shareholders								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		
NIS in thousands										
For the year ended December 31, 2015										
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 income from defined benefit plan	-	-	-	-	-	-	9,139	9,139	27	9,166
Tax with respect to components of comprehensive income (loss)	-	-	1,607	118,511	-	-	(2,925)	117,193	393	117,586
Other comprehensive income (loss) for the period, net of tax	-	-	(4,417)	(193,772)	-	-	6,214	(191,975)	(663)	(192,638)
Total comprehensive income (loss) for the period	-	-	(4,417)	(193,772)	-	-	483,499	285,310	2,491	287,801
Cumulative effect as of December 31, 2015 of the cancellation of the recording of accrual and the initial application of best practices in non-life insurance (see Note 3(d)(2)(b)(5))										
	-	-	-	-	-	-	(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
As of December 31, 2015	143,216	976,329	16,233	303,301	180,329	(39,309)	2,967,929	4,548,028	35,877	4,583,905

The notes to the consolidated financial statements constitute an inseparable part thereof.

Report as of December 31, 2017

Consolidated Statements of Cash Flows for the Year Ended December 31

	Annex	For the year ended December 31		
		2017	2016	2015
		NIS in thousands		
Cash flows from operating activities				
Before taxes on income	(A)	2,303,725	(542,825)	2,385,840
Income tax paid		(115,122)	41,963	(217,875)
Net cash from (used in) operating activities		2,188,603	(500,862)	2,167,965
Cash flows from investing activities				
Consideration from disposal of property, plant and equipment		81	462	5,991
Consideration from the disposal of intangible assets		1,107	-	-
Consideration from disposal of investments in investee companies and other companies		24,082	5,902	22,754
Consideration from disposal of investment in available for sale financial assets by companies which are not insurance and finance companies		28,380	47,058	40,782
Investment in available for sale financial assets by companies that are not insurance and finance companies		(9,916)	(36,998)	(62,126)
Investment in shares and loans from investee companies		(34,050)	(31,102)	(3,798)
Investment in property, plant and equipment		(20,017)	(25,032)	(53,128)
Investment in intangible assets		(229,698)	(238,349)	(259,203)
Net cash from (used in) investing activities		(240,031)	(278,059)	(308,728)
Cash flows from financing activities				
Repayment of liabilities to banks and others		(73,089)	(22,858)	(133,442)
Costs of issue and exchange of deferred liability notes		-	(4,733)	(5,695)
Consideration from issue of deferred liability notes		-	541,207	700,728
Repayment of deferred liability notes		(80,021)	(444,196)	(325,446)
Interest paid on bonds and deferred liability notes		(120,101)	(132,213)	(128,438)
Net cash used in financing activities		(273,211)	(62,793)	107,707
Impact of exchange rate fluctuations on cash and cash equivalent balances		(84,062)	(21,444)	(31,568)
Net increase (decrease) in cash and cash equivalents		1,591,299	(863,158)	1,935,376
Cash and cash equivalents at beginning of period	(B)	4,344,010	5,207,168	3,271,792
Cash and cash equivalents at end of period	(C)	5,935,309	4,344,010	5,207,168

The notes to the consolidated financial statements constitute an inseparable part thereof.

Report as of December 31, 2017

Consolidated Statements of Cash Flows for the Year Ended December 31 (Cont.)

	For the year ended December 31		
	2017	2016	2015
	NIS in thousands		
(A) Cash flows from operating activities before taxes on income ^{1) 2)}			
Income for the period	207,686	99,581	480,439
Adjustments:			
The Company's share in the income of investee companies accounted by the equity method	(25,581)	(41,479)	(26,792)
Dividends received from investee companies accounted by the equity method	190	277	3,508
Changes in liabilities with respect to non-investment-linked insurance contracts and investment contracts	415,313	(25,254)	160,996
Change in liabilities with respect to investment-linked insurance contracts and investment contracts	6,070,286	2,929,244	3,391,290
Change in deferred acquisition costs	(21,210)	(73,146)	(91,841)
Change in reinsurance assets	(573,737)	90,436	(112,879)
Depreciation of property, plant and equipment	40,817	42,228	42,274
Amortization of intangible assets	220,612	202,330	186,866
Impairment of intangible assets	121,629	34,246	4,634
Profit from disposal of property, plant and equipment	16	62	(853)
Profit from disposal of shares in consolidated companies	(2,081)	-	-
Interest and linkage differences accrued with respect to deferred liability notes	124,520	121,396	129,239
Interest accrued and revaluation of liabilities to banking corporations and others	8,332	22,008	(21,923)
Change in fair value of investment property for investment-linked contracts	(34,308)	53,133	(63,148)
Change in fair value of other investment property	(35,858)	22,253	(26,767)
Change in share-based payment transactions	2,559	3,920	10,802
Net profit from financial investments for investment-linked insurance contracts and investment-linked contracts	(2,841,432)	(65,251)	(493)
Taxes on income	75,247	(13,713)	274,630
Net loss (profit) from other financial investments:			
Marketable debt assets	44,413	(17,700)	54,927
Non-marketable debt assets	(21,287)	6,061	(317,974)
Stocks	(15,742)	1,792	(230,257)
Others	(258,674)	(63,015)	(129,364)
Financial investments and investment property for investment-linked insurance contracts and investment contracts:			
Acquisition of investment property	(93,479)	(45,237)	(30,867)
Acquisitions, net, of financial investments	(825,463)	(4,284,523)	(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	118,439	838,699	80,419
Non-marketable debt assets	(544,536)	(331,946)	(259,123)
Stocks	56,708	(135,094)	90,501
Others	(58,519)	(109,675)	36,070
Acquisition of other investment property	(26,447)	(16,094)	(14,563)
Consideration from the sale of investment property	15,600	-	169

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

The notes to the consolidated financial statements constitute an inseparable part thereof.

Report as of December 31, 2017

Consolidated Statements of Cash Flows for the Year Ended December 31 (Cont.)

		For the year ended December 31		
		2017	2016	2015
		NIS in thousands		
	Cash flows from operating activities before taxes on income (Cont.)			
(A)	Changes in other items in the statement of financial position, net			
	Securities held for trading by consolidated companies which are not insurance companies	8,953	25,925	71,609
	Other accounts receivable	(214,885)	56,910	(35,768)
	Outstanding premiums	(27,324)	31,713	67,695
	Other accounts payable	381,992	100,375	32,567
	Liabilities with respect to employee benefits, net	11,607	(3,287)	(1,017)
	Total cash flows from operating activities before taxes on income	<u>2,303,725</u>	<u>(542,825)</u>	<u>2,385,840</u>
(B)	Cash and cash equivalents at beginning of period:			
	Cash and cash equivalents for investment-linked contracts	2,953,235	3,767,810	1,891,753
	Other cash and cash equivalents	1,390,775	1,439,358	1,380,039
	Balance of cash and cash equivalents at the beginning of period	<u>4,344,010</u>	<u>5,207,168</u>	<u>3,271,792</u>
(C)	Cash and cash equivalents at end of period:			
	Cash and cash equivalents for investment-linked contracts	4,529,446	2,953,235	3,767,810
	Other cash and cash equivalents	1,405,863	1,390,775	1,439,358
	Balance of cash and cash equivalents at end of period	<u>5,935,309</u>	<u>4,344,010</u>	<u>5,207,168</u>
(D)	Cash flows with respect to interest and dividends received, included under operating activities:			
	Interest received	<u>2,171,212</u>	<u>2,060,541</u>	<u>1,460,132</u>
	Dividend received	<u>411,963</u>	<u>306,418</u>	<u>254,433</u>
(E)	Operations not involving cash flows			
	Investment in assets against other accounts payable	<u>544,124</u>	-	<u>6,237</u>

The notes to the consolidated financial statements constitute an inseparable part thereof.

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Report as of December 31, 2017

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Note 1 - General**A. Reporting entity**

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

The condensed consolidated financial statements as of December 31, 2017 (hereinafter: the “**Financial Statements**”) include the statements of the Company and its subsidiaries (hereinafter, jointly: the “**Group**”), as well as the Group’s interests in joint ventures and associates.

34.8% of the Company’s issued share capital and voting rights are held on behalf of IDB Development Corporation Ltd. (“**IDB Development**”), through the trustee, Mr. Moshe Terry, who was appointed as the trustee for the aforementioned shares and voting rights (see section 1(b)(1) below). In addition to the holding through the trustee, IDB Development directly holds approximately 5% of the Company’s issued capital, and a total of approximately 39.8% of the Company’s issued capital² (approximately 39.4% at full dilution).

To the best of the Company’s knowledge, as of the publication date of the report, IDB Development is a private company wholly owned by Dolphin Netherlands B.V. (“**Dolphin Netherlands**”), a private company incorporated in the Netherlands, which is a corporation under the control of Mr. Eduardo Elsztain. IDB Development constitutes a reporting corporation, due to the fact that its bonds are listed for trading on the Tel Aviv Stock Exchange.

B. Developments during the reporting period with respect to the Company’s controlling shareholders**1. Appointment of a trustee for the controlling shareholder’s holdings in the Company’s shares, and the director appointment process in the Group**

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

On February 20, 2017, the trustee transferred to IDB Development shares of the Company which constitute approximately 1% of its issued share capital and voting rights, which were pledged by it as specified in footnote ¹ above, and on May 3, 2017, August 31, 2017 and January 1, 2018, shares of the Company were sold which together constitute approximately 15% of the Company’s shares, as specified in section 3 below, such that, as of the publication date of the report, IDB directly and indirectly holds a total of approximately 39.8% of the Company’s issued capital¹ (approximately 39.4% at full dilution).

For details regarding the 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, see below.

¹ On March 22, 2017, IDB Development reported that it had pledged approximately 4.99% (4.87% at full dilution, which constitute as of the present date approximately 4.98% and approximately 4.92% at full dilution) of the Company’s shares which are held by IDB Development in favor of the trustee for the bondholders (Series K) of IDB Development. For details regarding the issuance of bonds (Series K) of IDB Development, see section 4(B) below.

Note 1 - General (Cont.)**B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)**

1. Appointment of a trustee for the controlling shareholder's holdings in the Company's shares, and the director appointment process in the Group (Cont.)

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

During the period since the appointment of a trustee, guidelines and 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. The aforementioned instructions were also received with respect to the relationship between the trustee and the Company and entities under its control, and the Company is taking action in accordance with the aforementioned instructions, the litigation and the clarifications which are given on the matter, from time to time.

Appointment of directors - In the Commissioner's letter dated December 30, 2014, regarding the outline for the sale of IDB's control and holding of the Company (see section 1(b)(2) below) (hereinafter: the "**Outline**"), it was clarified, inter alia, that during the trustee's period of tenure, the appointment of directors in the Company and in Clal Insurance will be performed by the committee for the appointment of directors in an insurer with no controlling shareholder, as defined in the Control of Financial Services (Insurance) Law, 1981. Insofar as it will not be possible to appoint directors by the aforementioned committee, the appointment of directors in these companies will be performed by another committee, which will be appointed by the Minister of Finance or by the Commissioner, or by any other means, as instructed by the Commissioner.

In May 2015, the Commissioner appointed a committee for the appointment of directors in Clal Group, in accordance with the above (hereinafter: the "**Committee**"). During the period since the appointment of the trustee, various instructions have been received from the Commissioner, pertaining to the appointment of directors in the Group; as of the present date, new directors in Clal Insurance and in the Company will be appointed from among the candidates who are recommended by the committee.

On October 1, 2017, the Commissioner notified the Company that insofar as it intends to re-appoint, in the next general meeting, a director currently serving in Clal Insurance (who is not an outside director), it must submit to the Commissioner a report regarding the Company's position with respect to the question of the re-appointment of the currently serving directors, including receiving the consent of the serving director regarding his willingness to serve an additional term, if the Company intends to re-appoint him, and the Commissioner also announced that the foregoing will apply to the Company from this point onwards with respect to the re-appointment of serving directors (who are not outside directors) in the Company, by submitting notice to the Commissioner no later than 6 months before the end of the director's term.

Note 1 - General (Cont.)**B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)**

1. Appointment of a trustee for the controlling shareholder's holdings in the Company's shares, and the director appointment process in the Group (Cont.)

Following the appointment of the committee and the issuance of its recommendations, directors and outside directors in Clal Insurance were appointed, from time to time. During the reporting year, 3 outside directors were appointed in Clal Insurance, in place of two outside directors who concluded their terms. In January 2018, an additional director was appointed in Clal Insurance, in place of two directors whose terms concluded.

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

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

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

- A. IDB Development will work to sell the control of the Company, in a manner whereby it will no longer be part of the chain of control in the Company. It was specified in the control policy document that the minimum holding rate required to hold control of the Company, as of the date of the aforementioned letter, amounts to 30% of the total means of control.

The sale of control, as stated above, will be performed according to the conditions and dates which were specified in the Commissioner's letter, including that 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, and if such an agreement is signed, the potential buyer will have the option to complete the process of receiving a control permit from the Commissioner by and no later than June 30, 2016.

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

1. During the period of four months beginning from the occurrence of the terminating event, IDB Development sells at least 5% of the means of control in the Company.
2. During any of the additional subsequent periods, of four months each, IDB Development sells, in each period, at least an additional 5% of the means of control in the Company.
3. During a certain four month period, more than 5% of the means of control in the Company have been sold, in which case, the rate of the means of control which were sold beyond the aforementioned limit will be offset from the rate required in the subsequent period.

Note 1 - General (Cont.)**B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)**

2. Establishment of an outline over time for the sale of IDB Development's control and holdings in the Company, regulation of the relationship between IDB Development and its controlling shareholders, and the Company, and legal proceedings (Cont.)
 - C. If IDB Development does not fulfill all of its undertakings as specified in section (B) 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.
 - D. Notwithstanding the provisions of sections (a) and (b) 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 (b) and (c) above will apply, mutatis mutandis.
 - E. 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.
 - F. It was further noted in the letter that, in theory, the Commissioner does not consider it necessary to restrict IDB Development from selling the control also to any or all of its controlling shareholders at the time (independently or together with another third party); however, in the letter it was emphasized that any application for the receipt of a control permit, including an application by any of the controlling shareholders in IDB Development at the time, will be evaluated, inter alia, also in light of the provisions of the Law to Promote Competition and Reduce Concentration, 2013 (the "**Concentration Law**"), and that the provisions of the Commissioner's letter do not constitute approval for the performance of the sale, as stated above, in accordance with the provisions of the Concentration Law.
 - G. 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.
 - H. 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)(1) above.

Note 1 - General (Cont.)**B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)****2. Establishment of an outline over time for the sale of IDB Development's control and holdings in the Company, regulation of the relationship between IDB Development and its controlling shareholders, and the Company, and legal proceedings (Cont.)**

- I. Subject to the fulfillment of the conditions and restrictions specified in sections (a) to (f) above, and in section (h) 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.

On January 7, 2016, after the failure of the sale process which IDB conducted in 2015, the Commissioner announced to IDB Development and to Mr. Eduardo Elstain that 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 2(b) above, which requires, in general, the sale of the means of control on the stock exchange, or in over the counter transactions, at a minimum rate of 5% in each four month period), and subject to the timetables specified therein.

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

On February 10, 2016, a claim and a motion to approve the claim as a class action (hereinafter: the "**Claim**") were filed with the District Court of Tel Aviv against the Company and against members of the Company's Board (hereinafter: "**Defendants**"), by a shareholder in the Company, who also holds bonds of IDB Development. The main assertion in the claim is that in light of the fact that the Company's enterprise value is not reflected in its market value, which is even significantly higher than the Company's equity, and in light of the obligation of the Company and its board members to act to generate value for the Company's shareholders, the Company and its board members should have attempted to sell the Company's assets (which primarily include the holding of Clal Insurance), to other insurance companies in Israel, by way of a tender, with each asset of the Company being offered for sale separately. On October 29, 2017, the class action plaintiff notified the Court that he was withdrawing his claim, on the condition that expenses will not be imposed on him, and accordingly, the plaintiff and the defendants filed an agreed-upon motion with the Court for the dismissal of the claim, without ordering expenses. On October 30, 2017, the Court accepted the plaintiff's motion, subject to the filing of an affidavit by the plaintiff and his legal counsel, affirming that they did not receive any benefit whatsoever from the defendants against their withdrawal of the motion.

Note 1 - General (Cont.)**B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)**

2. Establishment of an outline over time for the sale of IDB Development's control and holdings in the Company, regulation of the relationship between IDB Development and its controlling shareholders, and the Company, and legal proceedings (Cont.)

- I. (Cont.)

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

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

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

On May 1, 2017, IDB Development filed a motion with the Court, with the consent of the trustee (in connection with the method for sale of the shares, as specified below), regarding the method for sale of the sold shares (the "Motion"). In the motion, the Court was requested to approve that the sale of the sold shares will be done by way of a "swap transaction" (instead of sale through a tender, as ordered by the Court in the ruling), in which the sold shares will be sold in a full sale (without reservations, without conditions, and without right of recourse), by IDB Development to a third party in a transaction which will be performed through a banking institution, in accordance with the price which was determined by agreement between IDB Development and the third party, by May 4, 2017. The Commissioner's position was attached to the motion, in which she stated that she does not object to the implementation of the aforementioned swap transaction.

Accordingly, on May 3, 2017, after the Court approved the aforementioned motion, on August 31, 2017 and January 1, 2018 (in accordance with the Commissioner's instructions to the trustee to continue working according to the outline, in place of IDB Development, to sell 5% of the means of control), IDB Development sold Company shares which together constitute approximately 15% of the Company's shares (5% on each of the dates), and engaged with a banking institution in a swap transaction, according to which, at the end of a period of up to 24 months after the date of each sale transaction, a settling of accounts will be performed between IDB Development and the banking institution, with respect to the difference between the selling price of the sold shares to the relevant third party, and the value of the sold shares, as of the date of settling of accounts (which will be determined according to the price at which the sold shares will be sold on that date by the third party), where IDB Development and a related party thereof will be estopped from acquiring the sold shares.

Note 1 - General (Cont.)**B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)**

2. Establishment of an outline over time for the sale of IDB Development's control and holdings in the Company, regulation of the relationship between IDB Development and its controlling shareholders, and the Company, and legal proceedings (Cont.)

- I. (Cont.)

On March 18, 2018, in accordance with the provisions of the outline, and after the Commissioner re-evaluated the need for the sale, and its economic implications, the Commissioner instructed the trustee to continue working in accordance with the outline in place of IDB Development, pursuant to all of the authorities which were vested in him by virtue of the outline, and to work to sell 5% of the means of control of the Company which are held by him by May 3, 2018.

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

3. Proceedings involving the sale of control of the Company

- A. Proceedings involving the sale of control of the Company

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

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

On July 27, 2017, IDB Development reported that it had received a preliminary and non-binding offer from an international group, for the possible acquisition of its entire holdings in the Company's issued capital, which are owned by it (50% of the Company's issued capital) (the "Offer"). The offer pertains to a transaction for consideration, which will be based on a value for the Company which reflects the Company's capital in accordance with its financial statements as of December 31, 2016, i.e., a value of approximately NIS 4.71 billion (or according to the Company's capital in accordance with its audited financial statements, insofar as they will be published after the reports as of December 31, 2016, as stated above), subject to the performance of a due diligence process, and the signing of an agreement, and to the approvals which may be required by law.

Note 1 - General (Cont.)

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

3. Proceedings involving the sale of control of the Company (Cont.)

A. Proceedings involving the sale of control of the Company (Cont.)

On September 4, 2017, the Board of Directors of IDB Development approved IDB Development's engagement in a non-binding memorandum of understanding (the "Memorandum Of Understanding") for the sale of IDB Development's entire stake in the Company's issued capital, which are owned by IDB Development (which represented, at that time, approximately 44.9% of the Company's issued capital) (the "Sold Shares"), to Huabang Financial Holdings Limited, a company incorporated in the Cayman Islands, and whose securities are listed for trading on the Hong Kong Stock Exchange (the "Buyer").

In accordance with the memorandum of understanding, the total consideration with respect to the sold shares will be based on a value for the Company which reflects the Company's total capital, in accordance with its consolidated financial statements as of June 30, 2017 (i.e., a total of approximately NIS 4.88 billion), multiplied by the holding rate represented by the sold shares out of the Company's issued capital on the closing date of the transaction. The total consideration will be adjusted to the Company's total capital according to its last consolidated financial statements which were published before the closing date of the transaction, and will be adjusted according to any dividend distribution or other capital events, if any, which occur before the closing date of the transaction, insofar as such events have not been reflected in the Company's consolidated financial statements which were last published before the closing date of the transaction.

The engagement in the transaction is subject to a due diligence process by the buyer, for a period of 60 days from the signing date of the memorandum of understanding, the extension whereof is subject to the consent of the parties (the "Due Diligence Period"), to the completion of the negotiations between the parties, and to the signing of a binding agreement by the end of the aforementioned period, and to the fulfillment of the suspensory conditions for the closing of the transaction, as specified below.

In the memorandum of understanding, IDB Development undertook that during the due diligence period, it will not engage and/or sign any agreement for the sale of the sold shares (all or part) to any third party (hereinafter: the "**Exclusivity Undertaking**").

The completion of the transaction is subject to the fulfillment of several suspensory conditions, including regulatory approvals as required to implement the transaction, including approval from the Commissioner, and approval from third parties (as required).

The memorandum of understanding is not binding to the parties, except for the exclusivity undertaking for the set period, as specified above, and conventional provisions regarding due diligence, confidentiality and jurisdiction.

Further to the above, on February 28, 2018, IDB reported that it had notified the buyer of the expiration of the memorandum of understanding, and that it is continuing to work to find a buyer for the Company's control core.

As of the present date, there is no certainty that the negotiations between the parties, based on the memorandum of understanding, will develop into a binding agreement, and even if the parties sign a binding agreement, there is no certainty that the aforementioned transaction will be completed.

Note 1 - General (Cont.)**B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)**3. Proceedings involving the sale of control of the Company (Cont.)B. Pledge on Company shares

- (1) On March 22, 2017, IDB Development reported that it had pledged approximately 4.99% (4.87% at full dilution, which constitutes, as of the present date approximately 4.98% and approximately 4.92% at full dilution) of the Company's shares which are held by IDB Development in favor of the trustee for the bondholders (Series K) of IDB Development.
- (2) On February 16, 2017, IDB Development issued bonds (Series M), and pledged in favor of the holders of the aforementioned bonds the consideration in cash which will result from the Company's shares which are held by the trustee for the control shares (the "Base Shares"). The current number of base shares is 19,351,290 (constituting approximately 34.82% of the Company's issued and paid-up capital).

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.

On November 22, 2017, IDB Development reported the completion of an agreement between IDB Development and Dolphin IL Investments Ltd. ("**Dolphin IL**"), a private company incorporated in Israel which is wholly owned by Dolphin Netherlands, in connection with the implementation of a transaction (the "**Transaction**") for the sale of all of IDB Development's shares in DIC, to Dolphin IL, within the framework of the preferred alternative for IDB's dealing with the requirements of the Concentration Law with respect to the 2017 requirement (the transitional provision which applies to a third tier or higher tier company that holds control of reporting corporations, as of the publication date of the Concentration Law in the Official Gazette, which dictates that it must discontinue holding control of such reporting corporations by no later than December 2017), and also in consideration of the 2019 requirement.

In accordance with the transitional provisions which were prescribed in the Concentration Law, after the aforementioned date, a significant real corporation, or the controller of such a corporation, may not hold control of a significant financial entity, and may not hold over 10% of a certain type of means of control in the aforementioned entity, and may not hold over 5% of a significant financial entity which has no controlling shareholder. Therefore, the continued control by Dolphin Netherlands, the controlling shareholder of 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. ("Clalbit Finance") 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.

Note 1 - General (Cont.)**B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)**4. The Concentration Law (Cont.)

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.

5. Agreement between IDB Development and Bank Hapoalim Ltd. -

For details regarding an agreement between IDB Development and Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**") from March 1999, with respect to the Company, see the notes to holder no. 1 in the report regarding interested parties and corporate officers with respect to the corporation's securities, which was published by the Company on January 10, 2018 (reference number 2018-01-004218).

6. Implications

As of the reporting date, the Company and Clal Holdings are unable to estimate the entire impact of the results of the aforementioned events on them, which may result in additional changes in the holding and control of the Company, and may also result in the sale of the control core shares of Clal Holdings on the stock exchange (including as a result of the implementation of the Commissioner's directives with respect to the application of the mechanism for an insurer without a controller in Clal Holdings), and which may affect, inter alia, the reputation and ratings of Clal Holdings, the Company and the Group's member companies.

Additionally, the transfer of the control shares in Clal Holdings from the trustee may affect clauses in certain agreements of member companies in the Group with third parties (including reinsurers), which may require, upon the fulfillment of circumstances involving the above change in control, negotiations with these third parties in order to keep the agreements in force.

For details regarding the implications of the Concentration Law, see subsection 4 above.

Note 1 - General (Cont.)**C. Definitions - in these financial statements:**

The Company	- Clal Insurance Enterprises Holdings Ltd.
The Group	- The Company and its consolidated companies.
Consolidated Companies / Subsidiaries	- Companies, including partnerships, whose reports are fully consolidated, directly or indirectly, with the Company's reports.
Investee Companies	- Consolidated companies and companies, including partnerships or joint ventures, where the Company's investment in them is included, directly or indirectly, in the financial statements, according to the equity method.
Joint Arrangements	- Arrangements in which the Group holds joint control, which was obtained through a contractual agreement which requires unanimous consent regarding activities which significantly affect the returns of the arrangement. Investments in joint arrangements are classified as joint operations or joint ventures, based on the rights and obligations of the parties to the arrangement. Joint ventures are any joint arrangements which are incorporated as a separate entity, and in which the Group has rights to the net assets of the joint arrangement.
Associate Companies	- Associate companies are entities regarding which the Group has significant influence over the financial and operational policy, although control of them has not been obtained, and where the Company's investment in such companies is included in the Company's consolidated financial statements according to the equity method.
Interested Parties	- As defined in paragraph (1) of the definition of an interested party in a corporation in section 1 of the Securities Law, 1968.
Related Parties	- As defined in International Accounting Standard 24 (2009), Related Parties.
Member Companies of IDB Group	- The term "Member Companies of IDB Group" in the financial statements refers to IDB Development and to those of its investee companies which are not the Company and its investee companies.
The Commissioner	- The Commissioner of Capital Markets, Insurance and Savings
The Control Law	- The Control of Financial Services (Insurance) Law, 1981, including the amendments thereto.
The Capital Regulations	- The Control of Financial Services Regulations (Insurance)(Minimum Equity Required of Insurer), 1998, including amendments enacted pursuant thereto.
The Investment Rules Regulations	- The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012, and directives issued by the Commissioner in accordance therewith.
Economic Solvency Regime	- As defined in insurance circular 2017-1-9.
The Reserve Calculation Regulations	- The Control of Financial Services Regulations (Insurance) (Calculation of Reserves in Non-Life Insurance), 2013.
Insurance Contracts	- Contracts whereby one party (the insurer) takes a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder in the event that a certain, pre-defined future event (the insurance event) occurs which adversely affects the policyholder.
Investment Contracts	- policies which do not constitute insurance contracts.
Investment-Linked Contracts / Profit Sharing Policies	- Insurance contracts and investment contracts in life insurance and long term care insurance, where the insurer's liabilities, due to the savings component or risk of such contracts, are for the most part linked to the returns of the investment portfolio (profit sharing policies), in assets for investment-linked contracts.
Assets for Investment-Linked Contracts	- Assets held against liabilities due to investment-linked contracts.
HETZ Bonds	- CPI-linked government bonds which the state issues to insurance companies, and which back guaranteed-return policies.
Liabilities with Respect to Insurance Contracts	- Insurance reserves and outstanding claims in the long term savings, non-life insurance and health insurance segments.
Reinsurance Assets	- The share of reinsurers in payments and changes in liabilities with respect to insurance contracts.
Premiums	- Premiums including fees.
Premiums Earned	- Premiums attributable to the reporting period.

Note 2 - Basis for Preparation of the Financial Statements

A. Preparation framework of the financial statements

The financial statements have been prepared by the Group in compliance with International Financial Reporting Standards (hereinafter: “IFRS”). These financial statements have also been prepared in accordance with the disclosure requirements issued by the Commissioner, in accordance with the Control Law, and in accordance with the disclosure requirements under the Securities Regulations (Annual Financial Statements), 2010, to the extent to which these regulations apply to a corporation which consolidates insurance companies.

B. Functional currency and presentation currency

The financial statements are presented in NIS, which is the Company’s functional currency, and are rounded to the nearest thousand, unless stated otherwise. NIS is the currency which represents the primary economic environment in which the Company operates.

The following are details regarding changes that occurred in the consumer price index (hereinafter: the “CPI”) and in the representative Euro, US Dollar (hereinafter: “USD”) and Pound Sterling exchange rates:

	Index in lieu	Known index	Representative EUR exchange rate	Representative USD exchange rate	Representative GBP exchange rate
	%				
For the year ended December 31					
2017	0.4	0.3	2.7	(9.8)	(0.9)
2016	(0.2)	(0.3)	(4.8)	(1.5)	(18.3)
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 December 31, 2017	4.1526	3.4670	4.6819
As of December 31, 2016	4.0438	3.8450	4.7252
As of December 31, 2015	4.2468	3.9020	5.7840

C. Measurement basis

The financial statements were prepared on a historical cost basis, except for the following main assets and liabilities:

- Insurance liabilities.
- Financial assets at fair value through profit and loss.
- Financial instruments classified as available for sale.
- Investment property measured at fair value.
- Provisions.
- Deferred tax assets and liabilities.
- Assets and liabilities with respect to employee benefits.
- Investments in associate companies and joint ventures.

For details regarding the method used to measure these assets and liabilities, see Note 3 below, Summary of Significant Accounting Policies.

Note 2 - Basis for Preparation of the Financial Statements (Cont.)**D. Operating cycle and reporting structure**

The Group's ordinary operating cycle, which primarily includes financial institutions, cannot be clearly determined, and primarily exceeds one year, particularly with reference to the long term savings segment, the long term care and long term health branches in the health segment, and the long tail non-life insurance branches.

The consolidated statements of financial position, which primarily include the assets and liabilities of consolidated insurance companies, were presented by order of liquidity, with no distinction made between current and non-current. This presentation conforms with the Commissioner's guidelines, and provides more reliable and relevant information.

E. Use of estimates and judgment**1. Discretion with significant impact**

As part of the process of applying the significant accounting policies in the Group on the following subjects, management exercised discretion which had a significant impact on the financial statements:

Classification between insurance contracts and investment contracts - insurance contracts are contracts in which the insurer accepts a significant insurance risk from another party. Management considers, with respect to each individual contract, or with respect to a group of similar contracts, whether such products involve accepting significant insurance risk, and classifies them accordingly as either insurance contracts or investment contracts.

2. Critical estimates

In preparing the financial statements in accordance with IFRS and in accordance with the Control Law, regulations enacted pursuant thereto, and directives of the Commissioner, company management is required to exercise judgment in making estimates, assessments and assumptions which affect the implementation of the accounting policy and the amounts of assets and liabilities, revenues and expenses. It should be clarified that actual results may differ from these estimates, inter alia, due to regulatory changes which were published, or which are expected to be published in the insurance, pension fund and provident fund segments, and regarding which there is uncertainty as to their manner of realization and implications.

When formulating accounting and actuarial estimates used in preparation of the Group's financial statements, management is required to make assumptions with regard to circumstances and events involving significant uncertainty. When applying judgment regarding the judgment estimates, group management relies on past experience, various facts, external factors and reasonable assumptions regarding future expectations, insofar as they are estimable, according to the appropriate circumstances for each estimate.

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized for the period during which the estimates were modified, and for all other affected future periods.

Presented below are the main assumptions made in the financial statements in connection with the uncertainty as of the balance sheet date and critical estimates which were calculated by the Group and where a significant change therein, particularly in light of the aforementioned regulatory changes, may result in a material adjustment to the book values of assets and liabilities in subsequent reporting periods:

Note 2 - Basis for Preparation of the Financial Statements (Cont.)**E. Use of estimates and judgment (Cont.)**

(2) Critical estimates (Cont.)

- (A) Liabilities with respect to insurance contracts - Liabilities with respect to insurance contracts, and the evaluation of the adequacy of such liabilities, are primarily based on actuarial valuation methods and on the assumptions described in Note 39(e).

The actuarial estimates and the various assumptions are primarily derived from past experience, and are based on the assumption that the behavior pattern and past claims represent future occurrences. The actuarial estimates and assumptions are evaluated at least once per year. Variability in risk factors, in the frequency or severity of events, as well as changes in the legal situation, may materially affect the amount of liabilities with respect to insurance contracts. It is noted that changes in the increase in life expectancy, in the rate of policyholders who choose the option to withdraw funds by way of a pension, in the selection of the various annuity tracks, in the morbidity rate and in the cancellation rate, may have a significant impact on the financial statements.

For details regarding changes in the main assumptions which were used to calculate insurance liabilities in life insurance and health insurance, including the liability for supplementation of the annuity reserve, see Note 39(e)(e1)(d). For details regarding changes in the calculation of insurance liabilities in non-life insurance, see Note 39(e)(e2).

For details regarding the sensitivity tests to insurance risk, see Note 39(e)(e1)(c).

- (B) Legal claims which are not in the ordinary course of business - Estimates regarding the chances of the legal claims which were filed against member companies in the Group rely on the opinion of legal advisors with respect to the final results of the proceedings. These opinions are based on their best professional judgment, in consideration of the current stage of the proceedings, in consideration of the amount of legal experience which has accumulated, if any, on the various subjects, and based on the estimate of the relevant companies regarding the amounts of the settlement arrangements, which the managements of the consolidated companies expect are more likely than not to be paid by them. It is emphasized that the results of the claims, as determined in the Courts, may differ from the aforementioned estimates. The amounts of the provisions which were performed are based on an estimate of the risk level in each of the claims as of a date proximate to the publication date of the financial statements. On this matter, it should be noted that events which occur during litigation may require re-evaluation of this risk. It is hereby emphasized that, in the attorneys' opinion, concerning the motions to approve class action status, the attorney's evaluation refers to the chances of the motion to approve class action status, and in some cases only, refers to the chances of the claim on the merits, in the event that it is approved as a class action. This is due, inter alia, to the current stage of the proceedings, and to the fact that the scope and content of hearing the claim on the merits, once granted class action status, will be affected by the Court's decision with respect to the granting of class action status, which usually refers to the causes of action that were approved or not approved, to reliefs that were approved or not approved, etc.

If the hearing of a legal claim (it is hereby clarified, for the avoidance of doubt, that the hearing of a claim does not include determinations regarding motions to recognize class actions and other interim motions) in a certain instance is determined against the Group's member companies, a provision will be recognized or updated in the financial statements which are published for the first time after the date of the determination, even if, in the opinion of group management, based on the opinion of its legal counsel, the result in an appeal to a higher instance will be different, and that at the end of the proceedings, the Group will not be charged.

Note 2 - Basis for Preparation of the Financial Statements (Cont.)**E. Use of estimates and judgment (Cont.)**

(2) Critical estimates (Cont.)

(B) Legal claims which are not in the ordinary course of business (Cont.)

In addition to the above claims, the Group's member companies are also exposed to unasserted claims / lawsuits which are due, inter alia, to the existence of doubt as to the interpretation of an agreement and/or a provision of the law and/or the manner of their implementation. Such exposure is brought to the attention of the Group's member companies in several ways, including, inter alia: through contact initiated by customers with entities in the Group, and especially as directed to the Group's ombudsman; through complaints submitted by customers to the Public Appeals Department in the Capital Markets, Insurance and Savings Authority of the Ministry of Finance; and through (non-class action) claims which are filed with the Court. These topics are brought to the attention of the Group's management if and insofar as the entities handling them recognize that the claims may have broad effects. In the assessment of risk due to unfiled claims / lawsuits, group management relies on internal estimates of the handling entities, and on its estimates, which include weighing the chances that a claim will be filed and the claim's chances of success, if and insofar as it is filed. Such estimates are based on cumulative experience with regard to the filing of claims, and on an analysis of the claims based on their own merits. Due to the nature of circumstances, actual results may differ from the estimates that were prepared in a stage prior to the filing of the claim, in light of the preliminary stage of the hearing of the legal claim.

For additional details, see Note 42(a-d).

(C) Impairment of non-financial assets, including goodwill - The estimated value in use of the asset or the cash generating unit, as applicable, for the purpose of performing an impairment test of non-financial assets or of goodwill, is based on past experience and on the best estimates of group management regarding the economic conditions which will prevail during the remaining useful lifetime of the asset or cash generating unit. Changes in the estimates which were used to determine the recoverable amount may result in impairment loss.

For additional information, see Notes 3(k)(2) and 6(b).

(D) Fair value estimates - See section 3 below.

(E) Determination of the recoverability of deferred acquisition costs - The recoverability of deferred acquisition costs is evaluated at least once per year, using working assumptions, for example, regarding life and long term care insurance policies, regarding cancellation, mortality and morbidity rates, and other variables, as stated in Note 39(e). In the event that these assumptions are not realized, it may be necessary to accelerate the amortization, or even to write off the deferred acquisition costs.

(F) Deferred tax assets - Deferred tax assets are recognized with respect to losses transferred for tax purposes and temporary differences which have not yet been used, if a future taxable income is expected to arise against which they can be used. Management is required to use judgment in order to determine whether a deferred tax asset can be recognized, as well as the estimated recognizable amount of the deferred tax asset, based on the existence, timing and amount of projected taxable income, and on the tax planning strategy. For additional information, see Note 23.

(G) Impairment of financial assets

1. Financial assets at amortized cost - The provision for doubtful debts with respect to non-marketable debt assets, including with respect to loans and receivables, reinsurers, outstanding premiums and other debts, is determined on a specific basis, and also based on a collective assessment of groups with similar credit risk characteristics. For additional information, see Note 3(f) and (k)(1), and Note 39(f)(2)(a.2).
2. Available for sale financial assets - For each reporting date, the Group evaluates whether objective evidence exists indicating that an asset's value has declined, and whether impairment has occurred with respect to it. For the purpose of evaluating the above impairment, the Group employs judgment regarding objective indicators which refer to the rates of fair value decline in percent, and regarding the continuity of the period of fair value decline. See also Note 3(k)(1).

Note 2 - Basis for Preparation of the Financial Statements (Cont.)**(3) Determination of fair value**

For the purpose of preparing the financial statements, the Group is required to determine the fair value of financial and non-financial assets and liabilities.

Fair value is the price which would be received upon the sale of an asset, or the price which would be paid upon the transfer of a liability, in an ordinary transaction between market participants on the measurement date. Fair value measurement is based on the assumption that the transaction takes place in the principal market of the asset or liability, or in the absence of a principal market, in the most advantageous market. The fair value of an asset or liability is measured using assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants are operating in favor of their economic interests. Fair value measurement with respect to non-financial assets takes into account the market participant's ability to generate economic benefits by making best use of the asset, or by selling it to another market participant, who will make best use of the asset.

The Group uses valuation techniques which are appropriate for the circumstances, and for which there are sufficient obtainable inputs in order to measure fair value, while maximizing the use of relevant observable inputs, and minimizing the use of unobservable inputs.

Fair value amounts were determined for measurement and/or disclosure purposes using the methods described below. Additional information regarding the assumptions which were used in the determination of establishment of is included in the following notes:

- Note 10, regarding investment property, including with respect to investment-linked contracts
- Note 13, regarding assets for investment-linked contracts
- Note 14, regarding other financial investments
- Note 25, regarding financial liabilities
- Note 41, regarding share-based payment

Fair value hierarchy

In the determination of the fair value of an asset or liability, the Group uses observable market inputs, as much as possible. Fair value measurements are divided into three levels of the fair value hierarchy, based on the inputs used in the valuation, as follows:

Level 1 - Fair value which is measured according to quoted (non-adjusted) prices in an active market for similar instruments.

Level 2 - Fair value which is measured using directly or indirectly observable inputs which are not included in Level 1 above.

Level 3 - Fair value which is measured using inputs which are not based on observable market inputs.

The level within the fair value hierarchy to which the fair value measurement of the entire financial instrument belongs, is determined based on the lowest level of data that are significant in the measurement of total fair value.

F. Reclassification

During the reporting period, immaterial classifications were made in Note 10, Note 14(b)(1), Note 29, Note 36 and Note 40, as well as other immaterial classifications.

Note 3 - Significant Accounting Policies

The accounting policy specified below was applied consistently by the Group for all periods presented in these consolidated financial statements.

A. Consolidation basis1. Business combinations

The Group applies the acquisition method to all of its business combinations.

The acquisition date is the date on which the buyer obtains control of the acquired entity. Control exists when the Group is exposed, or holds rights, to variable returns due to its involvement in the acquired entity, and when it has the ability to influence those returns by exercising its influence over the acquired entity. The evaluation of control includes taking into account real rights which are held by the Group and by others.

The Group recognizes goodwill as of the acquisition date according to the fair value of the transferred consideration, including amounts recognized with respect to any non-controlling interests in the acquired entity, as well as the fair value, as of the acquisition date, of capital interests in the acquired entity which were previously held by the buyer, less the net amount attributed in the acquisition to identifiable assets that were acquired, and to liabilities that were accepted.

On the acquisition date, the buyer recognizes a contingent liability which was accepted in a business combination, if a present commitment exists which is due to past events, and if its fair value is reliably measurable.

In the event that the Group performs a bargain purchase (including one that includes negative goodwill), it recognizes the gains created as a result thereof in the statement of income, on the acquisition date.

Additionally, goodwill is not updated with respect to the use of transferred losses for tax purposes which existed on the business combination date.

Costs associated with the acquisition which materialized for the buyer with respect to a business combination, such as agent fees, consulting fees, legal fees, valuations and other fees with respect to professional services or consulting services, excluding services which are related to the issue of debt or capital instruments in connection with a business combination, are recognized as expenses during the period in which the services are received.

2. Subsidiaries

Subsidiaries are entities which are controlled, directly or indirectly, by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date control was obtained until the date control was lost.

The financial statements of pension funds and provident funds (excluding the Bar A Provident Fund, to whose members Clal Insurance has guaranteed minimum returns - see Note 39(d)(1)), which are under the Group's management, were not consolidated, due to the fact that the Group is not directly exposed to variable returns with respect to them, and therefore, does not control those entities.

The evaluation of control including taking into account also the overall relationship between the Group and those entities, and the Group's exposure to returns from other interests which it holds. This estimate also takes into account the Group's maximum exposure to the variability of returns, including with respect to management fees and the Group's guarantee to protect returns of members' rights in compensation programs.

The accounting policy of subsidiaries was changed insofar as was required in order to adjust it to the accounting policy which was adopted by the Group.

Note 3 - Significant Accounting Policies (Cont.)**A. Consolidation basis (Cont.)**3. Non-controlling interests

Non-controlling interests constitute the total capital in a subsidiary that is not attributable, either directly or indirectly, to the parent company.

Measurement of non-controlling interests on the business combination date

Non-controlling interests, which are instruments conferring ownership rights in the present, and which grant their holder a share in the net assets in case of liquidation (for example: ordinary shares), are measured on the business combination date at fair value, or according to their relative share in the assets and liabilities identified with the acquired entity, on a separate basis for each transaction.

Allocation of profit or loss and other comprehensive income between shareholders

Income or loss, and any component of other comprehensive income, is attributed to shareholders in the Company and to non-controlling interests. Total income or loss, or other comprehensive income or loss, is attributed to the owners of the Company and to non-controlling interests, even if, as a result, the balance of non-controlling interests is negative.

Transactions with non-controlling interests, while retaining control

Transactions with non-controlling interests, while retaining control, are treated as capital transactions. The Company chose to charge any difference between the consideration paid or received for the change in non-controlling interests to the capital reserve from transactions with non-controlling interests.

Furthermore, when making changes to its stake in a subsidiary while still retaining control, the Company re-attributes the cumulative amounts which were recognized under other comprehensive income between the Company's shareholders and the non-controlling interests.

4. Loss of control

When a loss of control occurs, the Group writes off the assets and liabilities of the subsidiary, as well as any non-controlling interests and other components of capital attributed to the subsidiary. If the Group remains with a certain investment in the former subsidiary, the balance of the investment is measured according to its fair value on the date of loss of control. The difference between the consideration for the fair value of the remaining balance of the investment, and the balances which were written off, is recognized under profit and loss, in the item for other income or expenses. From that date onwards, the remaining investment is accounted by the equity method or as an available for sale financial asset, according to the Group's degree of influence on the relevant company.

The amounts which were recognized in capital through other comprehensive income in connection with said subsidiary are re-classified to profit or loss or to retained earnings, in the same manner that would have been required had the subsidiary itself disposed of the assets or the liabilities in question.

Note 3 - Significant Accounting Policies (Cont.)**A. Consolidation basis (Cont.)****5. Investments in associate companies and joint ventures**

Investments in associate companies and joint ventures are accounted by the equity method (save as specified in Note 3(f)(6) below), and are recognized for the first time at cost. The investment cost includes transaction costs. The consolidated financial statements include the Group's share in net income or loss, in other comprehensive income or loss, and in the net assets of investee companies accounted by the equity method, after performing adjustments required to adapt the accounting policy to that used by the Group, from the date when significant influence or joint control materialized, until the date on which the conditions for significant influence or joint control are no longer met.

The Group discontinues applying the equity method beginning on the date when it loses significant influence over the associate company or joint control of the joint venture, or when it rises to control of the investee company, and treats the remaining investment as a financial asset or subsidiary, as applicable.

On the date of loss of significant influence or joint control, the Group measures at fair value any remaining investment in the former associate company or joint venture. The Company recognizes profit or loss under the item for other income or expenses, with respect to any difference between the fair value of a particular remaining investment, and any consideration from the disposal of part of the investment in the associate company or joint venture, and the book value of the investment at that time. The amounts which were recognized under capital reserves through other comprehensive income, with reference to an investee company accounted by the equity method, are reclassified to profit and loss or to retained earnings, in the same manner which would have been required had the aforementioned investee company itself realized the assets or liabilities in question.

6. Transactions which were canceled as part of the preparation of the consolidated financial statements

Inter-company balances in the Group, and unrealized income and expenses resulting from inter-company transactions among the Group's member companies, were canceled as part of the preparation of the consolidated financial statements. Unrealized profits due to transactions with associate companies and with joint ventures were canceled against the investment, in accordance with the Group's rights in those investments. Unrealized losses were canceled in the same manner as that which was used to cancel unrealized profits, so long as no evidence of impairment existed.

7. Acquisition of property company

Upon the acquisition of a property company, the Group exercises judgment in its evaluation of whether it constitutes the acquisition of a business or a property, for the purpose of determining the accounting treatment for the transaction. In its evaluation of whether a property company constitutes a business, the Group evaluates, inter alia, the nature of the existing processes in the property company, including the scope and nature of the management, security, cleaning and maintenance services which are given to tenants. Transactions in which the acquired company is a business are treated as a business combination, as specified above. However, transactions in which the acquired company is not a business are treated as an treated as a group of assets and liabilities. In transactions of the business combination type, the acquisition cost, including transaction costs, is proportionately allocated to the identifiable assets and liabilities which were acquired, based on their proportional fair value as of the acquisition date. In the latter case, goodwill is not recognized, and deferred taxes are not recognized, with respect to temporary differences which exist as of the acquisition date.

Note 3 - Significant Accounting Policies (Cont.)**B. Foreign currency****1. Transactions in foreign currency**

Transactions in foreign currency are translated to the relevant functional currencies of the Group's member companies, according to the exchange rates that were in force as of the transaction dates. Monetary assets and liabilities denominated in foreign currency on the reporting date are translated to the functional currency according to the exchange rate which is in effect as of that date. Foreign currency differences with respect to the monetary items refers to the difference between the amortized cost of the functional currency at the start of the year, adjusted to the effective interest rate and to payments throughout the year, and the amortized cost of the foreign currency, as translated using the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the functional currency according to the exchange rate that is in force on the date of determination of fair value. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate that was in force as of the transaction date.

Foreign currency differences arising from translation to the functional currency are generally recognized under the statement of income, excluding differences which are due to the translation of capital, non-monetary financial assets classified as available for sale and which are recognized under other comprehensive income (excluding in the case of impairment, in which case the translation differences which were recognized under other comprehensive income are reclassified to profit and loss).

2. Foreign operations

The functional currency, which is the currency that reflects, in the best possible manner, a company's economic environment and the transactions, is evaluated separately for each of the Group's member companies, including companies presented using the equity method. Such currency is then used to measure their financial positions and operating results. In cases where the functional currency of a Group member is different from the Company's functional currency (as described in Note 2(b) above), said company constitutes a foreign operation whose financial statements are translated for the purpose of including them in the financial statements, as follows:

The assets and liabilities of foreign operations, including goodwill and fair value adjustments which materialized at the time of acquisition, are translated to NIS according to the current exchange rate as of the reporting date. The income and expenses of foreign operations are translated to NIS using average exchange rates, which constitute an approximation of the rates that existed on the transaction dates.

Foreign currency differences with respect to the translation are recognized under other comprehensive income and are presented under capital, in the translation reserve.

In cases where a foreign operation is a subsidiary that is not wholly owned by the Group, the proportional part of the foreign currency differences with respect to the foreign operation is allocated to non-controlling interests.

Upon the disposal of a foreign operation which leads to loss of control, significant influence or joint control, the cumulative amount in the translation reserve with respect to the foreign operation is reclassified to profit and loss, as part of the profit or loss from the disposal.

In general, foreign currency differences with respect to loans which were received or provided for foreign operations, including foreign operations which are subsidiaries, are recognized under profit and loss in the consolidated statements. When the settlement of loans which were received or provided for foreign operations is not planned and is not expected in the foreseeable future, profit and loss from foreign currency differences which are due to those monetary items are included as part of the investment in the foreign operation, net, recognized under other comprehensive income, and presented under capital, as part of the translation reserve.

Note 3 - Significant Accounting Policies (Cont.)**C. Segmental reporting**

An operating segment is a component of the Group which fulfills the following criteria:

1. It is engaged in business operations from which it may derive income, and with respect to which it may bear expenses, including income and expenses that are attributable to transactions between the Group's member companies.
2. Its operating results are reviewed on a regular basis by the Group's Chief Operational Decision Maker, in order to reach decisions regarding the resources allocated to it, and in order to assess its performance.
3. Separate financial information is available for the above.

For details regarding financial reporting by segment, see Note 5.

D. Insurance contracts, investment contracts and asset management contracts

IFRS 4, Insurance Contracts, allows an insurer to continue applying the accounting policy which it applied before the date of the transition to IFRS regarding insurance contracts which it issues (including related acquisition costs and related intangible assets), and also regarding insurance contracts which it acquires.

Presented below are the Group's significant accounting policies in connection with insurance contracts:

1. Long term savings and long term care insurance in the health insurance segment

A. Recognition of income - see Note 3(n).

B. Liabilities with respect to health and long term care insurance contracts in the health insurance segment

The liabilities are calculated in accordance with the Commissioner's directives (regulations and circulars), accounting rules and conventional accounting methods in Israel. The liabilities are included based on an actuarial valuation, and are calculated according to the relevant coverage data, including policyholder age, seniority of coverage, insurance amount, etc. The liabilities also include provisions for ongoing paid claims and outstanding claims, the direct and indirect expenses due to them, and provisions for IBNR claims. The share of reinsurers in the liabilities is determined according to the terms of the relevant contracts.

The liabilities, and the share of reinsurers therein, are determined by the chief actuaries in Clal Insurance: Mr. Ofer Brandt, MBA, F.I.A., F.I.L.A.A, who is a corporate officer in Clal Insurance, and Mr. Mark Revayev, F.I.L.A.A.

The CPI-linked liabilities and CPI-linked investments which are used to cover these liabilities were included in the last published financial statements before the end of the reporting period, including liabilities with respect to insurance contracts in which the linkage is semi-annual, in accordance with their terms.

Liabilities to supplement the annuity reserve

The liabilities regarding future annuity payments in life insurance contracts are calculated in accordance with the guidelines issued by the Commissioner, in consideration of the improvement in life expectancy and the change in annuity realization rates upon the retirement of policyholders, which require monitoring of the adequacy of the liabilities with respect to insurance contracts, which allow receiving an annuity and supplementing them appropriately. Accordingly, the Group performs an immediate supplementation of the liabilities, as required, with respect to insurance contracts regarding paid annuities for policyholders who have reached retirement age, and with respect to the non-profitable group of insurance contracts. Regarding other insurance contracts, a supplementation of the liability is performed with respect to funds which have accrued in the insurance contracts until the end of the reporting period, including matching to expected income, throughout the period of the insurance contract.

For additional details, see Note 39(e)(e1).

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

1. Long term savings and long term care insurance (Cont.)

B. Liabilities with respect to health and long term care insurance contracts in the health insurance segment (Cont.)

Outstanding claims and INBR claims

Outstanding claims, less the share of reinsurers therein, are calculated on a case-by-case basis, in accordance with the estimates prepared by the experts of Clal Insurance, based on announcements made with respect to the insurance events and insurance amounts, and are included under liabilities with respect to insurance contracts and investment contracts. For IBNR claims, a provision is calculated based on a statistical model.

Reserves for ongoing claims

The provisions for paid pension and for paid ongoing claims in loss of working capacity insurance and in long term care insurance, the direct and indirect expenses which are due to them, and the provisions for IBNR claims, are calculated by the chief actuaries in Clal Insurance, and are included under liabilities with respect to insurance contracts and investment contracts.

C. Deferred acquisition costs (DAC)

(1) Life and long term care insurance contracts

DAC in life insurance and long term care insurance contracts which were sold beginning on January 1, 1999, include commissions to agents and acquisition supervisors, and other expenses, including part of the general and administrative expenses, which are associated with the acquisition of new insurance contracts. The DAC are amortized in equal annual rates over the period of the insurance contract, but no more than 15 years. The DAC with respect to insurance contracts which were canceled or settled are written off on the date of the cancellation or settlement. Deferred acquisition costs with respect to insurance contracts which were issued until December 31, 1998 are calculated by an actuary of Clal Insurance, based on the Zillmer deduction method, according to rates of the premiums or risk amounts, in accordance with the various insurance plans.

The actuaries of Clal Insurance evaluate, on an annual basis, the recoverability of DAC, in accordance with the Commissioner's directives. The evaluation is performed in order to verify that the insurance contracts are expected to generate sufficient future income to cover the amortization of DAC and the insurance liabilities, operating expenses and commissions with respect to those insurance contracts. The test is conducted collectively for all individual products and for all underwriting years. The assumptions which are used in this evaluation include assumptions regarding cancellations, operating expenses, returns on assets, mortality and morbidity, which were determined by the actuaries of Clal Insurance on an annual basis, in accordance with tests, past experience, and relevant current studies.

(2) Asset management contracts

Incremental acquisition costs (such as commissions for agents and acquisition supervisors) which are directly attributed to the acquisition of contracts for the management of assets in pension funds and provident funds are recorded as DAC if they are separately identifiable, reliably measurable, and if their repayment is expected through management fees. The DAC are amortized over the estimated period in which income from management fees is expected to be received. The chief actuary of Clal Pension and Provident Funds Ltd. evaluates, on an annual basis, the recoverability of DAC of the pension branch, in order to validate the estimated period for the receipt of management fees with respect to the contracts for the management of assets in pension funds, in order to determine the amortization period for the DAC which are created with respect to them. The assumptions which are used in this evaluation primarily include assumptions regarding cancellations, operating expenses, return on assets, mortality and morbidity, as calculated each year in accordance with tests, past experience, and relevant current studies. The recoverability of DAC attributed to the provident fund branch is evaluated within the framework of the recoverability of the entire provident fund segment. The evaluation of recoverability is performed by an external valuer at least once per year, and is based on discounting of the expected cash flows from the operation.

Note 3 - Significant Accounting Policies (Cont.)**D. Insurance contracts, investment contracts and asset management contracts (Cont.)**1. Long term savings and long term care insurance (Cont.)D. Liability adequacy test

The chief actuaries in Clal Insurance periodically conduct a liabilities adequacy test regarding liabilities with respect to life and long term care insurance contracts (hereinafter: "LAT"). The LAT is intended to test that the total liabilities suffice to cover the discounted value of the future flows which are expected from the insurance contracts: claims, commissions and expenses, net of premiums, and in consideration of the surplus of fair value over the book value of the backing assets. The cash flows are discounted according to a risk-free interest rate, plus a rate of an illiquidity premium, depending on the type of liability. The illiquidity premium as of December 31, 2017 is 0.36% (as of December 31, 2016 - 0.51%), and was calculated based on the Commissioners guidelines on this matter.

If the evaluation finds that the amount of liabilities in the books is lower than the discounted value of the aforementioned flow, less the difference between the book value and the fair value of non-marketable debt assets in the portfolio, a special provision is recorded with respect to the missing amount.

The test is performed separately for individual policies and collective policies. In individual policies, the test is performed with respect to groups of insurance contracts (including their annexes) which were issued in various periods, according to participation types, and separately for basic risk policies. In collective policies, the test is performed on the level of the single collective, and is performed in accordance with the actual claims experience of the single collective, and subject to the statistical reliability of such experience. The assumptions used for the above tests include assumptions made with regard to cancellations, operating costs, returns from assets, mortality and morbidity, and are determined by the chief actuaries of Clal Insurance based on tests, past experience and other relevant studies, including a margin for adverse deviations, in accordance with the insurance circular on the subject of the "liability adequacy test". For additional details, see Note 39(e)(e1)(d).

E. Investment contracts

Receipts with respect to investment contracts are directly applied to the item for liabilities with respect to insurance contracts and investment contracts in the statement of financial position, and are not included under the item for earned premiums in the statement of income. Repayments of investments with respect to redemptions and end of period with respect to these contracts are directly written off from the item for liabilities with respect to insurance contracts and investment contracts, and are not applied to the statement of income.

In the statement of income, amounts are charged with respect to these contracts for income from investments, management fees collected from policyholders, changes in liabilities with respect to insurance contracts and investment contracts, in the amount of the policyholders' share in investment income (participation in profits), agent commission expenses and general and administrative expenses.

F. Provision with respect to participation in the profits of policyholders in collective insurance

The provision is included under other accounts payable in the statement of financial position, and the change in provision is charged to the item for premiums.

Note 3 - Significant Accounting Policies (Cont.)**D. Insurance contracts and investment contracts (Cont.)**2. Non-life insurance and health insurance, excluding long term care insuranceA. Recognition of income - see Note 3(n).B. Liabilities with respect to non-life and health insurance contracts, except long term care insurance

Insurance reserves and outstanding claims which are included in the item for liabilities with respect to insurance contracts in the statement of financial position, and the share of reinsurers in the reserve and in outstanding claims, which is included in the item for reinsurance assets in the statement of financial position, were calculated according to the Reserve Calculation Regulations, the Commissioner's guidelines and conventional actuarial methods for the calculation of outstanding claims, which are applied according to the judgment of the actuaries of Clal Insurance. The liabilities with respect to insurance contracts were primarily calculated by the chief actuaries in Clal Insurance.

The item for liabilities with respect to insurance contracts is comprised of the following:

1. Unearned premium reserve This reserve reflects the premiums which are attributed to the insurance period subsequent to the reporting date.
2. Premium deficiency reserve This reserve is recorded, as required, if the unearned premiums (less deferred acquisition costs, see section C below) do not cover the expected cost with respect to insurance contracts.
3. Insurance reserves in long term health insurance branches This reserve is calculated according to actuarial estimates, including, if needed, a provision with respect to expected loss on retention (premium deficiency), which is calculated based on the estimated expected cash flows with respect to the contracts, according to the relevant coverage data, such as policyholder age, seniority of coverage, insurance type, insurance amount, etc.
4. Outstanding claims and reserves which are calculated according to the methods described below:
 - 4.1 Outstanding claims, and the share of reinsurers therein, were included based on an actuarial valuation, excluding as regards the branches listed in section 4.2 below. Provision for indirect expenses for the settlement of claims is included according to an actuarial valuation. The actuarial calculation was performed by the chief actuaries of Clal Insurance: Mr. Yaakov Mauser, M.A., F.I.A., F.I.L.A.A., and Mr. Mark Revayev, F.I.L.A.A.
 - 4.2. In the cargo, shipping, marine and aviation insurance branches, in guarantees according to the Sales Law, in financial guarantees, in credit insurance, and in the foreign trade risks and incoming business branches, regarding which the actuary has determined that it is not possible to apply an actuarial model, due to a lack of statistical significance, outstanding claims were included based on estimates which were prepared by external experts and employees of the Company who handle claims, on reports of delivering companies regarding incoming businesses, and with the addition of IBNR claims and reserves, as needed.
 - 4.3. Net surplus revenues - with respect to the foreign trade risks branch, net surplus revenues are calculated basis on a cumulative annual report. It is noted that, until December 31, 2015, the foregoing was also calculated in the liabilities, compulsory motor, marine vessel, aircraft, Sale Law Guarantees and financial guarantees branches (see section 5 below).
 - 4.4 Claims of recourse and residuals are taken into account in the database used to calculate the actuarial valuations of outstanding claims.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

2. Non-life and health insurance, excluding long term care insurance (Cont.)

B. Liabilities with respect to non-life and health insurance contracts, except long term care insurance (Cont.)

4. Outstanding claims and reserves which are calculated according to the methods described below: (Cont.)

4.5 According to estimate of Clal Insurance, the outstanding claims are adequate, in consideration of the fact that the outstanding claims are mostly calculated on an actuarial basis, and the others include appropriate provisions for IBNR, as required.

5. Reserve due to the liability adequacy test in accordance with the principles specified in Note 39(e)(e2)(4).

It is noted that in January 2013, the Reserve Calculation Regulations were published, as well as a circular, which was updated in January 2015. Additionally, in January 2015, the Commissioner's position was published regarding best actuarial practices in the calculation of insurance reserves in non-life insurance for the purpose of the financial statements (hereinafter, jointly: the "**Amendment**").

The amendment canceled the Control of Insurance Business Regulations (Methods for Calculation of Provisions for Future Claims in Non-Life Insurance), 1984, which were replaced by the new regulations. The main change which occurred upon the amendment's entry into effect was the cancellation of the accrual in compulsory motor and liabilities branches, and the adoption of the Commissioner's position regarding best practices which constitute a liability adequacy test.

As a supplementary measure to the amendment, in October 2015, the measurement instructions which are included in the unified circular were amended, with respect to the share of reinsurers in deferred acquisition costs and in unearned premiums.

The amendment was treated as a change of accounting policy whose retrospective adoption is impractical, and therefore, the impact of the change was charged to as an adjustment to retained earnings on December 31, 2015, without retrospective adoption.

C. Deferred acquisition costs (DAC)

Gross DAC and reinsurers, with respect to non-life insurance and health insurance, excluding long term care insurance, were calculated in accordance with the Reserve Calculation Regulations and the Commissioner's instructions:

(1) DAC in the non-life insurance and short term health insurance branches include commissions to agents and part of the general and administrative expenses in connection with the acquisition of insurance contracts, which are attributed to unearned premiums on retention. The DAC are calculated according to the actual expense rates, or according to standard rates which were determined in the Reserve Calculation Regulations and in accordance with the Commissioner's provisions, as a percentage of unearned premiums for each branch separately, whichever is lower. Some of the reinsurers in DAC are classified under the item for other accounts payable. For details regarding changes in the calculation of reinsurers' share in DAC, see section B above.

Note 3 - Significant Accounting Policies (Cont.)

D. Insurance contracts, investment contracts and asset management contracts (Cont.)

2. Non-life and health insurance, excluding long term care insurance (Cont.)

C. Deferred acquisition costs (DAC) (Cont.)

- (2) DAC in long term health insurance branches include commissions to agents and acquisition supervisors, and some of the general and administrative expenses which are associated with the acquisition of new insurance contracts. DAC are amortized in equal rates over the period of the insurance contract, but no more than six years. DAC attributable to canceled insurance contracts were written off on the cancellation date.

In accordance with the Commissioner's directives, an actuary of Clal Insurance evaluates, on an annual basis, the recoverability of DAC in the long term health insurance branches. This calculation includes evaluating whether the insurance contracts are expected to create sufficient future income to cover the insurance liabilities, the amortization of DAC, the operating expenses and the commissions with respect to those insurance contracts. The test is conducted collectively for all underwriting years. The assumptions which are used in this test include assumptions with respect to cancellations, operating expenses, return on assets, mortality and morbidity, and are determined on an annual basis by the chief actuary in Clal Insurance, in accordance with tests, past experience and relevant current studies.

D. Items for payments and changes in liabilities

The items for payments and change in liabilities with respect to insurance contracts, gross, and retention, include, inter alia, settlement and direct handling costs with respect to paid claims, indirect claim settlement expenses, and updates to the provision for outstanding claims, to direct handling costs, and to indirect claim settlement expenses, which were recorded in previous years.

E. Provision with respect to participation in the profits of policyholders in collective insurance in the long term health insurance branches

The provision is included under other accounts payable in the statement of financial position, and the change in provision is charged to the item for premiums.

F. The Israeli Compulsory Motor Insurance Database of the Israel Insurance Association and other incoming business

Business received from the Israeli Compulsory Motor Insurance Database Ltd. (hereinafter: the "Pool"), from other insurance companies (including co-insurance and incoming business from abroad) and from underwriting agencies, are included according to accounts that are received by the reporting date, with the addition of provisions, as applicable, and in accordance with the participation rate of Clal Insurance.

E. Statements of cash flows

In the statements of cash flows, the Company chose to present interest received and dividends received as part of cash flow from operating activities. Interest paid and dividends paid are presented under cash flows from financing activities.

Note 3 - Significant Accounting Policies (Cont.)**F. Financial Instruments****1. Non-derivative financial assets**

Non-derivative financial assets include investments in stocks and in debt instruments, cash and cash equivalents and other receivables.

Initial recognition

The Group initially recognizes loans, receivables and deposits on the date of their creation. Other financial assets which are acquired through regular way purchase, including assets which were designated to fair value through profit and loss, are initially recognized on the trade date, when the Group becomes a party to the contractual terms of the instrument, i.e., when the Group undertook to buy or sell the asset.

Write-offs

Financial assets are written off when the Group's contractual right to the cash flows arising from the financial asset expire, or when the Group transfers the rights to receive the cash flows arising from the financial asset in a transaction wherein all risks and benefits associated with the ownership of the financial asset are effectively transferred.

Sales of financial assets through regular way sale are recognized on the trade date, i.e., on the date when the Group undertook to sell the asset.

For details regarding the offsetting of financial assets and financial liabilities, see section 5 below.

Classification of financial assets to groups and accounting treatment with respect to each group

The Group classifies financial assets into groups, as follows:

Financial assets at fair value through profit and loss

Financial assets are classified as measured at fair value through profit and loss, if they are classified as held for trading, or if they were designated as such upon initial recognition. Financial liabilities are designated at fair value through profit and loss if the Group manages investments of this kind, and reaches decisions regarding the sale and purchase thereof based on their fair value, in accordance with the method used by the Group to document the risk management or strategy associated with the investment, or if the designation was intended to prevent an accounting mismatch, or if the instrument in question is a hybrid instrument which includes an embedded derivative (see section 3 below). Attributable transaction costs are applied to the statement of income upon their materialization. These financial assets are measured at fair value, and changes therein are applied to the item for profit (loss) from investments, net, and statement of income in the statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with payments that are fixed or fixable, and which are not traded on an active market. These assets are recognized for the first time at fair value plus attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less impairment losses (see Note 3(k)(1)). Profit and loss due to the disposal of investments is calculated as the difference between the disposal consideration, net, and the original or amortized cost, and is recognized upon the occurrence of the sale event.

Loans and receivables include cash and cash equivalents and investments in debt instruments which are non-marketable and which are not included in the investment portfolios held against profit sharing (nostro) policies, including designated bonds (HETZ agreements), deposits in banks and debit balances and debit balances receivable.

Cash includes cash balances that are available for immediate use. Cash equivalents include short term investments where the duration from the original deposit date to the redemption date is up to 3 months, which have a high degree of liquidity, which are easily convertible into known amounts of cash, which are exposed to immaterial risk of changes in value, and which are not restricted by pledge.

Note 3 - Significant Accounting Policies (Cont.)**F. Financial instruments (Cont.)****1. Non-derivative financial assets (cont.)****Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets which were designated as available for sale or which were not classified under any of the other groups. The Group's investments in stocks and in certain debt instruments are classified as available for sale financial assets. Upon their initial recognition date, available for sale financial assets are recognized at fair value, with the addition of all attributable transaction costs. In subsequent periods, these investments are measured at fair value, while the changes in them, except for impairment losses and except for profit or loss from changes in the CPI and in the exchange rate and to the accrual of effective interest in debt instruments classified as available for sale, are applied directly to other comprehensive income, and are presented in the capital reserve with respect to financial assets classified as available for sale. Dividends which are received with respect to available for sale financial assets are applied to the statement of income. When the investment is written off, the profit or loss which accumulated in the capital reserve with respect to available for sale financial assets is transferred to profit and loss.

Available for sale financial assets include marketable debt instruments, excluding embedded derivatives, which must be separated, and investments in stocks which are not classified as held for trading investments, and which are not included in the investment portfolios held against profit sharing policies (nostro).

2. Non-derivative financial liabilities

Non-derivative financial liabilities include liabilities to banking corporations and others, bonds and deferred liability notes, and other payables.

Initial recognition of financial liabilities

The Group recognizes issued debt instruments for the first time on the date of their creation. Other financial liabilities are recognized for the first time on the trade date, when the Group becomes party to the contractual terms of the instrument.

Non-derivative financial liabilities are recognized for the first time at fair value, plus all attributable transaction costs. Transaction costs which are directly attributable to an expected issuance of an instrument which will be classified as a financial liability, are recognized as an asset under the item for deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon initial recognition, or are amortized as financing expenses in the statement of income, when the issuance is no longer expected to take place.

After initial recognition, non-derivative financial liabilities are measured at amortized cost using the effective interest method. Financing expenses are charged to the statement of income using the effective interest method.

Write-off of financial liabilities

Financial liabilities are written off when the Group's liabilities, as specified in the agreement, expire, or when it has been settled or canceled.

Changes to terms of debt instruments

An exchange of debt instruments with materially different terms, between an existing borrower and lender, are treated as a settlement of the original financial liability, and as a recognition of the new financial liability at fair value. Additionally, a significant change in the terms of an existing financial liability, or a part thereof, is treated as a settlement of the original financial liability, and as a recognition of the new financial liability.

In such cases, any difference between the amortized cost of the original financial liability, and the fair value of the new financial liability, is recognized under profit and loss, in the item for financing expenses.

Note 3 - Significant Accounting Policies (Cont.)**F. Financial instruments (Cont.)****2. Non-derivative financial liabilities (Cont.)****Changes to terms of debt instruments (Cont.)**

The conditions are materially different if the discounted present value of the cash flows, according to the new conditions, including any commissions which were paid, less any commissions which were received and discounted by the original effective interest rate, is different by at least ten percent than the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforementioned quantitative test, the Group chose to evaluate whether changes also occurred in various qualitative parameters which are embodied in the replaced debt instruments. In general, debt instrument exchanges which result in a significant change in qualitative parameters are considered exchanges with materially different terms, even if they do not fulfill the quantitative test which was performed, as stated above.

In the event that the exchange or change is immaterial, it is treated as a change to the terms of the original liability, and no income or loss is recognized with respect to the exchange. Any costs or fees which have materialized adjust the book value of the liability, and are amortized over the remaining period of the modified liability.

3. Derivative financial instruments

The Group holds derivative financial instruments such as options, foreign currency forward contracts and interest rate swaps.

Derivative financial instruments are first recognized at fair value, and directly attributable transaction costs are charged to the statement of income upon their materialization. After initial recognition, the derivative financial instruments are measured at fair value. Profit or loss due to changes in the fair value of derivative financial instruments are immediately applied to the statement of income, under the item for profit (loss) from investments, net, and financing income. Derivative financial instruments are recognized in the statement of financial position as assets when their fair value is positive, and as liabilities when their fair value is negative.

Embedded derivatives in a hybrid instrument must be measured at fair value through profit and loss separately from the host contract if: (a) There is no close connection between the economic characteristics and risks of the host contract and of the embedded derivative, (b) a separate instrument with the same terms as those of the embedded derivative would have fulfilled the definition of a derivative, and (c) the hybrid instrument is not measured at fair value through profit and loss.

Embedded derivatives in an insurance contract are not separated when the embedded derivative itself constitutes an insurance contract.

Economic hedging

Hedge accounting is not applied with respect to derivative instruments used for economic hedging of financial assets and liabilities. Changes in the fair value of these derivatives are applied to the statement of income as part of profit or loss from investments, net, and financing income.

4. CPI-linked financial assets and liabilities which are not measured at fair value

The Company chose to reevaluate CPI-linked financial assets and liabilities which are not measured at fair value, in each period, in accordance with the actual rate of change of the CPI.

5. Offsetting of financial instruments

A financial asset and financial liability is offset, and the amounts presented net in the statement of financial position, when the Group has a currently enforceable legal right to offset the amounts which were recognized, and intends to settle the asset and the liability on a net basis, or to realize the asset and settle the liability simultaneously.

Note 3 - Significant Accounting Policies (Cont.)**F. Financial instruments (Cont.)****6. The Group has reached decisions to designate financial assets as specified below:**Assets included in the investment portfolios of profit sharing policies

These assets, which include marketable financial instruments and non-marketable financial instruments (including investments in associates and joint ventures), were designated to the Group for fair value through profit or loss, for the following reasons: they constitute portfolios which are managed, separate and identifiable, and whose presentation at fair value significantly reduces a lack of accounting consistency in the presentation of the assets and liabilities using various measurement bases, while in addition, such management is performed at fair value, and the portfolio's performance is measured at fair value in accordance with a documented risk management strategy, and the information regarding the financial instruments is internally reported to management (the relevant investment committee) based on fair value.

Financial assets which include embedded derivatives required for separation

Financial assets which include embedded derivatives required for separation were designated to the Group at fair value through profit or loss.

7. Share capital

Ordinary shares are classified as a capital instrument. Incremental costs which are directly attributed to the issuance of ordinary shares and options for shares, less tax impact, are presented as an amortization of the capital instrument in question.

G. Property, plant and equipment**1. Recognition and measurement**

The Company chose to measure components of property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses (see Note 3(k)(2)).

The cost includes costs which are directly attributable to the acquisition of the asset. The cost of independently established assets includes the cost of materials and direct working costs, as well as any other costs which are directly attributable to the process of bringing the asset to a position and situation in which it can operate in the manner intended by management. The cost of purchased software which constitutes an integral part of the operation of the equipment in question, is recognized as part of the cost of such equipment.

When significant components of property, plant and equipment have different lifetimes, these are treated as separate components (significant components) of the fixed asset.

Income or loss arising from the write-off of a component of property, plant and equipment is determined by comparing the net consideration from the write-off of the asset to its book value, and is recognized net in the item for other income or other expenses, as relevant, in the statement of income.

2. Subsequent costs

The cost of replacing part of an item of property, plant and equipment, and other subsequent costs, is recognized as part of the book value of property, plant and equipment, if the future economic benefit embodied therein is expected to flow to the Group, and if the cost is reliably measurable. The book value of the replaced part of the property, plant and equipment is written off. Current maintenance costs are charged to income as incurred.

3. Depreciation

Depreciation is the systematic allocation of an asset's depreciable amount over its useful lifetime. The depreciable amount is the asset's cost less the asset's residual value.

An asset is amortized when it is available for use, in other words, once it has reached the location and condition which are required in order to enable it to operate in the manner intended by management.

Note 3 - Significant Accounting Policies (Cont.)**G. Property, plant and equipment (Cont.)**3. Depreciation (Cont.)

Depreciation is charged to the statement of income (unless it is included in the book value of another asset) using the straight line method, over the estimated useful lifetime of each part of the fixed asset items, due to the fact that this method reflects, in the best possible manner, the expected pattern of consumption of future economic benefits embodied in the asset. Assets leased under financial leases, including real estate properties, are depreciated over either the properties' leasing period or the properties' useful lifetime, whichever is shorter, unless the Group is reasonably expected to receive the ownership of the property at the end of the leasing period. Owned real estate properties are not depreciated. Leasehold improvements are depreciated using the straight-line method over the rental period (including optional extension periods held by the Group, and which it intends to exercise) or according to the assets' estimated lifetime, whichever is shorter.

The estimates with respect to the depreciation method, the useful lifetime and the residual value are re-evaluated at least once at the end of each reporting year, and are adjusted when necessary and treated prospectively as a change in estimate.

The depreciation rates used during the current period and the comparison periods are as follows (in percent):

Lands under finance lease	2
Buildings	4
Furniture and office equipment	6-20
Vehicles	15
Computers and peripheral equipment	20-33
Leasehold improvements	4-10

4. Classification under the item for investment property

When the use of real estate is converted from use by the owners to investment property which is measured at fair value, the property is remeasured at fair value, and classified as investment property. Any profit which was created due to the remeasurement is applied to other comprehensive income and presented under the revaluation reserve in capital, unless the profit cancels a previous impairment loss of the property, in which case the profit is first applied to profit and loss. Any losses are applied directly to profit and loss.

H. Intangible assets1. Goodwill

Goodwill created as a result of the acquisition of consolidated companies is presented under intangible assets. For information regarding the measurement of goodwill upon initial recognition, see Note 3(a)(1).

In subsequent periods, goodwill is measured at cost less accumulated impairment loss (see Note 3(k)(2)).

2. Other intangible assets

Intangible assets which are acquired separately are measured upon initial recognition at cost, with the addition of direct acquisition costs. Intangible assets which are purchased in a business combination are measured at fair value on the date of the business combination.

The fair value of intangible assets that were acquired in a business combination is based on the discounted value of the cash flow expected to arise from the use and sale of such assets. The method requires a determination of a discount rate that is appropriate for the asset type, and for the risk level associated with the asset.

After initial recognition, intangible assets are measured at cost less accumulated amortization and less accumulated impairment losses (see Note 3(k)(2)).

Note 3 - Significant Accounting Policies (Cont.)**H. Intangible assets (Cont.)**2. Other intangible assets (Cont.)

Intangible assets with an undefined useful lifetime are not methodically amortized, and are subject to impairment tests on an annual basis, and also at any such time as indicators arise which signify that impairment may have occurred (see also Note 3(k)(2)). The useful lifetime of these assets is tested on an annual basis in order to determine whether the assessment of its lifetime as undefined is still valid. In the event that the events and circumstances no longer support said estimate, the change from undefined to defined useful lifetime is treated prospectively as a change in accounting estimate. At the same time, impairment is evaluated, and the asset is systematically amortized over its useful lifetime.

Intangible assets with a defined useful lifetime are amortized over their useful lifetimes using the straight line method, or based on the expected cash flow which was used for estimation purposes beginning on the date when the assets became available for use, since these methods reflect, in the best possible manner, the forecasted consumption pattern of the future economic benefits embodied in each asset. Impairment of intangible assets is evaluated when indicators exist which signify that impairment has occurred (see also Note 3(k)(2)). The amortization period and amortization method of intangible assets with defined useful lifetimes are reviewed at least at the end of each year. Changes in the useful lifetime or in the expected consumption patterns of the economic benefits that are expected to arise from the asset are treated prospectively as a change in accounting estimate. The amortization expenses with respect to intangible assets with finite useful lifetimes are charged to the income statement (unless included in the book value of another asset).

Software programs, including research and development costs

The Group's assets include computer systems which are comprised of hardware and software. Software programs that constitute an integral part of hardware that cannot operate without the software installed on it are classified as property, plant and equipment. However, licenses for standalone software programs which provide additional functionality to hardware are classified as intangible assets.

Expenses associated with research activities which are performed with the aim of acquiring new scientific or technical knowledge and understanding know-how are applied to the statement of income upon their materialization.

Development activities are associated with product creation plans or new processes or significant improvements of existing products or processes. Expenses with respect to software development activities are recognized as an intangible asset if and only if: the development costs are reliably measurable; The product or process are both technologically and commercially feasible; A future economic benefit is expected from the product, and the Group has the intention, and sufficient resources, to complete the development and to use the asset. Costs recognized as intangible assets include the cost of materials, direct wage expenses and overhead expenses that are directly attributable to the preparation of the asset for its intended use. Software development costs recognized as intangible assets are measured at cost less accrued amortization and accrued impairment losses (see Note 3(k)(2)).

Other costs with respect to software development activities are charged to income as incurred.

Intangible assets which are created in the Group are not systematically amortized so long as they are not available for use, in other words, they are not in the location and condition which are required in order for them to be used in the manner intended by management. Therefore, these intangible assets, such as development costs, are tested for impairment at least once per year, until the date when they become available for use.

Subsequent costs

Subsequent costs are recognized as intangible assets only if they increase the future economic benefit embodied in the asset for which they were spent. The remaining costs, including costs associated with goodwill or with independently developed brands, are charged to the statement of income upon their materialization.

Note 3 - Significant Accounting Policies (Cont.)**H. Intangible assets (Cont.)**2. Other intangible assets (Cont.)**Useful lifetime**

The estimated useful lifetime for the current period and comparative periods is as follows (in percent):

Future management fees from pension operations	3
Future management fees from provident fund operations	5-14
Customer portfolios and brand	7-10
Acquisition costs with respect to insurance portfolios	7
Software programs	10-33

Classification of amortization and impairment losses

The current amortization with respect to intangible assets, including expenses involved in the acquisition of life and non-life insurance portfolios, and excluding software programs, is charged to the statement of income under the item for other expenses.

The depreciation of computer programs is charged to purchasing, distribution and other expenses, indirect expenses for claim settlement, or general and administrative expenses, in accordance with the designation of the software programs in question.

Impairment loss is charged to the item for "Impairment of intangible assets".

I. Investment property

Investment property includes any property (land or building, or part of a building, or both) which is held by the Group, as the owner or under a financial lease, for the purpose of generating rental income and/or for the purpose of capital appreciation, or both, and not for the purpose of providing services, or for administrative purposes.

Investment property is measured for the first time at cost plus expenses which are directly attributable to the acquisition of the investment property. The cost of investment property under self construction includes materials and direct labor, as well as other costs which are directly attributable to bringing the asset to the required condition in order to allow it to operate in the manner intended by management.

In subsequent periods, investment property is measured at fair value, with the changes in fair value charged to the statement of income, under the item for income (losses) from investments, net, and financing income. Investment property under construction that is designated for future use as investment property is also measured at fair value, as above, at such time as the fair value becomes reliably measurable. However, in cases where the fair value is not reliably measurable, due to the nature and scope of the risks associated with the project, the property is measured according to the fair value of the land plus construction costs, less impairment losses, if any, until the completion of construction, or until a date when the fair value is reliably measurable, whichever is earlier.

An asset is transferred from investment property to property, plant and equipment when a change in use occurs, such as the commencement of use of an asset by the owner. The cost of the asset that is transferred from investment property to property, plant and equipment constitutes its fair value as of the date of change.

Profit or loss from the write-off of investment property is determined by comparing the consideration from the write-off of the asset to its book value as of the last financial reporting date, and is recognized in the item for profit (loss) from investments, net, and financing income, in the statement of income. When investment property which was classified in the past as an investment property item is sold, the revaluation reserve which is included under capital with respect to the investment property is transferred directly to retained earnings.

Note 3 - Significant Accounting Policies (Cont.)**J. Leases**

Leases, including land leases from the Israel Land Administration, or from other third parties, in which the Group significantly bears all risks and returns from the property, are classified as finance leases. Upon initial recognition, the leased properties are measured according to an amount equal either to the property's fair value, or to the present value of the minimum future leasing fees, whichever is lower. Future payments for the exercise of an option to extend the lease period vis-a-vis the Israel Land Administration are not recognized as part of the relevant asset and liability, since they constitute conditional lease fees which are derived from the fair value of the land on the future renewal dates of the lease agreement.

After initial recognition, the asset is treated in accordance with the accounting policy uses for assets of this type. The liability with respect to leasing payments is presented at present value, with the lease payments allocated to financing expenses, and repayment of the liability with respect to the lease calculated using the effective interest method.

The remaining leases are classified as operating leases, and the leased properties are not recognized in the Group's statement of financial position.

In leases of land and buildings, the land and building components are tested separately for the purpose of classifying the leases, where a significant consideration in the classification of the land component is the fact that land generally has an undefined lifetime.

Lease payments and receipts

Payments within the framework of operating leases, excluding contingent lease fees, are applied to the statement of income using the straight line method throughout the lease period.

When the Company recognizes an asset in an operating lease, the lease receipts are recognized as income under profit or loss using a straight line over the lease period. Contingent lease receipts are applied to the statement of income as income on the date when the Company is entitled to receive them.

Determination regarding whether an arrangement includes a lease

At the beginning of the arrangement or upon its re-evaluation, the Group determines whether an arrangement is a lease, or whether it contains a lease. An arrangement is considered a lease, or as containing a lease, provided the following two conditions are met: The fulfillment of the arrangement depends on the use of a specific asset or assets; and the arrangement contains the right to use the asset.

Note 3 - Significant Accounting Policies (Cont.)**K. Impairment**1. Non-derivative financial assets

The Group reviews, for each reporting date, whether objective evidence exists which indicates impairment with respect to the following financial assets or groups of financial assets:

Financial assets at amortized cost

When objective evidence of impairment is found to exist, a test is performed to evaluate the need for recognition of an impairment loss. For material financial assets, the need for impairment is evaluated for each asset on a separate basis. For the remaining financial assets, the need for impairment is evaluated on a collective basis, based on groups with similar credit risk characteristics. Objective evidence for impairment, with regard to assets which are included under the loans and receivables groups, exists when one or more events occurred which adversely impacted the estimate of future cash flows expected to arise from the asset or group of assets with similar credit risk characteristics (hereinafter: the “Asset”) after the recognition date. Evidence of impairment includes indicators of financial difficulty, including liquidity difficulties and the inability to make principal or interest payments. The loss amount charged to the statement of income is measured as the difference between the asset’s balance in the financial statements and the present value of estimated future cash flows (which does not include future credit losses that have not yet materialized), which are discounted according to the financial asset’s original effective interest rate (the effective interest rate calculated upon initial recognition). If the financial asset bears variable interest, the discount is performed according to the current effective interest rate. The balance for the asset in the financial statements is reduced by means of a recording provision. In subsequent periods, impairment loss is canceled when the retrieval of the asset’s value is objectively attributable to an event that occurred after recognition of the loss. Such cancellation is charged to the statement of income up to the amount of amortized cost which would have existed as of the date of the impairment’s cancellation, had the impairment not been recognized.

Available for sale financial assets

With respect to available for sale financial assets which constitute capital instruments, the objective evidence of impairment includes significant or ongoing decline in the fair value of the asset below its cost, as well as evaluation of changes in the technological, economical or legal environment, or in the market environment in which the Company that issued the instrument operates. The evaluation of significant or ongoing impairment is dependent on the circumstances prevailing as of each financial reporting date, where such evaluation includes taking into account the historical volatility of fair value, and also the duration of time in which the asset’s fair value is lower than its original cost. Furthermore, in accordance with the Group’s policy, a decline in fair value at a rate of 20% or higher relative to cost, as of the reporting date, or a decline which continued for over nine months (even if at a lower rate), constitutes objective evidence of impairment. When objective evidence of impairment exists, the cumulative losses charged to capital reserves, which are measured as the difference between the acquisition cost (less previous impairment losses) and the fair value, are transferred from the capital reserves and recognized as an impairment loss in the statement of income. In subsequent periods, any additional decrease in fair value is recognized as an impairment loss; Cancellation of impairment loss is not applied to the statement of income, but rather, is applied to capital reserve as other comprehensive income.

Note 3 - Significant Accounting Policies (Cont.)**K. Impairment (Cont.)**1. Non-derivative financial assets (Cont.)

With respect to available for sale financial assets which constitute debt instruments, objective evidence for impairment exists when one or more events occurred which adversely impacted the estimate of future cash flows expected to arise from the asset after the investment date, and when such impact can be reliably measured. Evidence of impairment includes indicators of financial difficulty, including liquidity difficulties and the inability to make principal or interest payments. When objective evidence of impairment exists, the cumulative losses charged to capital reserves, which are measured as the difference between the purchase cost (less previous impairment losses, amortization using the effective interest method and previous impairment losses) and the fair value, are transferred from the capital reserve and recognized as an impairment loss in the statement of income. In subsequent periods, any additional decrease in fair value is recognized as impairment loss; Impairment loss is canceled when the increase in fair value is objectively attributable to an event which occurred after the recognition of the impairment loss, and which was included in the original impairment calculation. A cancellation due to an increase in fair value as above, is charged to the statement of income up to the amount of amortized cost which should have existed as of the date of the impairment's cancellation, had the impairment not been recognized.

2. Non-financial assetsTiming of impairment test

The book value of the Group's non-financial assets that do not constitute deferred acquisition costs, investment property and deferred tax assets, is tested for each reporting date in order to determine the existence of impairment financial indicators. In the event that such indicators are found to exist, the asset's estimated recoverable amount is calculated. Once per year, on a fixed date, with respect to each cash generating unit which includes goodwill, or intangible assets with an undefined lifetime or which are not yet available for use, the Group performs an assessment of the recoverable amount. This is performed on a more frequent basis if impairment indicators have been found.

Determination of cash generating units

For the purpose of the impairment test, the assets are grouped into the smallest group generating cash flows from continuous use, and which are primarily independent of other assets and groups (hereinafter: "**Cash Generating Unit**").

Measurement of recoverable amount

The recoverable amount of an asset, or of a cash generating unit, is the higher of either the value in use or the fair value less disposal expenses. When determining value in use, the Group discounts projected future cash flows according to the discount rate before tax, which reflects market assessments regarding the time value of money, and the specific risks relevant to a particular asset or cash generating unit, with respect to which the future cash flows which are expected to arise from the asset or from the cash generating unit have not been adjusted.

Allocation of goodwill to cash generating units

Cash generating units to which goodwill has been allocated are grouped in a manner whereby the level on which the goodwill impairment was tested reflects the lowest level on which the goodwill is monitorable for the purpose of internal reporting, although in any case, it is no larger than the operating segment (before grouping similar segments - see Note 3(c) regarding the definition of operating segments). In cases where goodwill is not monitored for internal management purposes, the goodwill is allocated to operating segments (before grouping similar segments). Goodwill acquired as part of a business combination is allocated to cash-generating units, including those which existed in the Group also prior to the business combination, and which are expected to produce benefits from the synergy of the combination.

For the purpose of testing the impairment of goodwill, where non-controlling interests were measured for the first time according to their relative share in the net assets of the acquired entity, the Group chose to reflect the book value of the goodwill according to the Group's holding rate in the cash generating unit to which the goodwill is allocated.

Note 3 - Significant Accounting Policies (Cont.)**K. Impairment (Cont.)**2. Non-financial assets (Cont.)Headquarter assets

Headquarter assets do not produce separate cash flows, and are used for more than one cash generating unit. A part of the headquarters' assets are allocated to cash generating units on a reasonable and consistent basis, and are evaluated for impairment as part of the impairment test performed with respect to the cash generating units to which they are allocated. Other headquarters' assets, which cannot be reasonably and consistently allocated to cash generating units, are allocated to the Group for cash generating units in the event that indicators exist which signify that impairment has occurred in the asset belonging to the Company's headquarters, or when indicators exist which signify that impairment has occurred in the Group for cash generating units. In this case, the recoverable amount of the cash generating unit used by the headquarter asset is determined.

Recognition of impairment loss

Impairment losses are recognized when the book value of the asset or of the cash generating unit exceed the recoverable amount, and are applied to the statement of income. As regards cash generating units which include goodwill, an impairment loss is recognized when the book value of the cash generating unit, after embodiment of the balance of goodwill, exceeds its recoverable amount. Impairment losses which are recognized with respect to cash generating units are initially allocated towards the amortization of the book value of the goodwill attributed to such units, and are later proportionally attributed to the amortization of the book value of the other assets in the cash generating unit.

Allocation of impairment loss for non-controlling interests

The Company chose to allocate impairment loss between the owners of the Company and non-controlling interests according to the same basis which is used to allocated profit or loss.

Cancellation of impairment loss

Loss from goodwill impairment is not canceled. With respect to other assets for which impairment losses were recognized in previous periods, on each reporting date, an evaluation is performed to ascertain whether indicators exist which signify that such losses have decreased, or no longer exist. The impairment loss is canceled if a change occurred in the estimates used to determine the recoverable amount, only in the event that the asset's book value, after cancellation of the impairment losses, does not exceed the book value less depreciation or amortization which would have been determined had the impairment loss not been recognized.

3. Associate companies and joint arrangements accounted by the equity method

The Company determines, on each reporting date, after applying the equity method, whether objective evidence of impairment exists, and whether it will be necessary to recognize impairment loss with respect to the investment in investee companies accounted by the equity method (hereinafter: the "**Investment**").

The impairment test is conducted with respect to the investment in its entirety, including the goodwill attributed to the investee company accounted by the equity method (hereinafter: the "**Investee Company**"). In the event that such objective evidence is found to exist, impairment loss is recognized in the amount of the difference between the recoverable amount of the investment and its value in the financial statements. The recoverable amount is the higher of either fair value or value in use, which is calculated based on a valuation of the net cash flows which are expected to arise from the investee, including cash flows from the activities of the investee, and the consideration from the final disposal of the investment, or an estimation of the present value of the estimated future cash flows which are expected to arise from the dividends which will be received, and from the final disposal. Such impairment loss is not specifically allocated to the goodwill which is included in the investment, and therefore, in subsequent periods, loss is cancelable up to its full amount, if and only if changes have occurred in the estimates which were used to determine the recoverable amount of the investment, from the date when the impairment loss was last recognized. The book value of the investment, after the cancellation of the impairment loss, may not exceed the book value of the investment which would have been determined according to the equity method, had it not been recognized as an impairment loss.

Note 3 - Significant Accounting Policies (Cont.)**K. Impairment (Cont.)**4. Outstanding premiums

The provision for doubtful debts with respect to premiums whose collection is doubtful, in the opinion of management, is determined specifically based on specific risk assessments, and collectively based on past collection experience in population groups with similar credit risk characteristics.

5. Debts of reinsurers

Non-fulfillment of reinsurers' undertakings towards the Company does not release it from its undertakings towards policyholders in accordance with the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the Company to incur losses.

Provisions for doubtful debts with respect to the debts of reinsurers whose collection is in doubt are performed on the basis of individual risk assessments. Additionally, when determining the share of reinsurers in outstanding claims and in insurance reserves, the consolidated companies take into account, inter alia, an evaluation of the possibility of collecting from the reinsurers. When the share of the above reinsurers is calculated on an actuarial basis, the share of such reinsurers in these difficulties is calculated by the actuary, in consideration of all risk factors. Additionally, the consolidated companies take into account, when preparing the provisions, inter alia, the willingness of reinsurers to reach "cut off" agreements (in which contractual agreements are terminated by means of final repayment of the debts).

L. Employee benefits1. Post-employment benefits

The Group has several post-employment benefit plans. The plans are generally financed by deposits to insurance companies and to pension funds, and are classified as defined deposit plans and as defined benefit plans.

A. Defined deposit plans

A defined deposit plan is a post-employment plan in which the Group pays fixed payments to a separate entity, without having a legal or implicit obligation to make additional payments. The Group's obligations to deposit sums in a defined deposit plan are charged as an expense to the statement of income, in the periods during which the employees have provided related services.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan which is not a defined deposit plan. A net liability of the Group which refers to a defined benefit plan with respect to post-employment benefits is calculated for each plan separately, by estimating the future amount of the benefit which will be owed to the employee in consideration of his services, in the current period and in previous periods. This benefit is presented at present value less the fair value of plan assets. The Group determines the net liability on the liability (asset), net, with respect to the defined benefit, by multiplying the liability (asset), net with respect to the defined benefit by the discount rate which was used to measure the liability with respect to defined benefit, as both were determined at the beginning of the annual reporting period. The discount rate was determined according to the yields, as of the reporting date, of high quality corporate bonds, whose currency is the NIS, and whose repayment date is similar to the terms of the Group's liability. The calculations are performed by a certified actuary, based on the forecasted eligibility unit.

Note 3 - Significant Accounting Policies (Cont.)**L. Employee benefits (Cont.)****B. Defined benefit plan (Cont.)**

When the results of these calculations lead to the creation of an asset for the Group, an asset is recognized up to the net amount of the present value of the economic benefits which are available in the form of a repayment from the plan, or a reduction in the future deposits to the plan. An economic benefit in the form of repayments or reductions in future deposits will be considered available when it is realizable over the plan's lifetime, or after settlement of the liability. This calculation will take into account minimum deposit requirements, if they are relevant to the plan.

The remeasurement of the liability (asset), net, with respect to the defined benefit, includes actuarial profit and loss, return on plan assets (excluding interest), and any change in the impact on the assets limit (insofar as is relevant, excluding interest). According to the Group's choice, re-measurements are immediately applied, through other comprehensive income, directly to retained earnings. Interest costs with respect to defined benefit liabilities, interest income with respect to plan assets and interest with respect to the impact on the limit of assets which were applied to the statement of income, are presented under the item for general and administrative expenses.

When an improvement or reduction has occurred in the benefits provided by the Group to employees, that part of the increased benefits which is attributed to the past service of employees, or the profit or loss from the reduction, is immediately recognized under profit or loss when the correction or reduction of the plan takes place.

The Group recognizes profit or loss from the settlement of a defined benefit plan when the settlement takes place. Such profit or loss constitutes the difference between the settled part of the present value of the defined benefit liability on the settlement date and the settlement price, including transferred plan assets.

Insurance policies with respect to termination of employer - employee relationships that were issued by a subsidiary, Clal Insurance, do not constitute plan assets, and are presented as a reduction of the liability with respect to the insurance contracts.

2. Other long term employee benefits

The Group's net liability with respect to long term employee benefits which do not refer to post-employment benefit plans, applies to the future benefit amount owed to employees with respect to services provided during the current period and previous periods. The total amount of such benefits is discounted to its present value, and is presented after deduction of the fair value of the assets attributable to the obligation in question. The discount rate is determined according to the returns as of the reporting date of high quality corporate bonds whose currency is the NIS, and whose repayment date is similar to the terms of the Group's liabilities. The calculation is performed based on the forecasted eligibility unit.

Actuarial gains and losses are charged to the statement of income for the period in which they were created.

3. Severance benefits

Severance benefits are recognized as an expense when the Group has clearly committed, without any real possibility of cancellation, to the dismissal of employees before they reach the conventional retirement age according to a detailed formal plan, or to provide severance benefits as a result of an offer which was made in order to encourage voluntary retirement. Benefits provided to employees upon voluntary retirement are charged when the Group has provided to employees a plan encouraging voluntary retirement, when it is expected that the offer will be accepted, and when the number of individuals accepting the offer can be reliably estimated.

Note 3 - Significant Accounting Policies (Cont.)**L. Employee benefits (Cont.)**4. Short term employee benefits

Short term employee benefits are benefits whose full settlement is expected earlier than 12 months after the end of the reporting period during which the employees provide the services in question. Liabilities with respect to short term employee benefits are measured on a non-discounted basis, and the expense is charged upon provision of the service in question, or in the event of non-cumulative absences (such as maternity leave) - upon actual absence. A provision with respect to short term employee benefits for cash bonus or profit sharing plans is recognized in the amount expected for payment when the Group has a current legal or implicit liability to pay the amount in question with respect to a service provided by the employee in the past, and where the liability is reliably measurable.

5. Share-based payment transactions

The fair value on the allocation date of share-based payment bonuses to employees is applied as a payroll expense under profit and loss in parallel the increase in capital, over the period when the employees' eligibility to capital instruments is obtained, i.e., the period when the performance and/or service conditions are fulfilled (hereinafter: the "**Vesting Period**"). The vesting period concludes on the date when the relevant employees are entitled to compensation (hereinafter: the "**Vesting Date**"). According to the Group's policy choice, the increase in capital is applied to the item for retained earnings.

The cumulative expenses recognized on each reporting date with respect to transactions settled by capital instruments until the maturity date reflects the rate of passage of the vesting period, and the Group's best estimate of the number of capital instruments that will eventually vest. The debit or credit in the statement of income reflects the change in cumulative expenses recognized at the beginning and end of the reporting period. Expense with respect to allocations which will not finally mature are not recognized.

M. Provisions

A provision is recognized when the Group has a current legal or implicit liability as a result of an event which occurred in the past, and which is reliably measurable, and when it is more likely that not that a negative flow of economic benefits will be required in order to settle the liability. The Company has chosen to determine the provisions when the impact of the value of time is significant, by discounting the future cash flow according to the pre-tax interest rate which reflects the current market estimates regarding the time value of money and the specific risks associated with the liability. The book value of the provision is adjusted in each period in order to reflect the passage of time.

The Group recognizes an indemnification asset if it is virtually certain that the indemnification will be received in the event that the Company settles the obligation. The amount recognized with respect to the indemnification does not exceed the provision amount.

Legal claims

Legal claims which possess unique characteristics are not grouped, but rather are evaluated separately. A provision with respect to unasserted claims is recognized in accordance with the claim's overall chance of success, if filed, against the Group's member companies (based on the probability that the claim will be filed, and the probability that the claim will succeed).

Onerous contracts

A provision for onerous contracts is recognized when the benefits which are expected to be received from the contracts by the Group are lower than the unavoidable costs due to the fulfillment of its onerous contract obligations. The provision is measured as the lower of either the present value of the expected cost to terminate the agreement and the present value of the net expected cost of continuing the agreement. Before the provision is recognized, the Group recognizes impairment of the assets associated with that agreement, if any.

Note 3 - Significant Accounting Policies (Cont.)**N. Recognition of income**1. PremiumsA. Long term savings segment and health segment

Premiums in the life insurance, long term care and long term health branches, including savings premiums, and excluding receipts with respect to investment contracts, are recorded as income when they come due.

Premiums in the short term health branch are recorded as income based on monthly output reports.

Cancellations are recorded on the date the announcement is received from the policy owner, or when initiated by the Company due to arrears in payment, subject to the provisions of the law. Policyholders' participation in profits is deducted from the premiums.

B. Non-life insurance segment

Premiums in the non-life insurance segment are recorded as income based on monthly output reports. Premiums primarily involve an insurance period of one year. Gross premium income, and changes in unearned premiums in respect thereof, are recorded under the item for earned premiums, gross.

Premiums in the compulsory motor branch are recorded upon repayment of the premium, since the insurance coverage is conditional on payment of the premium.

Premiums from insurance contracts whose commencement date is after the end of the reporting period are recorded as accrued income.

The income included in the financial statements is after cancellations received from the policy owners, and less cancellations and provisions due to non-repayment of premiums, subject to the provisions of the law, and less participation in earnings on the basis of agreements which are in force.

2. Income (loss) from investments, net, and financing income

Income (loss) from investments, net, and financing income, includes income from interest and linkage differentials with respect to invested sums (including available for sale financial debt assets), dividend income, net income (loss) from the sale of financial assets classified as available for sale, changes in the net fair value of financial assets at fair value through profit or loss, net income (loss) from foreign currency with respect to assets, changes in the fair value of investment property, income (loss) with respect to the write-off of investment property, and rental income from investment property less attributable expenses.

Interest income and premium amortization or deductions are recognized upon their accrual, using the effective interest method.

Income from dividends which are recognized on the date of eligibility for payment. In the event that the dividend is received with respect to marketable shares, the Group recognizes the dividend income on day X.

Rental income from investment property is recognized under profit and loss according to the straight line method, over the lease period. Allocated lease incentives are recognized as an inseparable part of total rental income over the lease period.

Gains and losses from exchange foreign currency differences and changes in the fair value of investments are reported net.

Note 3 - Significant Accounting Policies (Cont.)**N. Recognition of income (Cont.)**3. Income from management feesA. Management fees for investment-linked insurance contracts

The management fees are calculated in accordance with the instructions issued by the Commissioner, on the basis of the returns and the accrual of policyholders' savings in the profit sharing portfolio. The management fees include the following components:

With respect to insurance contracts which were sold beginning on January 1, 2004 - fixed management fees only;

With respect to insurance contracts which were sold until December 31, 2003 - fixed and variable management fees.

Fixed management fees are calculated using fixed rates from the savings accrual, and are recorded on an accrual basis.

Variable management fees are calculated as a rate of real annual profit (from January 1 to December 31) which is applied to the insurance contract after deducting the fixed management fees which were collected from that insurance contract. Only positive variable management fees may be collected, less negative amounts accrued in previous years. Variable management fees are calculated on the level of the single policy (see also Note 30).

Over the course of the year, variable management fees are recorded on an accrual basis in accordance with the real monthly return, insofar as this is positive. For months in which the real return was negative, the variable management fees are reduced to the cumulative amount of variable management fees charged from the beginning of the year. Negative returns for which no reduction of management fees was performed during the current year will be deducted for the purpose of calculating the management fees from positive returns in subsequent periods.

B. Management fees from pension funds and provident funds

Income from management fees in pension funds and provident funds is applied based on the balances of managed assets and receipts from members on an accrual basis, according to the Commissioner's directives.

4. Income from commissionsA. Life insurance

Income from life insurance commissions in consolidated insurance agencies is applied based on the date of eligibility to receive commissions, according to the agreements with the insurance companies, less provisions for repayment of fees due to expected cancellations of insurance policies.

B. Non-life insurance

Income from commissions in non-life insurance in the consolidated insurance agencies are applied upon their materialization.

C. Reinsurance

Income from reinsurance commissions in life insurance, health insurance and non-life insurance is applied upon its materialization.

O. General and administrative costs and expenses

General and administrative costs and expenses are classified under indirect claim settlement expenses (which are included under the item for payments and changes in liabilities with respect to insurance contracts and investment contracts), expenses associated with acquisition (which are included under the item for commissions, marketing expenses and other acquisition expenses), and the balance of other general and administrative expenses which are included in this item. The classification was made according to the Group's internal models, and according to the identification and loading of overhead expenses.

Note 3 - Significant Accounting Policies (Cont.)**P. Financing expenses**

Financing expenses include interest expenses, linkage differentials and foreign currency differences on received loans and other credit costs, interest and linkage differentials on deposits and balances of reinsurers, changes with respect to the value of time in provisions. Profit and loss from foreign currency differences are reported net.

Non-discounted borrowing costs are applied to the statement of income according to the effective interest method.

Q. Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are applied to the statement of income unless the tax is due to a business combination, or are applied directly to capital or to other comprehensive income if they are due to items which are recognized directly other comprehensive income under capital or are recognized directly, respectively.

Current taxes

Current tax is the tax amount which is expected to be paid (or received) on taxable income for the year, calculated according to the applicable tax rates in accordance with laws which were enacted, or which were effectively enacted, as of the reporting date. Current taxes also include changes in tax payments in reference to previous years.

The Group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax assets and liabilities, and if there is an intention to settle current tax assets and liabilities on a net basis, or if the current tax assets and liabilities are settled simultaneously.

Uncertain tax positions

A tax liability with respect to uncertain tax positions, including additional tax expenses and interest, is recognized when it is more likely than not that the Group will be required to make use of its economic resources to settle the obligation.

Deferred taxes

Deferred taxes are recognized using the balance sheet method, with respect to the temporary differences between the book value of assets and liabilities for the purpose of financial reporting, and their value for tax purposes. The Group does not recognize deferred taxes with respect to the following temporary differences: initial recognition of goodwill; initial recognition of assets and liabilities in a transaction which does not constitute a business combination and which does not affect accounting profit and profit for tax purposes; and differences due to investments in investee companies, if the Group holds control on the difference reversal date, and they are not expected to reverse in the foreseeable future, whether by way of realization of the investment or by way of a dividend distribution with respect to the investment.

The measurement of deferred taxes reflects the tax implications which will result from the manner by which the Group predicts, at the end of the reporting period, the repayment or settlement of the book value of assets and liabilities, according to the tax rate which is expected to apply on the reversal date. Regarding investment property measured using the fair value model, a refutable assumption exists that the book value of the investment property will be repaid by way of sale.

Deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences on the date of their realization, based on the laws that were enacted, or effectively enacted, as of the reporting date. Deferred taxes with respect to subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

Note 3 - Significant Accounting Policies (Cont.)**Q. Taxes on income (Cont.)**Deferred taxes (Cont.)

Deferred tax assets are recognized in the books with respect to transferred losses and/or deductible temporary differences in the event that taxable income is expected to arise in the future against which the transferred losses and/or deductible temporary differences may be used, or in the absence of projected future taxable income, deferred tax assets are recognized only up to the amount of taxable temporary differences. Deferred tax assets are evaluated for each reporting date, and in the event that the attributable tax benefits are not expected to be realized, they are amortized.

Deferred tax assets which were not recognized are re-evaluated on each reporting date and are recognized if the expectation has changed such that taxable income is expected in the future against which it will be possible to use them.

Offsetting of deferred tax assets and liabilities

The Company offsets deferred tax assets and liabilities in the event that a legally enforceable right exists to offset the current assets and liabilities, and they are attributable to the same taxable income, which is taxed by the same tax authority in the same assessed company, or in different companies, which intend to realize deferred tax assets and to settle deferred tax liabilities on a net basis, or where the deferred tax assets and liabilities are settled simultaneously.

Inter-company transactions

Deferred tax with respect to inter-company transactions recorded in the consolidated financial statements is recorded based on the tax rate that applies to the acquiring company.

R. Earnings per share

The Company presents data regarding basic and diluted earnings per share for its ordinary share capital.

Basic earnings per share are calculated by dividing the income or loss attributable to the holders of ordinary shares in the Company by the weighted average number of ordinary shares which were outstanding during the year.

Diluted earnings per share are determined by adjusting the profit or loss attributed to the holders of ordinary shares in the Company, and adjusting the weighted average of the outstanding ordinary shares and with respect to the effects of all potential diluting ordinary shares (i.e., shares which reduce earnings per share or which increase loss per share), including options for shares which were provided to employees.

The average market value of the Company's shares, for the purpose of calculating the diluted impact of the warrants on shares, was based on quoted market prices for the period in which the warrants were outstanding.

Note 3 - Significant Accounting Policies (Cont.)**S. Initial adoption of amendments to international accounting standards**

Beginning on January 1, 2017, the Group has been adopting amendments to standards as described below:

Amendment	Publication requirements	Application and Transitional Provisions	Implications
Amendment to IAS 7, <i>Statement of cash flows</i>	In accordance with the amendment, the entity is required to provide disclosures which are intended to allow the users of the financial reports to assess changes in liabilities from financing activities, including both changes due to cash flows, and changes not involving cash. These disclosures will be given in connection with the following changes in liabilities from financing activities: Changes due to cash flows from financing activities; changes due to a rise to control or loss of control of subsidiaries or other businesses; the effect of changes in foreign currency exchange rates; changes in fair value; and other changes.	The amendment was applied prospectively.	The new disclosure requirements were included under Note 25 regarding financial liabilities.

Note 4 - New Standards and Interpretations Which Have Not Yet Been Adopted

Standard Interpretation Amendment	/	/	Topic	Application and Transitional Provisions	Main Expected Effects
(1) IFRS (2014), Financial Instruments	9		<p>IFRS 9 (2014) is the final version of the standard, which includes updated provisions for the classification and measurement of financial instruments, as well as a new model for the measurement of the impairment of financial assets. These provisions were added to the chapter regarding hedge accounting - general, which was published in 2013.</p> <p><u>Classification and measurement</u></p> <p>According to the standard, there are three main categories for the measurement of financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income. The classification basis for debt assets is based on the business model of the entity which manages financial assets, and on the characteristics of the financial asset's contractual cash flows. An investment in capital instruments will be measured at fair value through profit and loss (unless the Company has chosen, upon initial recognition, to present the changes in fair value under other comprehensive income).</p> <p>The standard requires changes in the fair value of financial liabilities which were designated to fair value through profit and loss which are attributed to changes in the self credit risk to be recognized, for the most part, under other comprehensive income.</p> <p><u>Hedge accounting - general</u></p> <p>According to the standard, additional hedging strategies which were used for risk management purposes may qualify for hedge accounting. The standard replaces the current 80%-125% test used to determine the effectiveness of hedging, with a demand for an economic link between the hedged item and the hedging instrument, without determining a quantitative threshold. The standard also presents new models which constitute alternatives to hedge accounting with respect to exposures to credit and to certain contracts which do are not covered by the standard, and establishes new principles for the treatment of hedging instruments. The standard also sets forth new disclosure requirements.</p> <p><u>Impairment of financial assets</u></p> <p>The standard includes a new model for the recognition of expected credit losses (the expected credit loss model) with respect to most financial debt assets. The new model presents a dual measurement approach to impairment: if the credit risk attributed to the financial asset has not significantly increased since initial recognition, a provision will be recorded for loss in the amount of the expected credit losses with respect to failure events, when their occurrence is possible in the twelve months subsequent to the reporting date. If the credit risk has significantly increased, in most cases, the provision for impairment will be increased, and will be recorded in the amount of the expected credit losses throughout the entire lifetime of the financial asset.</p> <p>In September 2016, an amendment to IFRS 4 was published. The amendment presents two optional corrections with respect to the expected adoption of IFRS 9 by insurers:</p> <p>A. Postponement of the application date of IFRS 9 to January 1, 2021 (or to an earlier date, if the application date of the new standard which is expected to be published in connection with insurance contracts is earlier) for companies whose main activities involve the issuance of insurance contracts which fall under IFRS 4, and which have not yet adopted an earlier version of IFRS 9. During the postponement period, the Company will continue implementing the provisions of IAS 39, Financial Instruments, Recognition And Measurement. Additionally, a company which implements the postponement option will be required to include various disclosures in its financial statements. These disclosures include, inter alia, disclosure regarding the fair value and the change in fair value of various groups of financial assets, in accordance with the method of classification under IFRS 9, as well as disclosure regarding the exposure to credit risks.</p> <p>B. The adjustment of the results regarding the implementation of IFRS 9 with respect to financial assets which refer to insurance contracts and which are measured at fair value through profit and loss in accordance with IFRS 9.</p>	<p>The standard will be applied with respect to annual periods beginning on January 1, 2018. Early adoption is possible. The standard will be adopted retrospectively, save for certain easements.</p> <p>According to the Company's estimate, it meets the aforementioned criteria, and it intends to defer the adoption of IFRS 9 to January 1, 2021.</p>	<p>The Group evaluates the implications of the standard on the financial statements.</p> <p>No change is expected in the method used to measure the value of the assets against investment-linked liabilities.</p> <p>The balance of the capital reserve with respect to available for sale capital financial assets will be transferred to retained earnings, and the changes in the value of such financial assets will also be included under surplus through the statement of income (and will not be recorded based on the rules applicable to available for sale financial assets (see Note 3(f)(1) above).</p> <p>The Company is still evaluating the method used to measure HETZ (indexed life) bonds and treasury deposits, which bear guaranteed returns and include a certain margin above the guaranteed returns in liabilities to the policyholders / members against which they are held, as well as the consequences of changes, if any, in the measurement of these assets, on the value of the aforementioned liabilities.</p>

Note 4 - New Standards and Interpretations Which Have Not Yet Been Adopted (Cont.)

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(2) Amendment to IFRS 9, Financial Instruments: Classification of financial assets which include early repayment options	<p>The amendment clarifies that financial instruments with an early repayment mechanism, which may result in a situation whereby reasonable compensation is received or paid with respect to the early termination of the agreement, may meet the SPPI criterion (principal and interest payments only), and therefore be measured at amortized cost or at fair value through other comprehensive income.</p> <p>As part of the basis for the conclusions of the amendment, it was clarified that early repayment in consideration of the instrument's fair value will not necessarily meet the SPPI criterion.</p>	<p>The amendment will be adopted with respect to annual period beginning on January 1, 2019. Early adoption is possible. A group which chooses to adopt the amendment in parallel with the adoption of the standard on January 1, 2018 will adopt, with respect to the amendment, the same transitional provisions as those of the standard itself. A group which chooses to adopt the amendment after the adoption of the standard will adopt, in addition to the transitional provisions of the standard, also the transitional provisions specified in the amendment.</p>	<p>The Group is evaluating the implications of the amendment on the financial statements, with no intention of early adoption.</p>
(3) International Financial Reporting Standard (IFRS) 17, Insurance Contracts	<p>In May 2017, the International Accounting Standards Board (IASB) published International Financial Reporting Standard 17, Insurance Contracts (hereinafter: the "New Standard"). The new standard establishes rules for recognition, measurement, presentation and disclosure in connection with insurance contracts, and replaces the current provisions on the matter. The new standard is expected to lead to significant changes in the financial reporting of insurance companies. In accordance with the new standard, insurance liabilities are to be measured as the present value of expected cash flows from insurance contracts, while taking into account the uncertainty associated with such forecasts (the risk margin). Additionally, the forecasted embedded profit in insurance contracts, as derived from the aforementioned calculations, will be recognized throughout the coverage period, and the impact of changes in assumptions (excluding interest) will also be distributed over the coverage period. Loss will be recognized immediately if a group of insurance contracts is not expected to be profitable, or if it begins to incur loss. It is possible to With respect to certain insurance contracts (generally elementary insurance with insurance coverage of up to one year), a simpler measurement model can be applied, which is not significantly different from the current method of measurement.</p>	<p>The new standard will be adopted beginning on January 1, 2021. Early adoption is possible, so long as IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, are also adopted in parallel (see section 2 below).</p> <p>The new standard will be adopted retrospectively. If retrospective adoption is impractical, one of the following two approaches may be chosen:</p> <ol style="list-style-type: none"> 1. The partial retrospective adoption approach. 2. The fair value approach. 	<p>The adoption of the standard is expected to have a significant impact on the financial statements of insurance companies, and the adoption of the standard also requires significant automational preparations, and therefore, the Company is unable to estimate, at this stage, the full implications of the adoption of the standard.</p>

Note 4 - New Standards and Interpretations Which Have Not Yet Been Adopted (Cont.)

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(4) IFRS 15, Revenue from Contracts with Customers	The standard replaces the current provisions regarding the recognition of income, and presents a new model for the recognition of revenue from contracts with customers. The standard determines two methods for the recognition of income: at a single point in time, or over time. The model includes five stages in the analysis of transactions, in order to determine the timing and amount of the recognition of income. The standard does not apply to the recognition of revenue from insurance contracts, but does apply to revenues from commissions of the insurance agencies, and to revenues from the management fees of the managing companies. The standard also establishes new disclosure requirements which are more extensive than the current requirements.	The standard will be applied with respect to annual period beginning on January 1, 2018. Early adoption is possible. The standard includes various alternatives regarding the implementation of the transitional provisions, such that companies will be able to choose one of the following alternatives, at the time of upon the occurrence of: full retrospective adoption; full retrospective adoption including practical easements; or adoption of the standard beginning on the date of initial adoption, while adjusting the balance of retained earnings as of that date with respect to transactions which have not yet concluded.	Effect on the insurance company: The amendment has no effect on insurance companies. Effect on managing companies of pension and provident funds: The Company expects that the adoption of the new standard will not have a significant effect on the date of recognition of revenue from management fees, nor on the timing of recognition of expenses involving costs to obtain such contracts with respect to pension and provident funds. Effect on insurance agencies: The Company expects that the adoption of the new standard will not have a significant effect.
(5) IFRS 16, Leases	The standard will replace the current guidelines regarding leases under international standards. For lessees, the new standard cancels the current requirement to classify the lease as operational or financial, and presents a single model for the accounting treatment of all leases on the balance sheet (excluding several exceptions), which is similar in nature to the current accounting treatment of financial leases. However, the accounting treatment in the books of the lessors is expected to remain similar to the current accounting treatment.	The standard will be applied with respect to annual periods beginning on or after January 1, 2019. Early adoption is possible, provided that the Company also applies, through early adoption, IFRS 15, Revenue from Contracts with Customers. The standard includes various alternatives to the transitional provisions, in a manner which allows companies to choose one of the following alternatives at the time of initial application: full retrospective adoption, or adoption of the standard beginning from the date of initial application, while adjusting the balance of retained earnings as of that date (without restating comparative figures).	The Group is evaluating the implications of the amendment on the financial statements.
(6) Amendment to IFRS 2, Share-Based Payment - Classification and measurement of share-based payment transactions	The amendment includes reference to the following subjects: A. The fair value measurement of share-based payment transactions which are settled in cash; B. The treatment method to be applied with respect to changes in share-based payments with respect to which a liability bonus becomes a capital bonus; and the treatment method with respect to a company's undertaking to hold part of the capital instruments which are offered to an employee for the purpose of deducting tax at source, with respect to the bonus.	The standard will be applied prospectively with respect to annual periods beginning on January 1, 2018. Early adoption is possible. Retrospective adoption is possible only if the required information is available.	According to the Group's estimate, following an evaluation of the implications of the application of the standard on the financial statements, its adoption had no significant impact on the Company's financial statements.

Note 4 - New Standards and Interpretations Which Have Not Yet Been Adopted (Cont.)

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(7) Amendments to IAS 40, Investment Property - Transfers of investment property	The amendments clarify and provide guidelines regarding the adoption of the provisions of IAS 40, with respect to transfers of investment property or to investment property. The amendments primarily include the determination that the list of events specified in the standard, with respect to transfers of investment property, constitute examples of evidence of changes in the use of the property, and do not constitute a closed list. The amendments also clarify that any change in the intent of management, in itself, does not constitute evidence of change in use.	The amendments will be adopted retrospectively beginning with the financial statements for annual periods beginning on January 1, 2018. Early adoption is possible. The amendments allow the choice of partial retrospective adoption, according to which the amendments will be adopted with respect to transfers which took place beginning with the period of initial adoption and thereafter, and the restatement of comparative figures will not be required. In this case, adjustments to the book value of assets on the date of initial application of the amendments will be applied directly to capital.	According to the Group's estimate, following an evaluation of the implications of the adoption of the amendments on the financial statements, their adoption is not expected to have a significant impact on the Company's financial statements.
(8) IFRIC 22, Foreign Currency Transactions and Advance Consideration.	The interpretation determines that the transaction date for the purpose of determining the exchange rate for the recording of a transaction in foreign currency which includes advance consideration will be on the date when the Company first recognizes a non-monetary asset / liability with respect to the advance consideration. In case of several advance payments or receipts, the Company will determine a transaction date for each payment / receipt separately.	The amendments will be adopted retrospectively beginning with the financial statements for annual periods beginning on January 1, 2018. Early adoption is possible. The amendments allow the choice of partial retrospective adoption, according to which the amendments will be adopted with respect to transfers which took place beginning with the period of initial adoption and thereafter, and the restatement of comparative figures will not be required. In this case, adjustments to the book value of assets on the date of initial application of the amendments will be applied directly to capital.	According to the Group's estimate, following an evaluation of the implications of the adoption of the amendments on the financial statements, their adoption is not expected to have a significant impact on the Company's financial statements.

Note 5 - Segmental Reporting**A. General**

The Group is engaged in the following operating segments:

1. Long term savings

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

2. Health insurance

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

3. Non-life insurance

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

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

- **Compulsory motor branch**

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

- **Motor property branch**

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

- **Property and others branches**

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

- **Credit insurance through a consolidated company**

Credit insurance branches and foreign trade risks.

- **Other liability branches**

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

4. Other

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

5. Operations which were not allocated to segments

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

Note 5 - Segmental Reporting (Cont.)**B. Additional information regarding the segmental reporting basis**

1. The information regarding operating segments was determined based on information reviewed by the Chief Operational Decision Maker for the purpose of reaching decisions with regard to resource allocation and performance assessment.
2. The note regarding operating segments includes several segments which constitute strategic business units of the Group. These business units include various products, and are managed separately for the purpose of resource allocation and performance assessment. The products which constitute the basis of each segment are for the most part similar in terms of characteristics, distribution methods, mix of customers, characteristics of the oversight environment, as well as long term economic and demographic characteristics which are derived from exposure with similar characteristics to insurance risks. Additionally, the results in the portfolio of investments held against insurance liabilities may have a significant impact on profitability.
3. The results, assets and liabilities of each segment include items which are directly attributable to the segment, and items which can be reasonably attributed thereto.

The accounting principles which were applied in the segmental report correspond to the generally accepted accounting principles that were adopted for the purpose of the preparation and presentation of the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 5 - Segmental Reporting (Cont.)

C. Report on operating segments

	Long term savings											
	Provident			Pension			Life insurance ¹⁾			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
NIS in thousands												
Gross premiums earned	-	-	-	-	-	-	5,534,579	4,998,993	4,860,632	5,534,579	4,998,993	4,860,632
Premiums earned by reinsurers	-	-	-	-	-	-	168,245	168,386	163,571	168,245	168,386	163,571
Premiums earned on retention	-	-	-	-	-	-	5,366,334	4,830,607	4,697,061	5,366,334	4,830,607	4,697,061
Income (loss) from investments, net, and financing income	139,160	125,670	112,571	488	10	(483)	5,421,019	2,134,693	2,350,605	5,560,667	2,260,373	2,462,693
Income from management fees	183,021	194,052	232,186	282,422	276,851	269,791	760,035	484,697	536,524	1,225,478	955,600	1,038,501
Income from commissions	-	-	-	-	-	-	43,050	38,029	26,939	43,050	38,029	26,939
Other income	-	-	-	-	-	-	-	-	-	-	-	-
Total income	322,181	319,722	344,757	282,910	276,861	269,308	11,590,438	7,488,026	7,611,129	12,195,529	8,084,609	8,225,194
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	131,475	118,063	104,878	-	-	-	10,351,365	6,729,656	6,710,204	10,482,840	6,847,719	6,815,082
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	-	-	-	-	-	-	(106,515)	(109,637)	(147,652)	(106,515)	(109,637)	(147,652)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	131,475	118,063	104,878	-	-	-	10,244,850	6,620,019	6,562,552	10,376,325	6,738,082	6,667,430
Commissions, marketing expenses and other acquisition costs	58,644	61,539	64,689	109,622	104,854	109,266	721,188	642,916	645,433	889,454	809,309	819,388
General and administrative expenses	106,569	98,314	98,450	165,492	127,061	118,423	373,426	361,014	341,315	645,487	586,389	558,188
Impairment of intangible assets	108,000	28,877	-	-	535	-	10,593	2,585	3,018	118,593	31,997	3,018
Other expenses	19,156	4,865	5,896	-	-	1,585	483	519	1,801	19,639	5,384	9,282
Financing expenses (income)	(1)	1	2	(1)	(25)	376	10,383	3,818	1,562	10,381	3,794	1,940
Total expenses	423,843	311,659	273,915	275,113	232,425	229,650	11,360,923	7,630,871	7,555,681	12,059,879	8,174,955	8,059,246
Share in the results of investee companies, net	-	-	-	(1,184)	(986)	(392)	6,160	11,099	4,167	4,976	10,113	3,775
Income (loss) before taxes on income from continuing operation	(101,662)	8,063	70,842	6,613	43,450	39,266	235,675	(131,746)	59,615	140,626	(80,233)	169,723
Other comprehensive income before taxes on income	-	-	-	4,881	37	(681)	31,034	19,069	(124,907)	35,915	19,106	(125,588)
Total comprehensive income (loss) before taxes on income	(101,662)	8,063	70,842	11,494	43,487	38,585	266,709	(112,677)	(65,292)	176,541	(61,127)	44,135
1) Total premiums (including premiums with respect to investment contracts, which were applied directly to reserve)							5,825,561	5,468,697	5,660,535	5,825,561	5,468,697	5,660,535

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 5 - Segmental Reporting (Cont.)

C. Report on operating segments (Cont.)

	Health			Non-life			Other		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
NIS in thousands									
Gross premiums earned	1,917,218	1,798,776	1,674,136	2,279,434	2,314,579	2,522,324	-	-	-
Premiums earned by reinsurers	262,060	212,416	186,941	759,976	661,445	706,870	-	-	-
Premiums earned on retention	1,655,158	1,586,360	1,487,195	1,519,458	1,653,134	1,815,454	-	-	-
Income from investments, net, and financing income	359,955	101,165	116,238	116,924	138,421	203,070	5,273	6,162	9,705
Income from management fees	-	-	-	-	-	-	5,974	5,974	5,974
Income (expenses) from commissions	(7,647)	4,461	18,425	170,235	133,647	140,143	123,030	120,524	115,288
Other income	-	-	-	61	72	85	3,189	1,347	1,746
Total income	2,007,466	1,691,986	1,621,858	1,806,678	1,925,274	2,158,752	137,466	134,007	132,713
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	1,654,538	1,227,856	1,153,321	1,874,324	1,611,703	1,578,083	-	-	-
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	(293,904)	(189,484)	(159,246)	(703,535)	(357,905)	(435,722)	-	-	-
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	1,360,634	1,038,372	994,075	1,170,789	1,253,798	1,142,361	-	-	-
Commissions, marketing expenses and other acquisition costs	449,263	395,825	372,821	584,804	587,893	610,444	94,273	89,803	87,747
General and administrative expenses	66,646	56,071	53,368	60,146	66,581	65,699	18,901	16,727	15,962
Impairment of intangible assets	-	-	-	-	1,249	-	8	-	1,616
Other expenses	-	-	116	-	-	7,033	963	3,183	3,294
Financing expenses (income)	6,147	5,263	4,382	(7,290)	(600)	(670)	473	780	1,803
Total expenses	1,882,690	1,495,531	1,424,762	1,808,449	1,908,921	1,824,867	114,618	110,493	110,422
Share in the results of investee companies, net	4,331	6,163	843	15,837	-	-	74	207	341
Income (loss) before taxes on income from continuing operation	129,107	202,618	197,939	14,066	16,353	333,885	22,922	23,721	22,632
Other comprehensive income (loss) before taxes on income	54,640	13,473	(20,423)	48,157	(29,486)	(65,960)	(1,050)	617	1,124
Total comprehensive income (loss) before taxes on income	183,747	216,091	177,516	62,223	(13,133)	267,925	21,872	24,338	23,756

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 5 - Segmental Reporting (Cont.)

C. Report on operating segments (Cont.)

	Not allocated to segments			Adjustments and offsets			Total		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
	NIS in thousands								
Gross premiums earned	-	-	-	(2,028)	(2,345)	(2,367)	9,729,203	9,110,003	9,054,725
Premiums earned by reinsurers	-	-	-	-	-	-	1,190,281	1,042,247	1,057,382
Premiums earned on retention	-	-	-	(2,028)	(2,345)	(2,367)	8,538,922	8,067,756	7,997,343
Income from investments, net, and financing income	192,270	110,824	219,331	(541)	(571)	(644)	6,234,548	2,616,374	3,010,393
Income from management fees	-	-	-	(4,969)	(5,117)	(5,078)	1,226,483	956,457	1,039,397
Income from commissions	-	-	-	(61,555)	(70,243)	(62,072)	267,113	226,418	238,723
Other income	308	-	261	-	-	3	3,558	1,419	2,095
Total income	192,578	110,824	219,592	(69,093)	(78,276)	(70,158)	16,270,624	11,868,424	12,287,951
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	-	-	-	(2,954)	(2,471)	(4,147)	14,008,748	9,684,807	9,542,339
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	-	-	-	-	-	-	(1,103,954)	(657,026)	(742,620)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	-	-	-	(2,954)	(2,471)	(4,147)	12,904,794	9,027,781	8,799,719
Commissions, marketing expenses and other acquisition costs	-	-	-	(61,242)	(68,631)	(60,170)	1,956,552	1,814,199	1,830,230
General and administrative expenses	88,520	57,066	63,512	(7,639)	(9,482)	(3,603)	872,061	773,352	753,126
Impairment of intangible assets	3,036	1,000	-	-	-	-	121,637	34,246	4,634
Other expenses	2,929	5,272	11,619	242	923	1,433	23,773	14,762	32,777
Financing expenses (income)	125,045	150,919	132,066	(301)	(461)	(333)	134,455	159,695	139,188
Total expenses	219,530	214,257	207,197	(71,894)	(80,122)	(66,820)	16,013,272	11,824,035	11,559,674
Share in the results of investee companies, net	363	24,996	21,833	-	-	-	25,581	41,479	26,792
Income (loss) before taxes on income from continuing operation	(26,589)	(78,437)	34,228	2,801	1,846	(3,338)	282,933	85,868	755,069
Other comprehensive income (loss) before taxes on income	122,938	12,614	(102,709)	227	432	3,332	260,827	16,756	(310,224)
Total comprehensive income (loss) before taxes on income	96,349	(65,823)	(68,481)	3,028	2,278	(6)	543,760	102,624	444,845

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 5 - Segmental Reporting (Cont.)

D. Additional information regarding the main insurance branches included in the non-life insurance segment

	Liability branches					
	Compulsory motor			Liabilities and other branches ¹⁾		
	2017	2016	2015	2017	2016	2015
	NIS in thousands					
Gross premiums	472,546	438,306	454,704	323,847	310,259	325,391
Reinsurance premiums	220,271	15,572	17,389	112,356	97,292	98,739
Premiums on retention	252,275	422,734	437,315	211,491	212,967	226,652
Change in unearned premium balance, on retention	80,566	27	40,123	5,201	4,299	4,585
Premiums earned on retention	332,841	422,761	477,438	216,692	217,266	231,237
Income from investments, net, and financing income	56,056	69,798	99,809	38,259	42,827	59,170
Income from commissions	29,790	-	-	12,245	13,254	10,031
Total income	418,687	492,559	577,247	267,196	273,347	300,438
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	523,463	352,883	230,109	355,811	426,299	160,623
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	(167,692)	(33,614)	(735)	(155,807)	(191,478)	(23,215)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	355,771	319,269	229,374	200,004	234,821	137,408
Commissions, marketing expenses and other acquisition costs	80,967	75,411	76,018	99,771	98,896	95,789
General and administrative expenses	8,126	9,813	9,257	5,570	6,946	6,624
Other expenses	-	-	-	-	143	-
Financing income (expenses)	419	-	-	(629)	174	(70)
Total expenses	445,283	404,493	314,649	304,716	340,980	239,751
Share in the profits (losses) of associate companies, net	7,602	-	-	5,068	-	-
Income (loss) before taxes on income	(18,994)	88,066	262,598	(32,452)	(67,633)	60,687
Other comprehensive income before taxes on income	20,265	(14,730)	(31,857)	13,786	(9,031)	(18,841)
Total comprehensive income before taxes on income	1,271	73,336	230,741	(18,666)	(76,664)	41,846
Liabilities with respect to insurance contracts						
Gross	2,345,355	2,380,386	2,566,840	2,538,361	2,490,718	2,419,866
Reinsurance	356,485	119,659	103,484	1,085,830	974,912	873,100
Retention	1,988,870	2,260,727	2,463,355	1,452,531	1,515,806	1,546,766

1) Liabilities and others branches primarily include the results of the third party liability and professional liability insurance branches, the activity in which accounts for approximately 66% of total premiums in these branches (in 2016: 68%; in 2015: 66%).

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 5 - Segmental Reporting (Cont.)

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

	Property branches									Total		
	Motor property			Credit insurance			Property and others branches ¹⁾					
NIS in thousands	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Gross premiums	726,840	634,508	639,097	110,188	107,027	103,121	665,546	742,580	872,976	2,298,967	2,232,680	2,395,289
Reinsurance premiums	2,416	2,756	4,446	54,653	52,722	49,572	471,783	477,295	495,004	861,479	645,637	665,150
Premiums on retention	724,424	631,752	634,651	55,535	54,305	53,549	193,763	265,285	377,972	1,437,488	1,587,043	1,730,139
Change in unearned premium balance, on retention	(33,245)	(7,631)	45,527	51	(81)	(103)	29,397	69,477	(4,817)	81,970	66,091	85,315
Premiums earned on retention	691,179	624,121	680,178	55,586	54,224	53,446	223,160	334,762	373,155	1,519,458	1,653,134	1,815,454
Income (loss) from investments, net, and financing income	11,250	10,901	19,242	(75)	691	3,394	11,434	14,204	21,455	116,924	138,421	203,070
Income (expenses) from commissions	6	26	(10)	15,604	16,611	16,366	112,590	103,756	113,756	170,235	133,647	140,143
Other income	-	-	-	61	72	85	-	-	-	61	72	85
Total income	702,435	635,048	699,410	71,176	71,598	73,291	347,184	452,722	508,366	1,806,678	1,925,274	2,158,752
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	487,288	437,796	546,742	25,734	47,891	121,699	482,028	346,834	518,910	1,874,324	1,611,703	1,578,083
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	(94)	582	(8,274)	(13,659)	(23,028)	(95,916)	(366,283)	(110,367)	(307,582)	(703,535)	(357,905)	(435,722)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	487,194	438,378	538,468	12,075	24,863	25,783	115,745	236,467	211,328	1,170,789	1,253,798	1,142,361
Commissions, marketing expenses and other acquisition costs	181,150	163,595	172,760	9,639	8,743	8,470	213,277	241,248	257,407	584,804	587,893	610,444
General and administrative expenses	12,498	14,207	13,011	17,321	14,797	14,812	16,631	20,818	21,995	60,146	66,581	65,699
Impairment of intangible assets	-	-	7,033	-	-	-	-	-	-	-	-	7,033
Other expenses	-	642	-	-	-	-	-	464	-	-	1,249	-
Financing income (expenses)	(210)	(249)	(216)	(3,235)	(1,253)	(977)	(3,635)	728	593	(7,290)	(600)	(670)
Total expenses	680,632	616,573	731,056	35,800	47,150	48,088	342,018	499,725	491,323	1,808,449	1,908,921	1,824,867
Share in the profits (losses) of associate companies, net	1,425	-	-	-	-	-	1,742	-	-	15,837	-	-
Income (loss) before taxes on income	23,228	18,475	(31,646)	35,376	24,448	25,203	6,908	(47,003)	17,043	14,066	16,353	333,885
Other comprehensive income (loss) before taxes on income	4,219	(2,350)	(4,304)	5,513	(449)	(4,895)	4,374	(2,926)	(6,063)	48,157	(29,486)	(65,960)
Total comprehensive income (loss) before taxes on income	27,447	16,125	(35,950)	40,889	23,999	20,308	11,282	(49,929)	10,980	62,223	(13,133)	267,925
Liabilities with respect to insurance contracts												
Gross	517,043	483,164	505,939	80,605	97,897	144,868	1,039,333	1,037,179	1,270,097	6,520,697	6,489,344	6,907,609
Reinsurance	683	894	8,323	42,747	53,462	99,764	625,467	489,129	666,086	2,111,212	1,638,056	1,750,757
Retention	516,360	482,270	497,616	37,858	44,435	45,104	413,866	548,050	604,011	4,409,485	4,851,288	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 accounts for approximately 74% of total premiums in these branches (in 2016 - 73%; in 2015 - 65%).

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 5 - Segmental Reporting (Cont.)

E. Reporting regarding operating segments

As of December 31	Long term savings		Health insurance		Non-life insurance		Other		Not allocated to segments		Adjustments and offsets		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	NIS in thousands													
Assets:														
Intangible assets	1,015,652	1,125,900	82,026	82,983	235,928	240,058	30,194	30,940	27,953	25,522	-	-	1,391,753	1,505,403
Deferred acquisition costs	1,234,111	1,246,505	471,014	439,371	239,449	237,488	-	-	-	-	-	-	1,944,574	1,923,364
Investments in investee companies	105,425	99,819	26,847	19,012	148,148	-	-	886	15,752	150,327	-	-	296,172	270,044
Investment property for investment-linked contracts	2,869,967	2,742,180	-	-	-	-	-	-	-	-	-	-	2,869,967	2,742,180
Other investment property	991,046	969,091	53,352	52,965	167,711	-	-	-	-	163,851	-	-	1,212,109	1,185,907
Financial investments for investment-linked contracts	52,441,482	48,643,929	3,789,479	3,550,565	-	-	-	-	-	-	-	-	56,230,961	52,194,494
Other financial investments:														
Marketable debt assets	1,513,211	1,613,574	885,968	923,937	451,293	524,271	1,281	-	2,680,859	2,513,277	-	-	5,532,612	5,575,059
Non-marketable debt assets	17,986,492	17,683,055	475,975	458,136	2,582,204	2,942,169	6,106	15,003	788,020	191,880	(5,703)	(8,530)	21,833,094	21,281,713
Stocks	295,827	227,692	267,797	196,959	262,504	117,552	-	-	541,713	597,357	-	-	1,367,841	1,139,560
Others	1,133,847	1,079,945	430,118	322,238	386,241	180,229	-	-	773,398	761,069	-	-	2,723,604	2,343,481
Total other financial investments	20,929,377	20,604,266	2,059,858	1,901,270	3,682,242	3,764,221	7,387	15,003	4,783,990	4,063,583	(5,703)	(8,530)	31,457,151	30,339,813
Cash and cash equivalents for investment-linked contracts	4,290,418	2,878,912	239,028	74,323	-	-	-	-	-	-	-	-	4,529,446	2,953,235
Other cash and cash equivalents	604,262	566,018	139,068	128,288	186,161	192,891	90,107	81,921	386,265	421,657	-	-	1,405,863	1,390,775
Reinsurance assets	227,169	223,109	463,395	366,874	2,111,212	1,638,056	-	-	-	-	-	-	2,801,776	2,228,039
Outstanding premiums	311,473	257,018	122,186	112,643	457,473	494,359	2,710	2,498	-	-	-	-	893,842	866,518
Other assets	401,684	265,497	75,555	31,396	287,063	242,442	35,824	35,902	184,068	158,362	(60,302)	(42,515)	923,892	691,084
Total assets	85,422,066	79,622,244	7,521,808	6,759,690	7,515,387	6,809,515	166,222	167,150	5,398,028	4,983,302	(66,005)	(51,045)	105,957,506	98,290,856
Total assets for investment-linked contracts	60,239,420	54,754,343	4,070,900	3,641,277	-	-	-	-	-	-	-	-	64,310,320	58,395,620
Liabilities:														
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	21,523,458	21,385,685	2,140,712	1,895,640	6,520,697	6,489,344	-	-	-	-	(575)	(1,690)	30,184,292	29,768,979
Liabilities with respect to investment-linked insurance contracts and investment contracts	59,310,868	53,759,791	4,055,916	3,534,683	-	-	-	-	-	-	(20,705)	(18,681)	63,346,079	57,275,793
Financial liabilities	137,442	221,764	7,227	9,146	26,024	15,663	-	6,271	3,242,364	3,385,333	(3)	(3,182)	3,413,054	3,634,995
Other liabilities	1,729,906	1,142,726	605,468	482,947	850,235	626,835	44,753	41,547	719,086	683,751	(26,568)	(79,922)	3,922,880	2,897,884
Total liabilities	82,701,674	76,509,966	6,809,323	5,922,416	7,396,956	7,131,842	44,753	47,818	3,961,450	4,069,084	(47,851)	(103,475)	100,866,305	93,577,651

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 6 - Intangible Assets ²⁾

A. Composition and movement

NIS in thousands	Goodwill	Customer portfolios and future management fees	Licenses, trade names, brand names, and others	Original differences attributed to the value of insurance portfolios	Computer software programs	Total
Cost						
Balance as of January 1, 2016	<u>632,732</u>	<u>272,288</u>	<u>9,851</u>	<u>633,360</u>	<u>1,813,734</u>	<u>3,361,965</u>
Acquisitions and self-development ¹⁾	-	-	-	-	238,349	238,349
Balance as of December 31, 2016	<u>632,732</u>	<u>272,288</u>	<u>9,851</u>	<u>633,360</u>	<u>2,052,083</u>	<u>3,600,314</u>
Acquisitions and self-development ¹⁾	-	-	-	1,297	228,401	229,698
Write-offs	-	-	-	-	(1,120)	(1,120)
Balance as of December 31, 2017	<u>632,732</u>	<u>272,288</u>	<u>9,851</u>	<u>634,657</u>	<u>2,279,364</u>	<u>3,828,892</u>
Amortization and impairment losses						
Balance as of January 1, 2016	85,800	230,705	9,106	628,437	904,287	1,858,335
Amortization for the year	-	4,355	510	2,963	194,502	202,330
Impairment loss	24,600	-	-	-	9,646	34,246
Balance as of December 31, 2016	<u>110,400</u>	<u>235,060</u>	<u>9,616</u>	<u>631,400</u>	<u>1,108,435</u>	<u>2,094,911</u>
Amortization for the year	-	3,773	235	1,446	215,158	220,612
Write-offs	-	-	-	-	(21)	(21)
Impairment loss	108,008 ³⁾	-	-	-	13,629	121,637
Balance as of December 31, 2017	<u>218,408</u>	<u>238,833</u>	<u>9,851</u>	<u>632,846</u>	<u>1,337,201</u>	<u>2,437,139</u>
Book value, net						
Balance as of January 1, 2016	<u>546,932</u>	<u>41,583</u>	<u>745</u>	<u>4,923</u>	<u>909,447</u>	<u>1,503,630</u>
Balance as of December 31, 2016	<u>522,332</u>	<u>37,228</u>	<u>235</u>	<u>1,960</u>	<u>943,648</u>	<u>1,505,403</u>
Balance as of December 31, 2017	<u>414,324</u>	<u>33,455</u>	<u>-</u>	<u>1,811</u>	<u>942,163</u>	<u>1,391,753</u>

- 1) Additions with respect to software programs include additions with respect to self-development in amounts of approximately NIS 134,080 thousand and approximately NIS 138,940 thousand, during the years ended December 31, 2017 and 2016, respectively.
- 2) For details regarding the policy regarding current amortization and impairment losses, and for details regarding the amortization periods, see Note 3(h).
- 3) See section B(1) below.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 6 - Intangible Assets (Cont.)

B. Impairment test and additional information

Presented below are details regarding the composition of the book value of the intangible assets, excluding software programs:

NIS in thousands	Original differences attributed to the value of insurance portfolios		Customer portfolios and future management fees		Licenses, trade names, brands and other		Goodwill	
	As of December 31		As of December 31		As of December 31		As of December 31	
	2017	2016	2017	2016	2017	2016	2017	2016
Provident fund operations ¹⁾	-	-	33,455	37,228	-	235	239,411	347,411
Pension fund operations with respect to Meitavit Atudot ²⁾	-	-	-	-	-	-	134,700	134,700
Non-life insurance operations - Clal Credit	-	-	-	-	-	-	2,447	2,447
Excess cost attributed to the life insurance portfolio	183	666	-	-	-	-	-	-
Insurance agencies ³⁾	1,628	1,294	-	-	-	-	37,766	37,774
Total	1,811	1,960	33,455	37,228	-	235	414,324	522,332

1. Provident fund management operation

As stated in Note 43(c), regarding the implications of the regulatory directives and the intensifying competitive conditions in the segment, the rate of management fees in the provident fund segment have been subject to an ongoing decline, as a result of the competitive conditions in the segment, in a manner which makes it difficult to cover the managing company's expenses. Additionally, during the reporting period, provident funds managed by the managing company recorded net negative mobility, with a trend of moderation in the fourth quarter. Accordingly, the Company evaluated the need to record a provision for impairment with respect to the goodwill attributed to the provident fund management operation, through a valuation prepared by an independent external valuer, based on the method of discounting the cash flows from the operation (value in use) which is based, inter alia, on the Company's forecast regarding the rate of management fees, managed assets, segmental expenses and its entry into the operation involving provident funds for investment.

In accordance with the valuation as of December 31, 2017, the book value of the provident fund operation was higher than the value in use by approximately NIS 27 million, and therefore, the Company recognized impairment loss of goodwill before tax in the aforementioned amount.

In accordance with the valuation as of June 30, 2017, the book value of the provident fund operation was higher than the value in use by approximately NIS 81 million, and therefore, the Company recognized impairment loss of goodwill before tax in the aforementioned amount.

In accordance with the valuation as of December 31, 2016, the book value of the provident fund operation was higher than the value in use by approximately NIS 24.6 million, and therefore, the Company recognized impairment loss of goodwill before tax in the aforementioned amount.

Presented below are details regarding the key assumptions and main parameters which were used to calculate recoverable value:

	As of December 31, 2017	As of June 30, 2017	As of December 31, 2016
Valuation methodology	DCF	DCF	DCF
Operational discount rate WACC before tax	11.8%	12.0%	12.0%
Long term growth rate in the branch, excluding provident fund for investment	0%	0%	0%
Long term growth rate - provident fund for investment	3.0%	3.0%	3.0%
Effective marginal tax	34.2%	34.2%-35.0%	34.2% -35.9%
	Minimum total of NIS 6 per month		
Minimum management fees	In accounts with accrual over NIS 1,350	Minimum total of NIS 6 per month	Minimum total of NIS 6 per month
Average long term rate of management fees in Tamar provident fund for compensation	0.57%	0.57%	0.61%
Average long term rate of management fees in study fund	0.65%	0.67%	0.71%
Rate of maximum management fees from the accrual	1.05%	1.05%	1.05%
Number of years in the cash flow forecast	5	5	5

Note 6 - Intangible Assets (Cont.)**B. Impairment test and additional information (Cont.)**2. Pension fund management operation

For the purpose of preparing the financial statements as of December 31, 2017, the Company conducted an impairment test of the goodwill attributed to the pension funds operation, through an independent external valuer. The analysis was based on the discounted cash flows (DCF) approach. In the paper, the valuer relied on the embedded value (EV) calculations for pension operations which were prepared by the Company. For the purpose of estimating value in use, a weighted rate of return on assets was applied at a rate of approximately 5.1%, and cash flows were discounted to their present values at a rate of 11.3% before tax (9% after tax). Based on the valuation which was obtained, the calculated recoverable amount is higher than the book value of the pension operations, and therefore, impairment of goodwill did not occur as of December 31, 2017.

For the purpose of preparing the financial statements as of December 31, 2016, the Group conducts an impairment test of the goodwill attributed to the pension fund management operation. For the purpose of this evaluation, the Company relied on the embedded value (EV) calculations with respect to pension operations. The cash flows were discounted according to a real, risk-free interest rate curve. Additionally, returns were credited at a rate of 4.86% with respect to the fund assets which are invested in designated bonds, and returns according to the risk-free interest rate curve, on the balance of assets. Sensitivity analyses were also conducted, including discounting the cash flows according to a discount rate after tax of 7%. Based on the cash flow model which was prepared, including the sensitivity analyses which were performed, the calculated recoverable amount is higher than the book value of the pension operation, and therefore, impairment of goodwill did not occur as of December 31, 2016.

3. Agencies

For the purpose of preparing the financial statements, the Company conducted an impairment test of the goodwill attributed to the agencies operation. For this purpose, a report from an independent external valuer was obtained, which was based on the discounted cash flows model with respect to the operation (value in use).

As of December 31, 2017 and 2016, the value in use attributed to the agencies operation was higher than the value of this operation in the books, and therefore, impairment loss of goodwill was not recorded.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 7 - Deferred Acquisition Costs

A. Composition

NIS in thousands	As of December 31	
	2017	2016
Life insurance and long term savings	1,234,111	1,246,505
Health insurance	471,014	439,371
Non-life insurance *)	239,449	237,488
Total	1,944,574	1,923,364

*) For additional details, see Note 19(a).

B. Movement in deferred acquisition costs in the long term savings segment and in the health segment

NIS in thousands	Long term savings			Health		
	Life insurance	Pension and provident	Total	Long term care	Illness and hospitalization	Total
Balance as of January 1, 2016	917,905	287,348	1,205,253	130,223	263,506	393,729
Additions:						
Acquisition commissions	192,369	40,091	232,460	12,977	86,044	99,021
Other acquisition costs	91,896	-	91,896	7,552	95,469	103,021
Total additions	284,265	40,091	324,356	20,529	181,513	202,042
Current amortization	(109,839)	(29,717)	(139,556)	(12,463)	(69,695)	(82,158)
Amortization with respect to cancellations	(143,548)	-	(143,548)	(13,379)	(60,863)	(74,242)
Balance as of December 31, 2016	948,783	297,722	1,246,505	124,910	314,461	439,371
Additions:						
Acquisition commissions	183,244	48,577	231,821	10,887	101,311	112,198
Other acquisition costs	94,096	-	94,096	6,093	108,215	114,308
Total additions	277,340	48,577	325,917	16,980	209,526	226,506
Current amortization	(121,430)	(37,800)	(159,230)	(12,439)	(81,640)	(94,079)
Amortization with respect to cancellations	(179,081)	-	(179,081)	(12,828)	(87,956)	(100,784)
Balance as of December 31, 2017	925,612	308,499	1,234,111	116,623	354,391	471,014

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 8 - Property, Plant and Equipment

A. Composition and movement ¹⁾

NIS in thousands	Land and office buildings	Computers and servers	Vehicles	Furniture and office equipment	Leasehold installations and improvements	Total
Cost						
Balance as of January 1, 2016	61,705	204,187	1,209	61,912	195,277	524,290
Acquisitions	-	13,048	818	2,822	8,344	25,032
Write-offs	-	-	(1,117)	-	-	(1,117)
Write-off of completely depreciated assets	-	(1,976)	-	-	-	(1,976)
Balance as of December 31, 2016	61,705	215,259	910	64,734	203,621	546,229
Acquisitions	-	4,891	25	3,480	11,621	20,017
Write-offs	(283)	(550)	(53)	-	-	(886)
Balance as of December 31, 2017	61,422	219,600	882	68,214	215,242	565,360
Depreciation and impairment losses						
Balance as of January 1, 2016	42,776	124,877	550	30,321	55,479	254,003
Depreciation for the year	1,333	26,086	158	3,717	10,934	42,228
Write-offs	-	-	(593)	-	-	(593)
Write-off of completely depreciated assets	-	(1,976)	-	-	-	(1,976)
Balance as of December 31, 2016	44,109	148,987	115	34,038	66,413	293,662
Depreciation for the year	1,323	23,631	131	3,970	11,762	40,817
Write-offs	(220)	(550)	(19)	-	-	(789)
Balance as of December 31, 2017	45,212	172,068	227	38,008	78,175	333,690
Book value, net						
Balance as of January 1, 2016	18,929	79,310	659	31,591	139,798	270,287
Balance as of December 31, 2016	17,596	66,272	795	30,696	137,208	252,567
Balance as of December 31, 2017	16,210	47,532	655	30,206	137,067	231,670

1) For details regarding the amortization periods, see Note 3(g)(3).

B. For additional details regarding leased property, plant and equipment, see Note 27.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 9 - Investments in Investee Companies

A. Summary financial data regarding associate companies and joint ventures

As of December 31, 2017

Company name	ADC Holdings ²⁾	Atudot Pension Fund for Workers & Independent Workers Ltd.	22 Kingsway Limited	Ibex London Limited	1 South Wacker Finance, L.L.C ³⁾	WC Edgewater Venture, L.L.C ³⁾	WC 75 Tresser, L.L.C ³⁾	DCE 1 APS	660 Columbus Ave. Investors, L.L.C ³⁾	Dominion Tower Holdings, LP	Credit Suisse Emerging Market Credit Opportunity Fund, L.P ¹⁾	IDE Technologies ³⁾	Trans Betach	Total
Operating segment	Holding company	Veteran pension fund managing company	Investment property	Investment property	Investment property	Investment property	Investment property	Investment property	Investment property	Investment property	Capital market	Water technologies	Marine insurance agency	
Country of incorporation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	United States	Cayman Islands	Israel	Israel	
Main location of the business operation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	United States	Cayman Islands	Israel	Israel	
Ownership rate in capital (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	9.75	49.00	2.69	3.61	50.00	
Rate in voting (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	9.75	49.00	2.69	3.61	50.00	
Total assets	47,349	34,272	62,254	86,468	8,212	193,694	480,797	-	246,316	308,099	322,284	2,619,374	-	
Total liabilities	91	11,740	-	-	-	124,485	299,246	-	200,715	189,640	7,225	1,727,433	-	
Total net assets (total assets less total liabilities)	47,258	22,532	62,254	86,468	8,212	69,209	181,551	-	45,601	118,459	315,059	891,941	-	
The Group's share in net assets (net assets * holding rate)	15,753	11,312	31,126	43,234	1,007	11,869	31,135	-	4,449	58,043	8,475	32,199	-	
Balance of excess cost and other adjustments	-	33,855	-	-	-	-	-	-	-	-	(726)	14,441	-	
Value of the associate company in the Group's books	15,753	45,167	31,126	43,234	1,007	11,869	31,135	-	4,449	58,043	7,749	46,640	-	296,172
Revenues	1,429	42,487	-	9,752	-	(3,866)	(3,178)	224	810	35,498	74,753	-	-	
Total profit and loss	1,088	1,271	-	9,752	-	(3,866)	(3,178)	224	810	35,498	71,413	-	148	
The Group's share in profit and loss of the investee company	363	696	-	4,875	-	(658)	(545)	111	77	17,397	1,921	-	74	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	-	-	
Other adjustments	-	-	-	-	-	-	-	-	-	-	(781)	3,931	-	
The Group's share in the profit (loss) of the investee company, as presented in the books	363	(1,184)	-	4,875	-	(658)	(545)	111	77	17,397	1,140	3,931	74	25,581
Foreign currency translation differences for investee companies	-	-	-	(304)	-	(1,394)	(3,353)	(324)	(352)	(4,938)	(814)	-	-	(11,479)
The Group's share in the comprehensive income of the investee company, as presented in the books	363	(1,184)	-	4,571	-	(2,052)	(3,898)	(213)	(275)	12,459	326	3,931	74	10,171

- As of December 31, 2017, Clal Insurance has significant influence in EMCO, due to the fact that it has the power to take part in certain material decisions of EMCO, such as investments, through the joint representative of the Clal Insurance Group and of Koor Industries Ltd., a member company of the IDB Group. For additional details, see Note 41(e)(2).
- Clal Insurance received, in the years 2008-2009, two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of the reporting date, amounted to approximately NIS 15.7 million, and which are included under the item for other accounts payable. In 2017, Clal Insurance repaid to ADC Holdings a loan in the amount of approximately NIS 0.2 million.
- The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "Nostro"). In addition to these rates, the Company holds investments against investment-linked liabilities (hereinafter: "Members") at additional holding rates. The joint holding rates in the nostro portfolio and in the members portfolio confer upon the Company significant influence.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 9 - Investments in Investee Companies (Cont.)

A. Summary financial data regarding associate companies and joint ventures

As of December 31, 2016

Company name	ADC Holdings ²⁾	Atudot Pension Fund for Workers & Independent Workers Ltd.	22 Kingsway Limited	Ibex London Limited	1 South Wacker Finance, L.L.C. ³⁾	WC Edgewater Venture, L.L.C. ³⁾	WC 75 Tresser, L.L.C. ³⁾	DCE 1 APS	660 Columbus Ave. Investors, L.L.C. ³⁾	Dominion Tower Holdings, LP	Credit Suisse Emerging Market Opportunity Fund, L.P. ¹⁾	Trans Betach	Total
Operating segment	Holding company	Veteran pension fund managing company	Investment property	Investment property	Investment property	Investment property	Investment property	Investment property	Investment property	Investment property	Capital market	Marine insurance agency	
Country of incorporation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	United States	Cayman Islands	Israel	
Main location of the business operation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	United States	Cayman Islands	Israel	
Ownership rate in capital (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	9.75	49.00	2.69	50.00	
Rate in voting (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	9.75	49.00	2.69	50.00	
Total assets	46,718	31,485	64,726	81,344	13,469	216,789	524,116	292,363	263,825	310,853	326,661	2,371	
Total liabilities	548	10,885	-	-	-	131,251	316,843	249,600	215,415	210,591	4,469	599	
Total net assets (total assets less total liabilities)	46,170	20,600	64,726	81,344	13,469	85,538	207,273	42,763	48,410	100,262	322,192	1,772	
The Group's share in net assets (net assets * holding rate)	15,390	10,287	32,363	40,672	1,650	14,668	35,548	20,956	4,720	49,127	8,667	886	
Balance of excess cost and other adjustments	-	35,735	-	-	-	-	-	-	-	-	(625)	-	
Value of the associate company in the Group's books	15,390	46,022	32,363	40,672	1,650	14,668	35,548	20,956	4,720	49,127	8,042	886	270,044
Revenues	1,368	42,102	-	4,200	17,584	2,484	16,974	34,929	11,199	23,445	142,558	1,677	
Total profit and loss	512	1,847	-	4,200	17,584	2,484	16,974	34,929	11,199	23,445	138,289	414	
The Group's share in profit and loss of the investee company	170	894	-	2,101	2,154	426	2,911	17,116	1,088	11,488	3,720	207	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	-	
Other adjustments	-	-	-	-	-	-	-	-	-	-	1,084	-	
The Group's share in the profit (loss) of the investee company, as presented in the books	170	(986)	-	2,101	2,154	426	2,911	17,116	1,088	11,488	4,804	207	41,479
Foreign currency translation differences for investee companies	-	-	-	(8,204)	(553)	(195)	(460)	(95)	(60)	878	(118)	-	(8,807)
The Group's share in the comprehensive income of the investee company, as presented in the books	170	(986)	-	(6,103)	1,601	231	2,451	17,021	1,028	12,366	4,686	207	32,672
Commitment to invest funds in an investee company, USD in thousands	-	-	-	-	-	-	-	-	-	-	593	-	-

- As of December 31, 2016, Clal Insurance has significant influence in EMCO, due to the fact that it has the power to take part in certain material decision of EMCO, such as investment, through the joint representative of the Clal Insurance Group and of Koor Industries Ltd., a member company of the IDB Group. For additional details, see Note 41(e)(2).
- Clal Insurance received, in the years 2008-2009, two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of the reporting date, amounted to approximately NIS 15.4 million, and which are included under the item for other accounts payable. In 2016, Clal Insurance repaid to ADC Holdings a loan in the amount of approximately NIS 0.2 million.
- The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "Nostro"). In addition to these rates, the Company holds investments against investment-linked liabilities (hereinafter: "Members") at additional holding rates. The joint holding rates in the nostro portfolio and in the members portfolio confer upon the Company significant influence.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 9 - Investments in Investee Companies (Cont.)

A. Summary financial data regarding associate companies and joint ventures (Cont.)

As of December 31, 2015

Company name	ADC Holdings ²⁾	Atudot Pension Fund for Workers & Independent Workers Ltd.	22 Kingsway Limited	Ibex London Limited	1 South Wacker Finance, L.L.C ³⁾	WC Edgewater Venture, L.L.C ³⁾	WC 75 Tresser, L.L.C ³⁾	DCE 1 APS	660 Columbus Ave. Investors, L.L.C ³⁾	Credit Suisse Emerging Market Credit Opportunity Fund, L.P ¹⁾	Trans Betach	Total
Operating segment	Holding company	Veteran pension fund managing company	Investment property	Investment property	Investment property	Investment property	Investment property	Investment property	Investment property	Capital market	Marine insurance agency	
Country of incorporation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	Cayman Islands	Israel	
Main location of the business operation	Israel	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	Cayman Islands	Israel	
Ownership rate in capital (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	9.75	2.69	50.00	
Rate in voting (%)	33.33	50.00	50.00	50.00	12.25	17.15	17.15	49.00	9.75	2.69	50.00	
Revenues	1,616	41,968	18,704	16,636	39,633	7,364	26,869	5,553	(9,076)	(43,201)	1,910	
Total profit and loss	947	2,976	18,704	16,636	39,633	7,364	26,869	5,553	(9,076)	(50,496)	683	
The Group's share in profit and loss of the investee company	316	1,488	9,352	8,318	4,855	1,264	4,607	2,723	(885)	(1,358)	341	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	
Other adjustments	-	-	-	-	-	-	-	-	-	(2,349)	-	
The Group's share in the profit (loss) of the investee company, as presented in the books	316	(392)	9,352	8,318	4,855	1,264	4,607	2,723	(885)	(3,707)	341	26,792
Foreign currency translation differences for investee companies	-	-	(1,383)	(1,932)	287	44	102	(66)	42	(14)	-	(2,920)
The Group's share in the comprehensive income of the investee company, as presented in the books	316	(392)	7,969	6,386	5,142	1,308	4,709	2,657	(843)	(3,721)	341	23,872
Commitment to invest funds in an investee company, USD in thousands	-	-	-	-	-	-	-	-	-	626	-	

1) As of December 31, 2015, Clal Insurance has significant influence in EMCO, due to the fact that it has the power to take part in certain material decision of EMCO, such as investment, through the joint representative of the Clal Insurance Group and of Koor Industries Ltd., a member company of the IDB Group. For additional details, see Note 41(e)(2).

2) Clal Insurance received, in the years 2008-2009, two loans from ADC Holdings, according to its relative share in the share capital, the balance of which, as of the reporting date, amounted to approximately NIS 15.2 million, and which are included under the item for other accounts payable. In 2015, Clal Insurance repaid to ADC Holdings a loan in the amount of approximately NIS 3.3 million, and received a dividend in the same amount.

3) The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "Nostro"). In addition to these rates, the Company holds investments against investment-linked liabilities (hereinafter: "Members") at additional holding rates. The joint holding rates in the nostro portfolio and in the members portfolio confer upon the Company significant influence.

Note 9 - Investments in Investee Companies (Cont.)**B. Movement in investments in investee companies**

NIS in thousands	2017	2016
Balance as of January 1	270,044	213,668
Investment during the period	34,050	31,102
Equity gains	25,581	41,479
Other comprehensive loss	(11,479)	(8,807)
Erosion of loans	(153)	(1,253)
Capital gains	2,080	-
Dividend received	(190)	(277)
Other	320	34
Consideration from sale of investment	(24,081)	(5,902)
Balance as of December 31	296,172	270,044

C. Additional details regarding main subsidiaries which are directly held by the Company ¹⁾

	Note	Country of incorporation	The Company's rights in capital %	Investment in the consolidated company
2017				
Clal Insurance Company Ltd. ("Clal Insurance")		Israel	99.98	4,869,071
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")		Israel	100.00	75,658
Clalbit Systems Ltd.		Israel	100.00	6,886
Clal Credit and Financing Ltd.	2)	Israel	100.00	56,776
2016				
Clal Insurance Company Ltd. ("Clal Insurance")		Israel	99.98	4,512,817
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")		Israel	100.00	73,709
Clalbit Systems Ltd.		Israel	100.00	5,568
Clal Credit and Financing Ltd.	2)	Israel	100.00	56,591

1) As of December 31, 2017 and 2016, the Company did not provide any loans to subsidiaries.

2) As of December 31, 2017, the Company did not provide guarantees to subsidiaries, regarding guarantees which were given to consolidated companies of Clal Credit and Finance, as of December 31, 2016, in the amount of approximately NIS 3 million, which were canceled during the reporting period upon the repayment of the loan, see Note 42(f)(1).

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 10 - Investment Property, Including with Respect to Investment-Linked Contracts

A. Composition and movement

	Investment property									
	Investment-linked contracts									
	Offices in Israel		Commercial centers in Israel ²⁾		Offices abroad		Residence abroad		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
NIS in thousands										
Balance as of January 1	1,496,959	1,431,930*)	558,501	563,471*)	508,669	575,105	178,051	179,570	2,742,180	2,750,076
<u>Additions</u>										
Net acquisitions and additions for current assets	24,412	30,722	57,516	-	-	-	-	-	81,929	30,722
Discounted costs and expenses	7,938	11,346	3,612	3,169	-	-	-	-	11,550	14,515
Total additions	32,351	42,068	61,128	3,169	-	-	-	-	93,479	45,237
Translation differences	-	-	-	-	(28,101)	(61,121)	(17,433)	(2,820)	(45,534)	(63,941)
Changes in fair value with respect to unrealized real estate ¹⁾	59,408	22,961	245	(8,139)	14,454	(5,315)	5,735	1,301	79,842	10,808
<u>Changes in fair value</u>	59,408	22,961	245	(8,139)	(13,647)	(66,436)	(11,698)	(1,519)	34,308	(53,133)
Balance as of December 31	1,588,717	1,496,959	619,874	558,501	495,022	508,669	166,353	178,051	2,869,967	2,742,180
Details regarding the discount rates which were used to determine fair value	6%-10%	6.5%-10%	6%-9%	6%-9%	4.75%-6.65%	4.75%-6.20%	6%	5%		
	Other									
	Offices in Israel		Commercial centers in Israel ²⁾		Offices abroad		Residence abroad		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
NIS in thousands										
Balance as of January 1	718,274	697,234*)	114,546	115,387*)	254,880	294,768	98,207	98,430	1,185,907	1,205,819
<u>Additions</u>										
Net acquisitions and additions for current assets	10,462	12,198	12,200	-	-	-	-	-	22,663	12,198
Discounted costs and expenses	2,918	3,165	867	731	-	-	-	-	3,784	3,896
Total additions	13,380	15,363	13,067	731	-	-	-	-	26,447	16,094
<u>Write-offs</u>										
Disposals	(15,600)	-	-	-	-	-	-	-	(15,600)	-
Total write-offs	(15,600)	-	-	-	-	-	-	-	(15,600)	-
Translation differences	-	-	-	-	(11,584)	(36,788)	(9,644)	(1,436)	(21,228)	(38,224)
Changes in fair value with respect to unrealized real estate ¹⁾	27,065	5,677	(179)	(1,572)	6,645	(3,100)	3,053	1,213	36,583	2,218
<u>Changes in fair value</u>	27,065	5,677	(179)	(1,572)	(4,939)	(39,888)	(6,591)	(223)	15,355	(36,006)
Balance as of December 31	743,119	718,274	127,434	114,546	249,941	254,880	91,616	98,207	1,212,109	1,185,907
Details regarding the discount rates which were used to determine fair value	6%-10%	6.5%-10%	6%-9%	6%-9%	4.75%-6.65%	4.75%-6.20%	6%	5%		

*) Reclassified.

1) Income from changes in fair value is recognized in the item for investment income, net, and financing income.

2) Including an advance payment with respect to investment property.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 10 - Investment Property, Including for Investment-Linked Contracts (Cont.)

B. Determination of fair value

(1) Fair value hierarchy

All fair value measurements are at level 3 of the fair value hierarchy. For the definition of the levels of the hierarchy, see Note 2(e)(3) above.

(2) Valuation techniques which are applied in the Group and valuation technique which were used in the determination of fair value

The fair value of investment property represents an estimate of the amount which would be received upon the sale of the investment property, in an ordinary transaction between market participants on the measurement date.

In the absence of current prices on an active market, the fair value of investment property is determined based on valuations prepared by external independent valuers who have the appropriate professional skills and current experience with assets of similar position and type as that of the valued property. Valuations of investment property are performed according to the appropriate valuation method for the property type, as specified below. External valuations are performed in different periods for different properties in the investment property portfolio. All valuations are submitted for review to the relevant entities in the Company.

(3) Data regarding the fair value measurement of investment property

Type of property	Valuation techniques used in the determination of fair value	Significant unobservable inputs	Reciprocal relationships between significant unobservable inputs and fair value measurement
Rental properties for commercial / residential purposes	<p>Fair value was estimated using the discounting income technique: the valuation model is based on the present value of estimated NOI from the property. Real estate valuations are based on the net annual cash flows, discounted by the discount rate which reflects the specific risks embodied therein. When rental agreements are in effect, wherein the payments are different from appropriate rental fees, adjustments are performed in order to reflect the actual rental payments during the agreement period.</p> <p>The valuations take into account the types of tenants which are actually located in the leased property, or who are responsible for the fulfillment of the rental liabilities, or those who may be in the leased property after a vacant property has been leased, including a general assessment regarding their credit reliability; and the property's remaining economic lifetime, in places where those parameters are relevant.</p> <p>The valuation also takes into account negative cash flow which are attributed to betterment levies, expected renovations and lease fees.</p>	<ul style="list-style-type: none"> Market value of future rent payments at the end of the agreement period Cash flow discount rate (4.75% to 10%) 	<p>The fair value calculation will increase if:</p> <ul style="list-style-type: none"> The NOI from the property increases The cash flow discount rate decreases

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 10 - Investment Property, Including for Investment-Linked Contracts (Cont.)

B. Determination of fair value (Cont.)

(4) Sensitivity analysis

The discount rate constitutes a significant estimate in the determination of fair value, due to the fact that the changes therein significantly affect the fair value of the investment property. However, it is noted that the change in fair value of investment property for investment-linked contracts does not affect the Group's profit and loss.

The following sensitivity analysis presented presents the impact of a change in the discount rate, by the presented rates:

Investment property for investment-linked contracts

NIS in thousands	Increase (decrease) in fair value	
	As of December 31	
	2017	2016
Increase of 0.5%	(155,424)	(175,083)
Decrease of 0.5%	180,213	202,067

Investment property for non-investment-linked contracts

NIS in thousands	Increase (decrease) in profit and loss before tax for the year ended December 31	
	2017	2016
	Increase of 0.5%	(67,867)
Decrease of 0.5%	75,879	85,752

C. Amounts recognized in the statement of income (excluding changes in fair value)

	For the year ended December 31		
	2017	2016	2015
	NIS in thousands		
Rental income from investment property	272,152	251,336	263,256
Direct operating expenses arising from investment property which generated rental income during the period	(33,000)	(23,519)	(23,015)
	<u>239,152</u>	<u>227,817</u>	<u>240,241</u>

D. Details regarding leased investment property

Capitalized lease

Lands on which shopping malls are built, and whose book value (including the building) as of December 31, 2017 is NIS 305,777 thousand (last year - NIS 301,486 thousand), are leased through a capitalized lease the Israel Land Administration from the Israel Land Administration until the year 2022.

Lands on which office buildings are built, and whose book value (including the building) as of December 31, 2017 is NIS 775,422 thousand (last year - NIS 760,154 thousand) are leased through a capitalized lease from the Israel Land Administration for the years 2027 to 2059.

E. For details regarding lease agreements for investment property, see Note 27.

F. The balance of the Group's liabilities for additional investments in investment property amounted, as of December 31, 2017, to a total of approximately NIS 54 million, of which a total of approximately NIS 38 million was out of the funds of profit sharing policies. (and a total of approximately NIS 78 million, of which a total of approximately NIS 55 million was out of the funds of profit sharing policies, last year).

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 11 - Other Accounts Receivable

A. Composition

	As of December 31	
	2017	2016
	NIS in thousands	
Management fees receivable from provident funds and pension funds	6,471	19,310
Prepaid expenses	41,291	21,218
Advance payments to suppliers	7,776	8,094
Collateral with respect to securities	157,802	84,628
Advances on account of commissions for insurance agents	28,283	31,329
Insurance companies and insurance mediators	80,974	53,419
Trade receivables and income receivable	104,900	60,345
Subrogation and residuals	30,608	23,339
Other	68,179	18,884
Total	526,284	320,566
Less the provision for doubtful debts, primarily with respect to reinsurers (see section B below)	(19,195)	(28,362)
Total other accounts receivable	507,089	292,204

For details regarding the Group's exposure to credit risks and market risks, see Note 39.

For details regarding other accounts receivable which constitute related parties and interested parties, see Note 40.

B. Movement in the provision for doubtful debts

	As of December 31	
	2017	2016
	NIS in thousands	
Balance as of January 1	28,362	33,615
Lost debts	(5,875)	(1,887)
Change in provision for the period - charged to profit and loss	(3,292)	(3,366)
	19,195	28,362

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 12 - Outstanding Premiums

A. Composition ^{1),2)}

	As of December 31	
	2017	2016
	NIS in thousands	
Outstanding premiums	941,011	928,664
Less provision for doubtful debts	(47,169)	(62,146)
Total outstanding premiums	893,842	866,518
Includes outstanding checks and standing orders	359,472	368,299

1) For details regarding the Group's exposure to credit risks and market risks, see Note 39.

2) For details regarding outstanding premiums from related parties and interested parties, see Note 40.

B. Movement in the provision for doubtful debts with respect to outstanding premiums

	2017	2016
	NIS in thousands	
Balance as of January 1	62,146	19,811
Change in provision for the period - charged to profit and loss	(14,977)	42,335
Balance as of December 31	47,169	62,146

C. Aging

	As of December 31	
	2017	2016
	NIS in thousands	
Total non-impaired outstanding premiums		
Without arrears	497,987	526,448
In arrears *):		
Less than 90 days	94,467	88,308
90 to 180 days	95,490	82,594
Over 180 days	172,139	150,658
	362,096	321,560
Total non-impaired outstanding premiums	860,083	848,008
Impaired outstanding premiums	33,759	18,510
Total outstanding premiums	893,842	866,518

*) Includes a total of NIS 265,748 thousand (December 31, 2016 - NIS 245,608 thousand) of debts in arrears in the life insurance segment. These debts are primarily backed by the redemption value of the policy.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 13 - Assets for Investment-Linked Contracts

A. Composition

Details of assets held against investment-linked insurance contracts and investment contracts, presented at fair value through profit or loss ¹⁾:

NIS in thousands	As of December 31	
	2017	2016
Investment property	<u>2,869,967</u>	2,742,180
Financial investments		
Marketable debt assets	24,285,740	21,106,921
Non-marketable debt assets	6,534,433	6,243,667
Stocks	9,518,961	8,053,144
Other financial investments ²⁾	<u>15,891,827</u>	16,790,762
Total financial investments	<u>56,230,961</u>	52,194,494
Cash and cash equivalents	<u>4,529,446</u>	2,953,235
Other	<u>679,946</u>	505,711
Total assets for investment-linked contracts	<u>64,310,320</u>	<u>58,395,620</u>

1) For details regarding the exposure to assets for investment-linked contracts, see Note 39.

2) Other financial investments primarily include investments in ETF's, participation certificates in mutual funds, investment funds, derivatives, futures contracts, options and structured products.

B. Fair value of financial assets

(1) Fair value hierarchy of financial assets which are measured at fair value

The table below presents the financial assets which are measured at fair value on a periodic basis, using a valuation technique in accordance with the fair value levels. For the definition of the hierarchy levels, see Note 2(e)(3). For additional details regarding fair value measurement, see Note 14.

For details regarding fair value of investment property for investment-linked assets, see Note 10 above.

NIS in thousands	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial investments:				
Marketable debt assets	21,688,665	2,597,075	-	24,285,740
Non-marketable debt assets	-	6,395,982	138,451	6,534,433
Stocks	8,958,782	-	560,179	9,518,961
Other financial investments *)	<u>10,570,241</u>	<u>2,712,386</u>	<u>2,609,200</u>	<u>15,891,827</u>
Total financial investments	<u>41,217,688</u>	<u>11,705,443</u>	<u>3,307,830</u>	<u>56,230,961</u>
*) Of which, with respect to derivatives	<u>186,612</u>	<u>256,471</u>	-	<u>443,083</u>

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

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 13 - Assets for investment-linked contracts (Cont.)

B. Fair value of financial assets (Cont.)

(2) Movement in assets measured at fair value level 3

NIS in thousands	Non-		Other	
	marketable	Stocks	financial	Total
	debt assets		investments	
Balance as of January 1, 2017	181,668	120,543	2,414,321	2,716,532
Total income recognized in the statement of income	11,797	18,436	170,608	200,841
Acquisitions	1,721	462,794	688,302	1,152,817
Sales	(868)	(36,789)	(653,237)	(690,894)
Redemptions	(45,286)	-	(4,662)	(49,948)
Dividend and interest received	(10,581)	(4,805)	(6,132)	(21,518)
Balance as of December 31, 2017	138,451	560,179	2,609,200	3,307,830
Total income for the period included under profit and loss with respect to financial assets held as of December 31, 2017 *)	12,033	8,694	175,431	196,158
	Non-		Other	
	marketable		financial	
	debt assets		investments	
NIS in thousands		Stocks		Total
Balance as of January 1, 2016	220,562	162,726	2,332,173	2,715,461
Total income (loss) recognized in the statement of income	931	(9,627)	166,407	157,711
Acquisitions	922	-	421,773	422,695
Sales	-	(30,251)	(496,387)	(526,638)
Redemptions	(57,963)	-	-	(57,963)
Dividend and interest received	(3,895)	(2,305)	(9,645)	(15,845)
Transfers to level 3 **)	21,111	-	-	21,111
Balance as of December 31, 2016	181,668	120,543	2,414,321	2,716,532
Total income (loss) for the period included under profit and loss with respect to held financial assets as of December 31, 2016 *)	3,672	(3,941)	166,571	166,302

*) In the item for income from investments, net, and financing income.

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

(3) For details regarding the method used to measure fair value, see Note 14(f)(3).

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 14 - Other Financial Investments

	As of December 31, 2017			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
NIS in thousands				
Marketable debt assets ^(a)	136,101	5,396,511	-	5,532,612
Non-marketable debt assets ^(b)	5,291	-	21,827,803	21,833,094
Stocks ^(d)	-	1,367,841	-	1,367,841
Others ^(e)	224,447	2,499,157	-	2,723,604
Total	365,839	9,263,509	21,827,803	31,457,151

	As of December 31, 2016			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
NIS in thousands				
Marketable debt assets ^(a)	95,664	5,479,395	-	5,575,059
Non-marketable debt assets ^(b)	8,290	-	21,273,423	21,281,713
Stocks ^(d)	-	1,139,560	-	1,139,560
Others ^(e)	204,423	2,139,058	-	2,343,481
Total	308,377	8,758,013	21,273,423	30,339,813

A. Marketable debt assets

Composition

	As of December 31	
	2017	2016
NIS in thousands		
<u>Government bonds</u>		
Presented at fair value through profit and loss:		
Held for trading	26,589	46,024
Available for sale	3,329,044	3,374,599
Total government bonds	3,355,633	3,420,623
Other debt assets:		
<u>Non-convertible</u>		
Presented at fair value through profit and loss:		
Designated upon initial recognition	108,231	49,503
Available for sale	2,068,748	2,104,796
Total other non-convertible debt assets	2,176,979	2,154,299
<u>Convertible</u>		
Presented at fair value through profit and loss:		
Designated upon initial recognition	-	137
Total other convertible debt assets	-	137
Total marketable debt assets	5,532,612	5,575,059
Impairment applied to income statement (cumulative)	-	2,916

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 14 - Other Financial Investments (Cont.)

B. Non-marketable debt assets

(1) Composition, fair value vs. book value and level in the fair value hierarchy

NIS in thousands	As of December 31, 2017				As of December 31, 2016			
	Book value	Fair value			Book value	Fair value		
		Total	Level 2	Level 3		Total	Level 2	Level 3
<u>Government bonds treated as loans and receivables</u>								
Designated bonds	13,698,819	20,794,148	-	20,794,148	13,212,370	19,665,159	-	19,665,159
Deposits in treasury	2,069,039	2,829,739	-	2,829,739	2,116,745	2,826,227	-	2,826,227
Total government bonds	15,767,858	23,623,887	-	23,623,887	15,329,115	22,491,386	-	22,491,386
<u>Other non-convertible debt assets</u>								
Presented at fair value through profit and loss:								
Designated upon initial recognition	5,291	5,291	5,291	-	8,290	8,290	8,290	-
Presented as loans and receivables, excluding deposits in banks	5,228,294	5,935,151	5,364,376	570,775 ¹⁾	5,046,358	5,472,870	4,959,722 ^{*)}	513,148 ^{*)}
Deposits in banks	831,651	953,322	953,322	-	897,950	1,011,406	1,011,406	-
Total other non-convertible debt assets	6,065,236	6,893,764	6,322,989	570,775	5,952,598	6,492,566	5,979,418	513,148
Total non-marketable debt assets	21,833,094	30,517,651	6,322,989	24,194,662	21,281,713	28,983,952	5,979,418	23,004,534
Impairment applied to income statement (cumulative)	103,496				122,021			

1) During the reporting period, the settlement rates of the loans portfolio were calculated for the first time, in light of the accumulated experience. The foregoing resulted in an increase of fair value in the amount of approximately NIS 96 million. The addition to value was primarily due to the increase in the portfolio of loans, and the moderation of settlements during the reporting year. For additional details, see also Note 39(e)(e1)(d)(4).

*) Reclassified.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 14 - Other Financial Investments (Cont.)

B. Non-marketable debt assets (Cont.)

(2) Aging of investments in non-marketable financial debt assets

NIS in thousands	As of December 31	
	2017	2016
Government bonds	15,767,858	15,329,115
Debt assets whose value did not specifically decline, gross:		
Without arrears	6,021,550	5,905,480
In arrears *):		
Less than 90 days	2,336	2,625
90 to 180 days	1,115	5,409
Over 180 days	3,775	3,465
	7,226	11,499
Total debt assets whose value did not specifically decline, gross	21,796,634	21,246,094
Collective provision	(3,069)	(6,720)
Total debt assets whose value did not specifically decline, net	21,793,565	21,239,374
<u>Impaired debt assets:</u>		
Impaired assets, gross	139,956	157,640
Provision for loss	(100,427)	(115,301)
Impaired debt assets, net	39,529	42,339
Total non-marketable debt assets	21,833,094	21,281,713

*) Primarily loans on policies against which full redemption values and/or mortgages exist.

It should be noted that the above amounts do not represent the actual amount in arrears, but rather the balance of the debt associated with the arrears.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 14 - Other Financial Investments (Cont.)

C. Details regarding interest and linkage with respect to debt assets

	<u>As of December 31</u>	
	<u>2017</u>	<u>2016</u>
In percent		
<u>Marketable debt assets</u>		
Linkage basis		
Linked to the Consumer Price Index	0.37	0.97
NIS	1.74	2.10
Linked to foreign currency	4.90	4.77
<u>Non-marketable debt assets</u>		
Linkage basis		
Linked to the Consumer Price Index	4.79	4.75
NIS	1.73	1.76
Linked to foreign currency	4.32	3.64

D. Stocks

	<u>As of December 31</u>	
	<u>2017</u>	<u>2016</u>
NIS in thousands		
<u>Marketable</u>		
Available for sale	1,114,300	1,062,558
Total marketable stocks	1,114,300	1,062,558
<u>Non-marketable</u>		
Available for sale	253,541	77,002
Total non-marketable stocks	253,541	77,002
Total stocks	1,367,841	1,139,560
Impairment applied to income statement (cumulative)	144,854	171,000

E. Other financial investments

1. Composition

	<u>As of December 31</u>	
	<u>2017</u>	<u>2016</u>
NIS in thousands		
<u>Marketable</u>		
Presented at fair value through profit and loss:		
Designated upon initial recognition	139,636	148,713
Derivative instruments (2)	6,165	1,673
Available for sale	1,210,031	883,599
Total marketable financial investments	1,355,832	1,033,985
<u>Non-marketable</u>		
Presented at fair value through profit and loss:		
Designated upon initial recognition	18,859	16,566
Derivative instruments (2)	59,787	37,471
Available for sale	1,289,126	1,255,459
Total non-marketable financial investments	1,367,772	1,309,496
Total other financial investments	2,723,604	2,343,481
Impairment applied to income statement (cumulative)	72,627	69,699

Other financial investments primarily include investments in ETF's, participation certificates in mutual funds, investment funds, financial derivatives, forward contracts, options and structured products.

Note 14 - Other Financial Investments (Cont.)

E. Other financial investments (Cont.)

2. Additional information regarding derivative instruments

Presented below is the total net exposure amount to the underlying asset, presented in delta terms of the transaction in derivative instruments made as of the dates of the financial statements of insurance companies in the Group:

NIS in thousands	As of December 31	
	2017	2016
Stocks	83,832	15,741
CPI	26,080	496,173
Foreign currency	(2,995,351)	(672,040)

The amount of the net exposure to the underlying asset is presented in terms of the delta in transactions with derivative instruments which were performed as of the dates of the financial statements, which are included under Note 25, liabilities to financial corporations.

F. Fair value

1. Fair value hierarchy of financial assets measured at fair value

The following table presents the financial assets which are measured at fair value on a periodic basis, using a valuation technique in accordance with the fair value level. For details regarding the levels of the hierarchy, see Note 2(e)(3) above.

NIS in thousands	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial investments:				
Marketable debt assets	5,228,086	304,526	-	5,532,612
Non-marketable debt assets	-	5,291	-	5,291
Stocks	1,114,302	-	253,539	1,367,841
Other financial investments *)	1,329,861	87,137	1,306,606	2,723,604
Total financial investments	7,672,249	396,954	1,560,145	9,629,348
*) Of which, with respect to derivatives	6,165	58,743	1,044	65,952

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

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 14 - Other Financial Investments (Cont.)

F. Fair value (Cont.)

2. Movement in assets measured at fair value level 3

NIS in thousands	Fair value measurement on the reporting date		
	Stocks	Other financial investments	Total
Balance as of January 1, 2017	77,002	1,269,940	1,346,942
Total income (loss) which was recognized:			
Under profit and loss	3,017	77,100	80,117
Under other comprehensive income	(2,265)	(9,508)	(11,773)
Acquisitions	179,785	346,513	526,298
Sales	(600)	(373,862)	(374,462)
Redemptions	-	(2,713)	(2,713)
Dividend and interest received	(3,400)	(864)	(4,264)
Balance as of December 31, 2017	253,539	1,306,606	1,560,145
Total income for the period included under profit and loss with respect to financial assets held as of December 31, 2017	3,024	78,190	81,214

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

Note 14 - Other Financial Investments (Cont.)**F. Fair value (Cont.)**3. Fair value valuation technique and valuation techniques which are applied in the CompanyA. Investments in stocks and debt instruments

The fair value of investments which are actively traded on orderly financial markets is determined in reference to their quoted closing bid price as of the close of trading on the reporting date.

With regard to investments traded by in the over counter (OTC) market, the Group receives price quotes from recognized pricing services.

For investments which have no active market, fair value is determined by external valuers using valuation methods. These methods include reliance upon transactions recently performed in market conditions, reference to the current market value of another, materially similar instrument, cash flow discounting, or other valuation methods.

The fair value of non-marketable debt assets in Israel, including bonds, loans and deposits, is calculated according to a model which is based on the present value which is obtained by discounting the cash flows, in accordance with the discount rates which are determined by a company providing interest rate quotes (see section 4(a)(1) below).

The fair value of non-marketable debt assets outside of Israel is calculated according to a model which is based on the present value of the present value which is obtained from the discounted cash flows according to a discount rate which is obtained from an expert (see section 4(a)(2) below).

The fair value of HETZ bonds is calculated according to the actuarial average lifetime, and according to the forecasted discounted cash flow, based on the risk-free interest curve.

The valuations, methodology and trends are reviewed and approved by the relevant investment managers and investment accountants.

The fair value of investment funds is based on the net asset value (NAV), which is usually reported by the funds once per quarter. The funds' reports are reviewed and approved by the investment manager, based on his familiarity with the fund.

The fair value of hybrid instruments is determined according to quotes.

B. Derivatives

The fair value of forward contracts, cross currency swaps and warrants is based on quoted prices, if available. In the absence of quoted prices, as stated above, the fair value of forward contracts and cross currency swaps are estimated by discounting the difference between the forward price specified in the contract and the current forward price with respect to the remaining contract period to redemption, using quotes of appropriate interest rates, while with respect to warrants, fair value is determined according to the Black-Scholes model.

The fair value of interest rate swaps (IRS) is calculated in accordance with the discounted future cash flows economic model, according to the terms of the contract, and is based on price quotes which are received from recognized pricing services.

4. Inputs which were used in the calculation of fair valueA. Interest rates which were used in the determination of fair value

1. The discount rates which were used to calculate the fair value of non-marketable debt assets, which is determined by discounting the estimated expected cash flows with respect to them, are based principally on the yields of government bonds and the margins of corporate bonds, as measured on the Tel Aviv Stock Exchange. The price quotes and the interest rates which were used for discounting purposes are determined by the Company that won the tender published by the Finance Ministry, for the setting up and operation of a database of price quotes and interest rates for institutional entities.

Note 14 - Other Financial Investments (Cont.)

F. Fair value (Cont.)

4. Inputs which were used in the calculation of fair value (Cont.)A. Interest rates which were used in the determination of fair value (Cont.)

2. The discount rates used to calculate the fair value of non-marketable foreign debt assets, which is determined by discounting the estimated cash flows which are expected from them, are mostly based on the yields of corporate bonds, as measured in trading arenas outside of Israel.

3. Interest rates for non-marketable debt assets - in Israel, by rating: ¹⁾

	As of December 31	
	2017	2016
In percent		
AA and higher	0.3	0.9
BBB to A	2.1	2.5
Lower than BBB	-	17.0
Unrated	3.3	4.8

Interest rate for non-marketable debt assets - foreign, according to international rating ²⁾:

In percent	As of December 31	
	2017	2016
A and higher	-	2.0
Lower than BBB	-	5.7
Unrated	5.1	5.4

1) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The data of Midroog Ltd. were converted to rating symbols using commonly accepted conversion factors. Each rating includes all ranges, for example, the A rating includes A- to A+.

2) All debt assets which are rated abroad were rated by recognized international rating agencies. Each rating includes all ranges, for example: an A rating includes A- to A+.

Note 15 - Cash and Cash Equivalents

A. Cash and cash equivalents for investment-linked contracts

1. Composition

	As of December 31	
	2017	2016
	NIS in thousands	
Cash and deposits available for immediate withdrawal	3,241,402	1,853,230
Short term deposits	1,288,044	1,100,005
Cash and cash equivalents	4,529,446	2,953,235

2. Additional details

Cash in banking corporations bears, as of the financial reporting date, current interest which is based on interest rates with respect to daily bank deposits of 0%-0.07% (as of December 31, 2016 - 0%-0.07%).

Other deposits in banking corporations are for periods of one week to three months. The deposits bear interest at a rate of 0.05%-0.1% (as of December 31, 2016 - 0%-0.1%).

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 15 - Cash and Cash Equivalents (Cont.)

B. Other cash and cash equivalents

1. Composition

	As of December 31	
	2017	2016
	NIS in thousands	
Cash and deposits available for immediate withdrawal	1,354,372	1,374,370
Short term deposits	51,491	16,405
Cash and cash equivalents	1,405,863	1,390,775

2. Additional details

Cash in banking corporations bears, as of the financial reporting date, current interest which is based on interest rates with respect to daily bank deposits of 0%-0.07% (as of December 31, 2016 - 0%-0.07%).

Other deposits in banking corporations are for periods of one week to three months. The deposits bear interest at a rate of 0.05%-0.1% (as of December 31, 2016 - 0%-0.1%).

- C. For additional details regarding the Group's exposure to interest rate risk, market risk and regarding the sensitivity analysis, see Note 39(c)(2) and (3).

Note 16 - Capital and Reserves

A. Share capital

	Ordinary shares *)		
	2017	2016	2015
	In thousands of shares with a par value of NIS 1		
Issued and paid-up share capital as of January 1	55,412	55,412	55,360
Exercise of warrants for senior employees **)	151	-	52
Issued and paid-up share capital as of December 31	55,563	55,412	55,412
Registered capital	100,000	100,000	100,000

- *) The shares are listed for trade on the Tel Aviv Stock Exchange. Holders of ordinary shares are entitled to receive dividends, as announced from time to time, and voting rights in the Company's general shareholder assemblies, according to a ratio of one vote per share, along with liquidation rights in the Company and director nomination rights in the Company.

B. Capital reserves

1. The translation reserve for foreign operations is primarily comprised of affects of the GBP and USD.
2. Other capital reserves include a capital reserve with respect to transactions with controlling shareholders, reserve for revaluation of property, plant and equipment, and other immaterial reserves.

Note 16 - Capital and Reserves (Cont.)**C. Dividends**

During the last three years, no dividends were distributed.

The balance of distributable earnings as of the reporting date, in accordance with the Companies Law, and in accordance with the capital requirements in light of the permit for control of institutional entities which are held by the Company (without taking into account the cancellation of the control permit on May 8, 2014, and its implications on the capital requirements, as specified in section e(5) below), amounts to approximately NIS 2 billion.

The Company's board of directors decides on the amount of dividends for distribution to the shareholders.

The possibility of a dividend distribution is also affected by the ability of the investee companies to distribute dividends, subject to their capital requirements and liquidity needs. For details regarding the entry into effect of Solvency II-based economic solvency regime, see section (e)(3)(a) below.

For details regarding the Commissioner's letter to the insurance companies regarding the dividend distribution from October 2017, see section (e)(4) below.

D. The Company's capital management and capital requirements

The Company's policy is to maintain a stable capital basis in order to maintain the Company's ability to continue its activities in order to generate returns for its shareholders, and to comply with external capital requirements to which the Company is subject by virtue of its holding in Clal Insurance, and in order to support the capital needs of its consolidated companies, some of which are subject to external capital requirements, as specified in sections E and F below, and future business development.

With regard to capital management, the need to maintain an absorption buffer is also evaluated with attention given to negative developments that may impact capital and the capital requirements.

The Company is obligated to supplement the capital required of Clal Insurance in accordance with the Capital Regulations up to 50% of the required capital, if and when the capital of Clal Insurance is negative, and in the amount of the negative capital. This undertaking is valid so long as the Company is the controlling shareholder (as defined in the Control Law) in Clal Insurance.

The board of directors supervises capital return, which is defined by the Group as income (loss) for the period attributable to Company shareholders, divided by capital attributable to shareholders in the Company.

On April 21, 2015, the Company published a shelf prospectus based on its financial statements as of December 31, 2014. In April 2017, approval was received from the Israel Securities Authority for an extension of the Company's shelf prospectus by 12 months, until April 2018.

E. Capital management and requirements in consolidated insurance companies

Beginning in July 2017, insurance companies are subject to the provisions of the economic solvency regime, which included instructions for the calculation of equity and of the economic solvency capital requirement, in parallel with the accounting capital requirement, in accordance with the Capital Regulations. For additional details regarding the economic solvency regime, see section 3(a) below.

In March 2018, a circular was published on the subject of "Provisions regarding equity with respect to solvency of insurers" (hereinafter: the "**Accounting Solvency Regime Circular**"). The accounting solvency regime circular comes in place of the provisions with respect to required equity which are included in the current Capital Regulations, and establishes, as much as possible, the current arrangements in the Capital Regulations regarding the solvency equity requirement, without implementing changes thereto, except for the addition of arrangements which are required for the implementation of the economic solvency regime. The accounting solvency regime circular will apply to insurance companies which are not subject to the economic solvency regime, and to insurance companies which are subject to the economic solvency regime until the receipt of the Commissioner's approval regarding the performance of an audit on the implementation of the economic solvency regime.

According to the economic solvency regime, based on the calculation which was performed by Clal Insurance as of December 31, 2016, Clal Insurance has a capital surplus, both in consideration of the transitional provisions during the distribution period, and without the transitional provisions, as specified in section 3(b) below.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

- (1) Presented below are data regarding capital requirements according to the Capital Regulations and directives issued by the Commissioner which apply to consolidated companies that are insurance companies in Israel:

	2017		2016	
	Clal Insurance	Clal Credit Insurance	Clal Insurance	Clal Insurance Credit
	NIS in thousands		NIS in thousands	
As of December 31				
Minimum capital:				
Amount required pursuant to the amended Capital Regulations ^{a)}	4,644,895	34,267	4,665,703	34,113
Current amount as calculated pursuant to the Capital Regulations:				
Basic Tier 1 capital	4,869,768	218,188	4,513,460	191,614
Tier 2 subordinated capital ^{b)}	43,779	-	65,355	-
Tier 2 hybrid capital	3,014,095	-	2,831,680	-
Tier 3 capital	111,938	-	111,938	-
Total Tier 2 and Tier 3 capital	3,169,812	-	3,008,973	-
Total current capital, calculated according to the Capital Regulations ^{c)}	8,039,580	218,188	7,522,433	191,614
Surplus	3,394,685	183,921	2,856,730	157,501
Actions subsequent to the reporting date:				
Amortization of Tier 2 subordinated capital	-	-	-	-
Surplus in consideration of operations which were performed subsequent to the reporting date	3,394,685	183,921	2,856,730	157,501
The investment amount which is mandatory for provision against retained earnings, in accordance with the Commissioner's directives, or which is actually held against retained income, and therefore constitutes non-distributable retained earnings	131,622	-	127,298	-
Capital reduction required with respect to original difference	154,497	-	194,568	-
Tax reserve with respect to the acquisition of provident funds	70,903	-	88,581	-
Surplus in consideration of operations which were performed subsequent to the reporting date and after deducting tied-up surplus	3,179,469	183,921	2,623,445	157,501
A) Total required amount, including capital requirements with respect to:				
Non-life insurance operations / required Tier 1 capital	507,722	29,791	549,068	29,702
Long term care insurance operations	114,464	-	110,751	-
Extraordinary risks in life insurance	425,963	-	420,185	-
Deferred acquisition costs in life insurance and illness and hospitalization insurance	1,386,192	-	1,376,282	-
Requirements with respect to guaranteed return plans	2,133	-	2,745	-
Non-recognized assets, as defined in the Capital Regulations	52,720	1	66,125	174
Investment in consolidated insurance and managing companies (including acquired management operations)	631,895	-	730,446	-
Capital reduction required with respect to original difference	(154,497)	-	(194,568)	-
Capital required with respect to investments	1,187,035	2,273	1,092,117	2,097
Catastrophe risks in non-life insurance	106,750	-	120,345	-
Operational risks	292,391	2,202	280,997	2,140
Guarantees	92,127	-	111,210	-
Total required capital	4,644,895	34,267	4,665,703	34,113

B) Issued until December 31, 2009.

C) See section 2(B) below.

Note 16 - Capital and Reserves (Cont.)**E. Capital management and requirements in consolidated insurance companies (Cont.)**

- (2) Additional details regarding the capital regime in accordance with the Capital Regulations and the Commissioner's directives in consolidated insurance companies

(A) Minimum capital

The Capital Regulations prescribe the minimum capital required of insurance companies, on an accounting basis, and the method used to calculate it. The insurance business operations are conditional upon the existence of minimum required capital. The capital required for the purpose of the above insurance operation is comprised of a first layer which is the higher of either the minimum (floor) capital, or capital which is derived from total activities in non-life insurance, according to the higher of either a calculation based on premiums, or a calculation based on outstanding claims, and additional capital requirement components, as described in section 1 above. Non-fulfillment of the Capital Regulations will require the insurer to increase its capital up to the amount stipulated in the Capital Regulations, or to reduce its business volume accordingly, as applicable, by the publication date of the report, except in exceptional circumstances which will be approved by the Commissioner, in which case the capital supplementation will be postponed.

- (B) The capital requirements in accordance with the Capital Regulations are based on the insurance company's solo report. In order to calculate recognized capital in accordance with the Capital Regulations, an insurance company's investment in an insurance company or in a controlled managing company, as well as in other investee companies, will be calculated on an equity basis using the linked holding rate therein.

- (C) The board of directors of Clal Insurance determined a capital target at a rate of 12% above the minimum capital required by the Capital Regulations (hereinafter: the "**Capital Target**"). It is hereby clarified that the foregoing does not constitute a binding capital requirement, but rather a capital level which Clal Insurance will strive to maintain, and no certainty exists that Clal Insurance will meet this target at all times. As of the end of the reporting period, Clal Insurance achieved its capital target.

(D) Insurer's composition of capital

Presented below are the primary components of the components and instruments which are included in the equity layers of the consolidated insurance companies, their rates and terms, according to the Commissioner's circular from August 2011 (hereinafter: the "Circular"):

1. Tier 1 capital - Includes basic Tier 1 capital (in the amount of the components which are included in capital attributed to Company shareholders). The total rate of Tier 1 capital will not fall below 60% of the insurer's total capital.
2. Tier 2 capital - Includes Tier 2 hybrid capital instruments (excluding periodic accrued interest payments), Tier 2 subordinated capital instruments (as defined in the circular), and other components or instruments approved by the Commissioner.
3. Tier 3 capital - Includes Tier 3 hybrid capital instruments (excluding periodic accrued interest payments) and another component or instrument approved by the Commissioner. The total rate of Tier 3 capital may not exceed 15% of an insurer's total capital.

The inclusion of a hybrid capital instrument (Tier 1, Tier 2 or Tier 3) under equity requires the Commissioner's approval.

It is noted that the circular includes the following transitional provisions:

1. Subordinated Tier 2 capital which was issued until December 31, 2009 will be recognized until the ultimate repayment date according to its conditions for recognition until the publication date of the circular.
2. Tier 1, Tier 2 and Tier 3 hybrid capital instruments which were issued beginning on January 1, 2010 or later, and which were approved by the Commissioner, will be recognized until their ultimate repayment date, according to their conditions of issuance, and according to the restriction on the rates which apply to the various layers.

For additional details regarding the deferred liability notes, see Note 25.

Note 16 - Capital and Reserves (Cont.)**E. Capital management and requirements in consolidated insurance companies (Cont.)**

(3) Solvency II-based economic solvency regime

(A) Application of the economic solvency regime and provisions during the distribution period

As stated above, beginning in July 2017, insurance companies are subject to the provisions of the economic solvency regime, which included instructions for the calculation of equity and of the economic solvency capital requirement. These provisions include a determination that the equity requirement with respect to the stock risk sub-component will increase gradually over seven years from the application date, and it was further determined that the solvency capital requirement would gradually increase, from a rate of 60% of the solvency capital requirement according to the provisions, at an annual rate of 5%, until full compliance with the calculation based on the data as of December 31, 2024 (hereinafter, jointly: the “Provisions During The Distribution Period”).

In December 2017, a circular was published on the subject of “Structure of disclosure required in periodic reports and on websites of insurance companies regarding the Solvency II-based economic solvency regime” (hereinafter: the “**Disclosure Circular**”). According to the circular, the report regarding the economic solvency ratio as of December 31, 2017 will be performed in the financial statements for the second quarter of 2018. The circular also establishes, inter alia, provisions pertaining to a reduction of the timetable for calculation of the economic solvency ratio, according to which, beginning with the calculation on the data for December 2018, disclosure will be given regarding the calculation results as part of the next financial statements subsequent to the calculation date, and it was also determined that the calculation results will be audited or reviewed, as applicable, beginning with the calculation on the data for December 2018, which will be published in 2019.

(B) Economic solvency ratio as of December 31, 2016

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

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

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

(C) Additional details regarding the economic solvency regime

The provisions of the economic solvency regime include instructions for the calculation of equity on an economic basis, and of the solvency capital requirement.

1. In accordance with the provisions of the economic solvency regime, the economic balance was prepared based on the Company’s solo financial statements, except for subsidiary insurance companies, whose data are consolidated with the data of the insurance company. The balance sheet items are calculated according to economic value, and in general, intangible assets are not recognized, and in accordance with the instructions, the economic value of the provident and pension operation under the insurance company was not included. The insurance liabilities are calculated based on the best estimate of all future cash flows which are expected to arise from the current business operations, without conservative margins, and plus a risk margin which reflects the total cost of capital which other insurance company or reinsurer could be expected to demand for the purpose of receiving the insurance liabilities of an insurance company, calculated on a best estimate basis, as defined in the provisions of the economic solvency regime.

Note 16 - Capital and Reserves (Cont.)

E. Capital management and requirements in consolidated insurance companies (Cont.)

(3) Solvency II-based economic solvency regime (Cont.)

(C) Additional details regarding the economic solvency regime (Cont.)

2. The calculation of the solvency capital requirement is based on an estimate of the exposure of economic equity to the risk components which are established in the provisions of the economic solvency regime, which include life insurance risks, health insurance risks, non-life insurance risks, market risks and counterparty risks. These risk components include risk sub-components with respect to specific risks to which the insurance company is exposed. The estimation of economic equity exposure to each risk sub-factor is performed based on a scenario which was specified in the instructions. The determination of the solvency capital requirement is based on a schema of the capital requirements with respect to the risk components and the risk sub-components, as stated above, in consideration of the factors which are attributed to them, and after deducting an adjustment for absorption of losses due to deferred taxes, as specified in the provisions of the economic solvency regime. The calculation of the solvency capital requirement also includes components of required capital with respect to operational risk and required capital with respect to managing companies.

It is noted that the calculation of the economic solvency ratio is based on data and models which may differ from those used by the Company in the financial reports, and which are based, inter alia, on forecasts and assumptions which rely, for the most part, on past experience. In particular, the calculation of the economic solvency ratio is significantly based on the embedded value calculation model. The embedded value report is based, inter alia, on internal studies conducted by the Company, and is subject to the reservations and limitations specified therein. The calculations which are performed as part of the calculation of economic equity and the capital requirement involve a high degree of complexity. Accordingly, control thereof is also complex. The Company has prepared, in infrastructural terms, for the calculations, and is continuing with the preparations towards establishing the required calculation processes, including increasing the effectiveness of the control thereof. It is noted that, in accordance with the reporting circular, the consolidated insurance companies completed the preparation of the auditors' special report, which addressed processes and controls which are intended to ensure the quality and completeness of the data which were used in the calculation, the scope and quality of documentation, and the gaps regarding compliance with a full audit.

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

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

Note 16 - Capital and Reserves (Cont.)**E. Capital management and requirements in consolidated insurance companies (Cont.)**

(3) Solvency II-based economic solvency regime (Cont.)

(D) Minimum capital requirement and the supervisory intervention hierarchy

The provisions of the economic solvency regime define, in addition to the solvency capital requirement (SCR), also the minimum capital requirement (MCR), which will not fall below 25% of the solvency capital requirement in accordance with the provisions during the distribution period, and will not exceed 45% thereof. Additionally, a supervisory intervention hierarchy was established, according to which a company which does not meet the required solvency ratio, or regarding which there is a significant concern that its solvency ratio will be lower than the minimum requirement, will submit to the Commissioner a plan to ensure its fulfillment of the solvency ratio requirement within 6 months after the date of its submission. If the insurance company has not fulfilled the requirements of the plan, in accordance with the terms specified in the provisions, the Commissioner will consider supervisory intervention in accordance with his authorities. Additionally, a company which does not meet the minimum capital requirement (MCR), or regarding which there is a real concern that it will not meet the minimum capital requirement, will submit to the Commissioner for approval a plan to ensure its fulfillment of the minimum capital requirement within three months after the date of its submission. If the insurance company has not fulfilled the requirements of the plan, in accordance with the terms specified in the provisions, the Commissioner will take supervisory measures in accordance with the authorities which are conferred upon him under the Control Law

(E) Composition of recognized economic capital

The provisions of the economic solvency regime establish provisions regarding the composition of recognized capital on an economic basis, which stipulate that equity must amount to the total of Tier 1 and Tier 2 capital, as defined in the provisions, such that Tier 2 subordinated, Tier 2 hybrid and Tier 3 instruments which were issued before June 30, 2017 will be classified as Tier 2 capital, and will be recognized in accordance with the terms of their recognition before that date. It was further determined that the maximum scope of Tier 2 capital will amount to 40% of SCR, and 50% of SCR during the distribution period. With reference to the fulfillment of MCR, it was determined that the maximum scope of Tier 2 capital will amount to 20% of MCR.

(4) Dividends

Except for the general requirements and the Companies Law, a dividend distribution from a capital surplus in an insurance company is also subject to liquidity requirements, compliance with provisions of the Investment Regulations, and additional directives which are published by the Commissioner from time to time. In October 2017, the Commissioner sent a letter to the managers of the insurance companies, stating that an insurance company will be entitled to distribute dividends if, after the performance of the distribution, the insurer has a ratio of recognized equity to required equity (hereinafter: "**Solvency Ratio**") as follows:

- A. Minimum rate of 115% in accordance with the current Capital Regulations, or any provisions which may come in their place, until the date of receipt of the Commissioner's approval for the performance of an audit by an auditor, regarding the implementation of the provisions of the economic solvency regime;
- B. at a minimum rate of 100%, according to the provisions of the economic solvency regime, calculated without the provisions during the distribution period, and subject to the solvency ratio which determined by the Company's Board of Directors.

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

Note 16 - Capital and Reserves (Cont.)**E. Capital management and requirements in consolidated insurance companies (Cont.)**

The Board of Directors of Clal Insurance has not yet determined the solvency ratio target based on the provisions of the economic solvency regime, as stated above. This determination constitutes a precondition for a dividend distribution.

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

- (5) Permit given by the Commissioner to the former controlling shareholders of IDB Holding, with respect to the holding of control of the Company and of consolidated institutional entities - As the Company was informed, on May 8, 2014, the representatives of the previous controlling shareholders in IDB Development (the Ganden, Manor and Livnat Groups) received notice from the Commissioner stating that, further to the creditors' settlement in IDB Holding, and due to the fact that they no longer hold control of institutional entities from the Group, the permits for control of the aforementioned institutional entities, which had previously been given to them by the Commissioner, were canceled, including, inter alia, regarding Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds (the "**Institutional Entities**"), (the "**Permit**"), in which IDB Holding undertook to supplement (or to cause the companies under its direct or indirect control to supplement) the capital required of the insurers according to the Capital Regulations or any other regulation or law which may replace them, provided that the maximum undertaking limit does not exceed 50% of the capital required of an insurer, and that the undertaking will be realized only when the insurer's capital is negative, and in the amount of the negative capital, provided that the supplementary amount does not exceed the aforementioned undertaking ceiling. In addition, IDB Holding 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, and it was determined that the aforementioned undertaking (with respect to institutional entities) will be valid so long as IDB Holding remains the controlling shareholder of the institutional entities.

The Company was further informed that the permit stipulates conditions and restrictions concerning holdings and pledges in the control chain of institutional entities in the Group, and the previous controlling shareholders were required to maintain the capital requirements of the Company, so long as pledges exist on their holdings in the means of control of IDB Holding, 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.

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

For details regarding the holding and control of the Company, and for details regarding the cancellation of the control permit, see Note 1.

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

- (6) Clal Insurance is obligated to supplement the capital requirement for Clal Credit Insurance in accordance with the Capital Regulations, up to 50% of the required capital, if and when the equity of Clal Credit Insurance becomes negative. The undertaking is in effect so long as Clal Insurance remains the controlling shareholder of Clal Credit Insurance.
- (7) Clal Insurance has undertaken to supplement, at any time, the equity of Clal Pension and Provident Funds Ltd., to the amount stipulated in the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964. The undertaking will remain in effect so long as the Company controls Clal Pension and Provident Funds, either directly or indirectly. For details regarding the capital requirements, see section F below.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 16 - Capital and Reserves (Cont.)

F. Capital requirements for managing companies of pension funds and provident funds

In February 2012, the Control of Financial Services Regulations (Provident Funds) (Minimum Equity Required of Managing Companies of Provident Funds or Pension Funds), 2012 and the Income Tax Regulations (Rules for Approval and Management of Provident Funds) (Amendment No. 2), 2012 (hereinafter: the "New Regulations") were published. In accordance with the new regulations, the capital requirements for managing companies were expanded, and include capital requirements in accordance with the scope of managed assets and annual expenses, however, no less than initial capital of NIS 10 million. Liquidity requirements were also established.

A managing company will be entitled to distribute dividends only if its equity is at least the minimum equity required of it according to these Regulations. A managing company will also be required to provide additional capital with respect to controlled managing companies.

Additionally, as of the end of the reporting period, managing companies under the control of Clal Insurance have a capital surplus relative to the minimum capital required pursuant to the Capital Regulations for Managing Companies.

Note 17 - Liabilities with respect to Non-Investment-Linked Insurance Contracts and Investment Contracts ¹⁾

	As of December 31										
	2017		2016		2017		2016				
	Gross		Reinsurance		Retention						
						NIS in thousands					
Life insurance and long-term savings											
Insurance contracts	19,189,014	19,057,372	(46,244)	(43,476)	19,142,770			19,013,896			
Investment contracts	2,334,444	2,328,313	-	-	2,334,444			2,328,313			
	21,523,458	21,385,685	(46,244)	(43,476)	21,477,214			21,342,209			
Less amounts deposited in a consolidated company as part of a defined benefit plan for employees of the Group ¹⁾	(575)	(1,690)	-	-	(575)			(1,690)			
Total long term savings	21,522,883	21,383,995	(46,244)	(43,476)	21,476,639			21,340,519			
Insurance contracts included in the health insurance segment (Note 21)	2,140,712	1,895,640	(452,995)	(359,348)	1,687,717			1,536,292			
Insurance contracts which are included in the non-life insurance segment (Note 19)	6,520,697	6,489,344	(2,111,212)	(1,638,056)	4,409,485			4,851,288			
Total liabilities with respect to non-investment-linked insurance contracts and investment contracts	30,184,292	29,768,979	(2,610,451)	(2,040,880)	27,573,841			27,728,099			

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 18 - Liabilities with respect to Investment-Linked Insurance Contracts and Investment Contracts ¹⁾

	As of December 31										
	2017		2016		2017		2016				
	Gross		Reinsurance		Retention						
						NIS in thousands					
Life insurance and long-term savings											
Insurance contracts	57,589,077	51,732,309	(180,925)	(179,633)	57,408,152	51,552,676					
Investment contracts	1,721,791	2,027,482	-	-	1,721,791	2,027,482					
	59,310,868	53,759,791	(180,925)	(179,633)	59,129,943	53,580,158					
Less amounts deposited in a consolidated company as part of a defined benefit plan for employees of the Group ¹⁾	(20,705)	(18,681)	-	-	(20,705)	(18,681)					
Total long term savings	59,290,163	53,741,110	(180,925)	(179,633)	59,109,238	53,561,477					
Insurance contracts included in the health insurance segment (Note 21)	4,055,916	3,534,683	(10,400)	(7,526)	4,045,516	3,527,157					
Total liabilities with respect to investment-linked insurance contracts and investment contracts	63,346,079	57,275,793	(191,325)	(187,159)	63,154,754	57,088,634					

- 1) In investment-linked insurance contracts, insurance benefits which the beneficiary is entitled to receive are contingent upon or linked to returns produced by certain investments of the Group, less management fees. These contracts include, inter alia, insurance plans which credit / charge to the policyholder a bonus / malus, according to the investment results achieved by the policies which share in the Group's investment income. In non-investment-linked insurance contracts, the insurance benefits to which a policyholder is entitled are not dependent on the income or loss resulting from investments made by the Group.

The distinction between investment-linked contracts and non-investment-linked contracts is made on the level of the individual coverage, such that insurance policies exist which include several coverages, some of which are investment-linked, while others are non-investment-linked.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment

A. Liabilities with respect to insurance contracts included under non-life insurance segments, by type

	As of December 31					
	2017	2016	2017	2016	2017	2016
	Gross		Reinsurance		Retention	
NIS in thousands						
Compulsory motor and liabilities branches						
Unearned premium reserve	360,431	351,970	161,310	67,083	199,121	284,887
Outstanding claims and premium deficiency reserve	4,523,285	4,519,133	1,281,005	1,027,487	3,242,280	3,491,646
Total compulsory motor and liabilities branches	4,883,716	4,871,103	1,442,315	1,094,570	3,441,401	3,776,533
Of which, total liabilities with respect to the compulsory motor insurance branch	2,345,355	2,380,386	356,485	119,659	1,988,870	2,260,727
Property and others branches						
Unearned premium reserve	639,958	628,885	240,419	233,143	399,539	395,742
Premium deficiency reserve	13,223	21,448	-	-	13,223	21,448
Outstanding claims	983,800	967,908	428,478	310,343	555,322	657,565
Total property and others branches	1,636,981	1,618,241	668,897	543,486	968,084	1,074,755
Total liabilities with respect to insurance contracts included under non-life insurance segments	6,520,697	6,489,344	2,111,212	1,638,056	4,409,485	4,851,288
Deferred acquisition costs						
Compulsory motor and liabilities branches	74,180	74,998	29,285	8,734	44,895	66,264
Property and others branches	165,269	162,490	53,737	52,810	111,532	109,680
Total deferred acquisition costs	239,449	237,488	83,022	61,544	156,427	175,944
Liabilities with respect to non-life insurance contracts less deferred acquisition costs						
Compulsory motor and liabilities branches (see section C1 below)	4,809,536	4,796,105	1,413,030	1,085,836	3,396,506	3,710,269
Property and others branches (See 2C below)	1,471,712	1,455,751	615,160	490,676	856,552	965,075
Total liabilities with respect to non-life insurance contracts less deferred acquisition costs	6,281,248	6,251,856	2,028,190	1,576,512	4,253,058	4,675,344

B. Liabilities with respect to insurance contracts included in the non-life insurance segment, by calculation method

	As of December 31					
	2017	2016	2017	2016	2017	2016
	Gross		Reinsurance		Retention	
NIS in thousands						
Actuarial valuations						
Mr. Yaakov Mauser 1)	5,400,402	5,362,749	1,647,077	1,260,026	3,753,325	4,102,723
Provisions on the basis of other estimates						
Estimate of the claims department regarding known outstanding claims	46,807	70,486	31,510	46,030	15,297	24,456
Addition for outstanding claims with respect to incurred but not reported (IBNR) claims	19,967	19,299	13,477	13,027	6,490	6,272
Unearned premium reserve	1,000,389	980,855	401,729	300,226	598,660	680,629
Other estimates	695	455	-	-	695	455
Net surplus revenues (accrual) with respect to foreign trade risks insurance	52,437	55,500	17,419	18,747	35,018	36,753
Total liabilities with respect to insurance contracts included in the non-life insurance segment in Israel	6,520,697	6,489,344	2,111,212	1,638,056	4,409,485	4,851,288

- 1) See the certifications by the chief actuary in non-life insurance in Israel, which are attached as an annex to the financial statements. No addition / deficiency exists between the actuarial valuations and the amount included in the financial statements.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

C. Movement in liabilities with respect to insurance contracts included under the non-life insurance segment, less deferred acquisition costs

1. Compulsory motor and liabilities branches

	As of December 31							
	2017		2016		2017		2016	
	Gross		Reinsurance		Retention			
							NIS in thousands	
Balance at beginning of year	4,796,105	4,909,573	1,085,836	966,863	3,710,269		3,942,710	
Cumulative claim costs with respect to the current underwriting year	633,889	638,224	270,156	62,393	363,733		575,831	
Change in balances as of the beginning of the year resulting from the indexation to the CPI and the investment income, according to the discount assumption embodied in the liability.	69,953	44,437	16,862	9,126	53,091		35,311	
Impact of the provision with respect to the Winograd Committee *)	106,720	176,886	28,927	35,493	77,793		141,393	
Balance of change in estimated cumulative claims cost with respect to previous underwriting years **)	78,001	(92,339)	81,224	109,267	(3,223)		(201,606)	
Total change in cumulative claim costs	888,562	767,208	397,169	216,279	491,393		550,929	
Claim settlement payments during the year:								
With respect to the current underwriting year	(5,867)	(3,631)	(901)	(2)	(4,966)		(3,629)	
With respect to previous underwriting years	(869,264)	(877,045)	(69,074)	(97,304)	(800,190)		(779,741)	
Total payments	(875,131)	(880,676)	(69,975)	(97,306)	(805,156)		(783,370)	
Balance at end of year	4,809,536	4,796,105	1,413,030	1,085,836	3,396,506		3,710,269	

1. The opening and closing balances include: outstanding claims, premium deficiency reserve, accrual (opening balances only), and unearned premiums, less deferred acquisition costs.
2. The cumulative (ultimate) cost of claims is the balance of outstanding claims (without accrual), the premium deficiency reserve, unearned premiums less deferred acquisition costs, plus total claim payments, including direct and indirect claim settlement payments.
3. The payments include indirect claim settlement expenses (general and administrative expenses recorded for claims) attributed to the underwriting years.

*) For additional details, see Note 39(e)(e2)(4)(f).

***) The change in estimated cumulative claims costs with respect to the previous underwriting years is due, inter alia, to the decrease in individual claim costs, and the impact of the actuarial model, less the increase in estimated claims (which is affected, inter alia, by the change in the discount rate - see Note 39(e)(e2)), and the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

C. Movement in liabilities with respect to insurance contracts included under the non-life insurance segment, less deferred acquisition costs (Cont.)

2. Property and others branches

	As of December 31					
	2017	2016	2017	2016	2017	2016
	Gross		Reinsurance		Retention	
NIS in thousands						
Balance at beginning of year	<u>1,455,751</u>	<u>1,746,800</u>	<u>490,676</u>	<u>723,429</u>	<u>965,075</u>	<u>1,023,371</u>
Cumulative claim costs with respect to events during the reporting year	<u>960,042</u>	<u>894,729</u>	<u>345,909</u>	<u>222,802</u>	<u>614,133</u>	<u>671,927</u>
Change in cumulative claim costs with respect to events prior to the reporting year	<u>41,163</u>	<u>(57,956)</u>	<u>34,099</u>	<u>(89,971)</u>	<u>7,064</u>	<u>32,015</u>
Total change in cumulative claim costs	<u>1,001,205</u>	<u>836,773</u>	<u>380,008</u>	<u>132,831</u>	<u>621,197</u>	<u>703,942</u>
Claim settlement payments during the year:						
With respect to events during the reporting year	<u>(534,836)</u>	<u>(506,204)</u>	<u>(130,857)</u>	<u>(101,420)</u>	<u>(403,979)</u>	<u>(404,784)</u>
With respect to events prior to the reporting year	<u>(450,742)</u>	<u>(559,270)</u>	<u>(131,041)</u>	<u>(256,068)</u>	<u>(319,701)</u>	<u>(303,202)</u>
Total payments	<u>(985,578)</u>	<u>(1,065,474)</u>	<u>(261,898)</u>	<u>(357,488)</u>	<u>(723,680)</u>	<u>(707,986)</u>
Change in the unearned premium reserve, net of deferred acquisition costs	<u>8,559</u>	<u>(56,155)</u>	<u>6,374</u>	<u>(8,096)</u>	<u>2,185</u>	<u>(48,059)</u>
Change in the premium deficiency reserve	<u>(8,225)</u>	<u>(6,193)</u>	<u>-</u>	<u>-</u>	<u>(8,225)</u>	<u>(6,193)</u>
Balance at end of year	<u>1,471,712</u>	<u>1,455,751</u>	<u>615,160</u>	<u>490,676</u>	<u>856,552</u>	<u>965,075</u>

1. The opening and closing balances include outstanding claims with the addition of the premium deficiency reserve and unearned premiums, less deferred acquisition costs.
2. The cumulative cost of claims with respect to events during the reporting year includes the balance of outstanding claims as of the end of the reporting year, with the addition of total claim payments during the reporting period, including direct and indirect claim settlement expenses.
3. Claim settlement payments during the year include payments with respect to events prior to the reporting year, with the addition of the change in the balance of outstanding claims with respect to events prior to the reporting year.
4. The claim settlement payments include direct and indirect expenses for the settlement of those claims (general and administrative expenses recorded for claims), as attributed to the damage years.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D1. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, gross, in the compulsory motor and liabilities branches in Israel, and branches assessed on the basis of underwriting years in Europe

	As of December 31, 2017										
	Underwriting Year										
	2008 ²	2009 ²	2010 ²	2011 ²	2012	2013	2014	2015	2016	2017	Total
	NIS in thousands, adjusted to CPI for November 2017 ¹⁾										
Claims paid (cumulative) at end of year											
After one year	13,050	13,003	6,210	20,987	5,222	4,335	4,269	2,185	3,642	5,867	
After two years	250,656	206,793	304,838	401,795	52,619	43,916	41,115	33,408	37,388		
After three years	462,044	379,122	521,631	495,777	154,497	138,097	131,433	117,176			
After four years	584,178	522,407	617,831	618,341	269,815	266,259	236,440				
After five years	700,855	632,699	716,672	739,704	407,405	382,743					
After six years	815,135	727,590	810,719	849,671	554,616						
After seven years	903,573	824,066	912,336	974,012							
After eight years	984,735	916,931	989,672								
After nine years	1,042,531	969,467									
After ten years	1,074,185										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year ³⁾	966,277	1,008,694	942,401	899,175	937,916	874,155	775,451	662,017	640,139	633,889	
After two years	1,303,420	1,343,875	1,184,984	1,666,011	1,013,634	859,030	801,381	670,682	627,793		
After three years	1,301,171	1,282,945	1,394,648	1,309,177	1,025,278	855,539	791,886	636,885			
After four years	1,271,758	1,246,717	1,282,690	1,298,312	948,863	820,826	787,468				
After five years	1,284,225	1,210,257	1,259,945	1,302,497	997,131	877,667					
After six years	1,251,409	1,204,474	1,214,766	1,395,291	1,074,103						
After seven years	1,235,146	1,160,557	1,219,474	1,521,011							
After eight years	1,216,611	1,178,332	1,240,407								
After nine years	1,223,582	1,222,191									
After ten years	1,210,680										
Surplus (deficit) relative to the first year which did not include accrual ⁴⁾	61,078	24,526	42,283	(222,699)	(125,240)	(56,841)	4,418	33,797	12,346	-	(226,332)
Rate of the deviation relative to the first year which did not include accrual, in percent	4.80%	1.97%	3.30%	(17.15%)	(13.20%)	(6.92%)	0.56%	5.04%	1.93%		(2.52%)
Cumulative cost of claims as of December 31, 2017	1,210,680	1,222,191	1,240,407	1,521,011	1,074,103	877,667	787,468	636,885	627,793	633,889	9,832,094
2017 Cumulative payments until December 31	1,074,185	969,467	989,672	974,012	554,616	382,743	236,440	117,176	37,388	5,867	5,341,566
Total liabilities as of December 31	136,495	252,724	250,735	546,999	519,487	494,924	551,028	519,709	590,405	628,020	4,490,528
Outstanding claims for years up to and including the 2007 underwriting year											319,008
Total gross liability with respect to insurance contracts in the compulsory motor and liabilities branches in Israel, less deferred acquisition costs as of December 31, 2017											4,809,536
	Up to and including the 2008 underwriting year										

*) Less outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:

	13,613	21,956	67,732	423,805							527,106
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1) The above amounts are presented according to inflation adjusted values (arising from operations in Israel), or revaluated values based on the exchange rate as of the reporting date (arising from consolidated companies abroad), in order to allow examination of the development on the basis of real values.

2) From 2008 to 2011, including Broadgate data.

3) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.

4) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the Company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

The change in estimated cumulative claim costs with respect to the previous underwriting years is due, inter alia, to the decline in individual claim costs, to the impact of the actuarial model, including in Broadgate, to underwriting year such as the transfer of insurance responsibility for the and provision of medical services due to physical injury for road accident victims from the insurance companies to the health funds, and to the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D2. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, on self-retention, in the compulsory motor insurance and liabilities branches in Israel, and branches assessed on the basis of underwriting years in Europe

	As of December 31, 2017										
	Underwriting Year										
	2008 ²	2009 ²	2010 ²	2011 ²	2012	2013	2014	2015	2016	2017	Total
	NIS in thousands, adjusted to CPI for November 2017 ⁴)										
Claims paid (cumulative) at end of year											
After one year	13,030	12,943	6,210	6,859	5,138	4,324	4,269	2,180	3,640	4,966	
After two years	216,946	198,258	226,884	188,460	48,706	43,097	37,106	32,831	36,957		
After three years	412,833	346,158	384,552	279,169	141,431	130,061	121,547	112,236			
After four years	531,829	465,092	477,795	395,742	244,340	251,177	224,719				
After five years	633,198	566,679	571,991	511,666	350,717	358,194					
After six years	735,627	655,456	664,592	612,994	485,156						
After seven years	822,031	748,695	763,201	725,770							
After eight years	895,929	829,447	831,961								
After nine years	940,939	878,137									
After ten years	970,900										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year ³⁾	834,795	849,662	801,901	754,424	795,207	747,596	670,859	578,165	577,557	363,733	
After two years	1,086,125	1,075,058	838,895	1,070,601	792,608	740,122	661,458	584,027	538,522		
After three years	1,123,762	1,087,529	1,097,506	916,038	801,777	745,039	656,784	552,637			
After four years	1,101,623	1,057,560	1,041,204	905,047	776,417	709,120	651,195				
After five years	1,117,679	1,032,733	1,022,750	908,893	773,496	771,584					
After six years	1,100,159	1,034,716	994,712	925,011	858,860						
After seven years	1,087,645	1,012,967	998,136	970,617							
After eight years	1,064,381	1,017,398	1,016,017								
After nine years	1,063,619	1,021,088									
After ten years	1,065,084										
Surplus (deficit) relative to the first year which did not include accrual ⁴⁾	36,539	36,472	25,187	(65,570)	(82,443)	(62,464)	5,589	31,390	39,035		(69,351)
Rate of the deviation relative to the first year which did not include accrual, in percent	3.32%	3.45%	2.42%	(7.24%)	(10.62%)	(8.81%)	0.85%	5.37%	6.76%		(0.49%)
Cumulative cost of claims as of December 31, 2017	1,065,084	1,021,088	1,016,017	970,617	858,860	771,584	651,195	552,637	538,522	363,733	7,809,337
Cumulative payments until December 31, 2017	970,900	878,137	831,961	725,770	485,156	358,194	224,719	112,236	36,957	4,966	4,628,996
Balance of outstanding claims	94,184	142,951	184,056	244,847	373,704	413,390	426,476	440,401	501,565	358,765	3,180,341
Outstanding claims for years up to and including the 2007 underwriting year											216,165
Total liabilities on self-retention with respect to insurance contracts in the compulsory motor and liabilities branches, less deferred acquisition costs as of December 31, 2017											3,396,506
	Up to and including the 2008 underwriting year										
	11,098	18,776	42,307	181,556							253,737

*) Less outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:

- The above amounts are presented according to inflation adjusted values (arising from operations in Israel), or revaluated values based on the exchange rate as of the reporting date (arising from consolidated companies abroad), in order to allow examination of the development on the basis of real values.
- From 2008 to 2011, including Broadgate data.
- The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.
- The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the Company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

The change in estimated cumulative claim costs with respect to the previous underwriting years is due, inter alia, to the decline in individual claim costs, to the impact of the actuarial model, including in Broadgate, to underwriting year such as the transfer of insurance responsibility for the and provision of medical services due to physical injury for road accident victims from the insurance companies to the health funds, and to the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D3. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, gross, in the compulsory motor branch

	As of December 31, 2017										
	Underwriting Year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	NIS in thousands, adjusted to CPI for November 2017 ¹⁾										
Claims paid (cumulative) at end of year											
After one year	10,662	10,473	3,764	3,723	2,866	3,241	1,650	1,459	1,492	1,897	
After two years	80,359	62,958	41,492	39,390	34,517	33,362	24,844	23,737	24,512		
After three years	158,332	130,825	105,483	108,180	106,798	91,466	84,718	84,390			
After four years	235,811	205,785	176,085	187,829	172,137	178,910	159,189				
After five years	298,755	276,947	229,343	257,838	238,688	251,864					
After six years	372,377	335,801	281,670	324,782	336,306						
After seven years	439,852	399,465	351,761	405,371							
After eight years	499,140	455,169	394,955								
After nine years	530,388	484,769									
After ten years	549,311										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year ²⁾	630,961	613,931	549,999	517,839	524,520	512,926	471,527	396,822	398,854	385,524	
After two years	645,433	620,054	558,756	523,094	525,606	504,031	475,424	400,570	369,663		
After three years	659,013	633,627	571,502	534,856	538,214	511,994	458,166	392,644			
After four years	625,706	589,721	529,351	504,601	505,379	478,496	456,687				
After five years	632,405	574,776	502,189	499,545	490,332	527,949					
After six years	627,067	567,727	463,374	509,347	568,199						
After seven years	626,363	544,858	464,602	543,638							
After eight years	607,285	544,641	473,177								
After nine years	603,750	542,005									
After ten years	604,304										
Surplus (deficit) relative to the first year which did not include accrual ³⁾	21,402	47,716	56,174	(39,037)	(62,820)	(49,453)	1,479	7,926	29,191		12,578
Rate of the deviation relative to the first year which did not include accrual, in percent	3.4%	8.1%	10.6%	(7.7%)	(12.4%)	(10.3%)	0.3%	2.0%	7.3%		0.3%
Cumulative cost of claims as of December 31, 2017	604,304	542,005	473,177	543,638	568,199	527,949	456,687	392,644	369,663	385,524	4,863,790
Cumulative payments until December 31, 2017	549,311	484,769	394,955	405,371	336,306	251,864	159,189	84,390	24,512	1,897	2,692,564
Total liabilities as of December 31, 2017	54,993	57,236	78,222	138,267	231,893	276,085	297,498	308,254	345,151	383,627	2,171,226
Outstanding claims for years up to and including the 2007 underwriting year											148,660
Total gross liabilities with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2017											2,319,886

1) The above amounts are adjusted for inflation values to allow evaluation of the development on the basis of real values.

2) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.

3) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the Company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

The change in estimated cumulative claim costs with respect to the previous underwriting years is due, inter alia, to the decline in individual claim costs, to the impact of the actuarial model, including in Broadgate, to underwriting year such as the transfer of insurance responsibility for the and provision of medical services due to physical injury for road accident victims from the insurance companies to the health funds, and to the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D4. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, on self-retention, in the compulsory motor branch

	As of December 31, 2017										
	Underwriting Year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	NIS in thousands, adjusted to CPI for November 2017 ¹⁾										
Claims paid (cumulative) at end of year											
After one year	10,662	10,473	3,764	3,723	2,866	3,241	1,650	1,459	1,492	1,007	
After two years	80,359	62,958	41,492	39,390	34,517	33,362	24,844	23,737	24,512		
After three years	158,332	130,825	105,483	108,180	106,798	91,466	84,718	84,390			
After four years	235,811	205,785	176,085	187,829	172,137	175,533	159,189				
After five years	298,755	276,947	229,343	257,838	238,688	246,904					
After six years	371,061	334,479	281,670	323,844	334,840						
After seven years	436,403	395,462	351,761	403,324							
After eight years	489,162	448,400	394,955								
After nine years	517,572	477,993									
After ten years	535,184										
Estimated cumulative claims (with payments including accrual) at end of year											
After one year ²⁾	622,533	603,610	540,303	507,220	512,289	500,080	459,732	388,358	390,423	196,909	
After two years	630,842	603,415	542,630	505,341	505,312	490,889	455,958	389,931	358,593		
After three years	644,749	617,401	555,614	517,431	517,904	501,181	446,728	364,878			
After four years	613,409	576,057	521,205	495,772	495,439	466,696	443,766				
After five years	619,824	566,304	493,907	490,710	479,075	513,623					
After six years	614,769	561,425	462,215	488,770	538,321						
After seven years	607,925	538,377	458,997	522,703							
After eight years	585,634	535,197	467,384								
After nine years	583,040	532,974									
After ten years	585,983										
Surplus (deficit) relative to the first year which did not include accrual ³⁾	27,426	43,083	53,821	(26,931)	(42,882)	(46,927)	2,962	25,053	31,830		67,435
Rate of the deviation relative to the first year which did not include accrual, in percent	4.47%	7.48%	10.33%	(5.43%)	(8.66%)	(10.06%)	0.66%	6.42%	8.15%		1.53%
Cumulative cost of claims as of December 31, 2017	585,983	532,974	467,384	522,703	538,321	513,623	443,766	364,878	358,593	196,909	4,525,134
Cumulative payments until December 31, 2017	535,184	477,993	394,955	403,324	334,840	246,904	159,189	84,390	24,512	1,007	2,662,298
Total liabilities as of December 31, 2017	50,799	54,981	72,429	119,379	203,481	266,719	284,577	280,488	334,081	195,902	1,862,836
Outstanding claims for years up to and including the 2007 underwriting year											120,162
Total liabilities on self-retention with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2017											1,982,998

Total liabilities on self-retention with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2017

1) The above amounts are adjusted for inflation values to allow evaluation of the development on the basis of real values.

2) The estimate of cumulative claims at the end of the first year includes the unearned premium reserve, less deferred acquisition costs.

3) The difference between estimated cumulative claims in the first year, which does not include the accrual in the estimation of cumulative claims as of the reporting date.

Note: The level of significance of the actuarial models is greater when the development of claims is evaluated on the level of total underwriting years. It is therefore more appropriate to evaluate the development of the Company's estimates on the level of all underwriting years together, rather than for each underwriting year separately.

The change in estimated cumulative claim costs with respect to the previous underwriting years is due, inter alia, to the decline in individual claim costs, to the impact of the actuarial model, including in Broadgate, to underwriting year such as the transfer of insurance responsibility for the and provision of medical services due to physical injury for road accident victims from the insurance companies to the health funds, and to the release in adjacent ranges to older years, insofar as the uncertainty level decreases.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D5. Segmentation of income on retention in the compulsory motor insurance branch (NIS in thousands)

Reporting year	<u>Income (loss) with respect to current underwriting years</u>	<u>Comprehensive income (loss) with respect to the open years</u>	<u>Released underwriting year</u>	<u>Comprehensive income with respect to the underwriting year released during the reporting year</u>	<u>Adjustments with respect to previous underwriting years</u>	<u>Total comprehensive income reported</u>	<u>Activity not included in the calculation of reserves and not allocated to the underwriting years *)</u>
2017	36,198	-	-	-	(34,927)	1,271	-
2016	(26,936)	-	-	-	100,272	73,336	-
2015		(3,316)	2012	35,523	198,534	230,741	6,853

*) Included under reported comprehensive income (loss).

Adjustments with respect to the underwriting years that matured in previous years derives primarily from the change in investment revenues and changes in the costs of claims for the previous years.

In an operation which is not included in the calculation of the reserves, which was allocated to the underwriting years, the difference was recorded between total investment income used to calculate the amount of net surplus revenues (the "accrual amount") and total income from investments charged to the statement of income, as well as the difference between general and administrative and expenses which are used in order to calculate the accrual amount in accordance with the Commissioner's directives, and actual general and administrative expenses.

1) The underwriting year which was released during the 2015 reporting year was 2012. See Note 3(d)(2)(b). Changes in the calculation of insurance reserves in non-life insurance, beginning on December 31, 2015.

D6. Composition of comprehensive income (loss) in the compulsory motor insurance branch (NIS in thousands)

Reporting year	<u>Comprehensive income (loss) with respect to the current underwriting year</u>	<u>Comprehensive income (loss) with respect to previous underwriting years</u>	<u>Comprehensive income (loss) with respect to the current underwriting year</u>	<u>Comprehensive income (loss) with respect to previous underwriting years</u>
	Gross		On retention	
2017	76,355	(92,155)	36,198	(34,927)
2016	(24,796)	94,817	(26,936)	100,272
2015		317,974		230,741

D7. Data regarding the 2011-2017 underwriting years in the compulsory motor branch (NIS in thousands)

	<u>Underwriting years</u>						
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross premiums (including fees)	480,811	443,367	450,846	541,154	568,481	572,910	560,332
Comprehensive income (loss) on retention in the underwriting year, accumulated until the reporting date	36,198	6,781	16,026	22,036	5,345	21,974	40,886
Includes the balance of the net surplus revenues on retention which was applied directly to retained earnings in 2015, in the amount of			313	8,734			
Impact of cumulative investment income on cumulative income on retention with respect to the underwriting year	4,157	19,289	27,308	37,102	61,077	87,033	99,598

D8. Composition of comprehensive income (loss) on retention in the foreign trade risks insurance (NIS in thousands)

Reporting year	<u>Comprehensive income (loss) with respect to the open years</u>	<u>Comprehensive income (loss) with respect to the underwriting year which was released during the reporting year</u>	<u>Adjustments with respect to the underwriting year Released in previous years</u>	<u>Activity not included in the calculation of reserves</u>	<u>Total Comprehensive income reported</u>
2017	-	9,177	205	(343)	9,039
2016	-	8,550	49	(85)	8,514
2015	-	11,406	64	72	11,542

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

D9. Distribution of profit on retention in the other liabilities insurance branch (NIS in thousands)

Reporting year	Income (loss) with respect to current underwriting years	Comprehensive income (loss) with respect to the open years	Released underwriting year	Comprehensive income (loss) with respect to the underwriting year which was released during the reporting year	Adjustments with respect to previous underwriting years	Total reported comprehensive income (loss)	Operation not included in the reserves calculation and not attributed to underwriting years
2017	(40,199)	-	-	-	21,533	(18,666)	-
2016 *)	(58,545)	-	-	-	(18,119)	(76,664)	-
2015 *)		(27,828)	2012	11,841	57,833	41,846	(24,005)

*) Included under reported comprehensive income (loss).

Adjustments with respect to the underwriting years that matured in previous years derives primarily from the change in investment revenues and changes in the costs of claims for the previous years.

In an operation which is not included in the calculation of the reserves, which was allocated to the underwriting years, the difference was recorded between total investment income used to calculate the amount of net surplus revenues (the "accrual amount") and total income from investments charged to the statement of income, as well as the difference between general and administrative and expenses which are used in order to calculate the accrual amount in accordance with the Commissioner's directives, and actual general and administrative expenses.

1) The underwriting year which was released during the 2015 reporting year was 2012. See Note 3(d)(2)(b). Changes in the calculation of insurance reserves in non-life insurance, beginning on December 31, 2015.

D10. Composition of comprehensive income (loss) in other liabilities insurance branches (NIS in thousands)

Reporting year	Comprehensive income (loss) with respect to the current underwriting year	Comprehensive income (loss) with respect to previous underwriting years	Comprehensive income (loss) with respect to the current underwriting year	Comprehensive income (loss) with respect to previous underwriting years
	Gross		On retention	
2017	(5,969)	(24,801)	(40,199)	21,533
2016	(16,737)	(90,344)	(58,545)	(18,119)
2015		203,350		41,846

D11. Data regarding the 2011-2017 underwriting years in the other liabilities insurance branch

	Underwriting years						
	2017	2016	2015	2014	2013	2012	2011
Gross premiums (including fees)	300,232	305,176	308,714	365,435	380,171	455,212	401,373
Comprehensive income (loss) on retention in the underwriting year, accumulated until the reporting date	(40,199)	(46,202)	(48,724)	(47,091)	(62,881)	(89,428)	(92,182)
Includes the balance of the net surplus revenues on retention which was applied directly to retained earnings in 2015, in the amount of	-	-	223	1,380	-	-	-
Impact of cumulative investment income on cumulative income on retention with respect to the underwriting year	2,414	9,355	13,074	15,696	29,945	48,915	53,631

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

E1. Examination of the development of the assessment of gross outstanding claims in property and others branches

NIS in thousands, adjusted to CPI for November 2017 ¹⁾	As of December 31, 2017										
	Damage year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Claims paid (cumulative) at end of year											
After one year	716,968	722,420	648,946	767,302	677,453	839,007	557,491	595,077	473,976	497,106	
After two years	1,205,227	1,079,322	1,112,223	1,430,704	1,157,225	1,247,191	664,553	1,024,787	797,793		
After three years	1,345,188	1,175,743	1,239,307	1,589,855	1,204,601	1,285,421	725,465	1,082,321			
After four years	1,413,709	1,248,927	1,306,036	1,614,824	1,224,467	1,324,234	762,030				
After five years	1,455,148	1,261,469	1,325,974	1,628,847	1,246,872	1,349,702					
After six years	1,477,518	1,274,226	1,335,466	1,644,962	1,259,061						
After seven years	1,483,613	1,280,251	1,326,952	1,653,936							
After eight years	1,489,891	1,290,287	1,333,858								
After nine years	1,496,801	1,298,606									
After ten years	1,500,668										
Cumulative claims (including payments)											
After one year	1,276,745	1,267,710	1,189,092	1,402,320	1,143,659	1,384,499	954,338	1,146,436	863,665	922,312	
After two years	1,712,182	1,586,592	1,611,860	1,963,627	1,811,093	1,456,469	826,943	1,205,108	942,587		
After three years	1,669,208	1,486,459	1,568,250	1,960,905	1,327,132	1,432,983	837,127	1,200,278			
After four years	1,643,971	1,480,159	1,555,145	1,973,604	1,301,330	1,411,081	822,261				
After five years	1,628,813	1,440,291	1,559,412	1,683,378	1,301,113	1,419,601					
After six years	1,604,891	1,322,393	1,351,087	1,679,559	1,302,168						
After seven years	1,515,666	1,318,935	1,356,509	1,686,722							
After eight years	1,513,941	1,316,513	1,360,377								
After nine years	1,513,172	1,322,314									
After ten years	1,513,351										
Estimated cumulative cost of claims as of December 31, 2017	1,513,351	1,322,314	1,360,377	1,686,722	1,302,168	1,419,601	822,261	1,200,278	942,587	922,312	12,491,971
Cumulative payments until December 31, 2017	1,500,668	1,298,606	1,333,858	1,653,936	1,259,061	1,349,702	762,030	1,082,321	797,793	497,106	11,535,081
Balance of outstanding claims	12,683	23,708	26,519	32,787	43,107	69,899	60,231	117,958	144,793	425,206	956,890
Outstanding claims for years up to and including the 2007 damage year											26,910
											983,800
*) Outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	248	5,297									5,545

1) The above amounts are presented in values adjusted for inflation, in order to allow an evaluation of their development based on real values.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 19 - Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)

E2. Evaluation of the development of the assessment of outstanding claims on retention in the property and others branches

NIS in thousands, adjusted to CPI for November 2017 ¹⁾	As of December 31, 2017										
	Damage year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Claims paid (cumulative) at end of year											
After one year	538,276	531,933	512,145	493,194	515,296	484,619	460,251	473,780	372,527	366,249	
After two years	877,662	783,726	820,467	870,673	892,047	687,381	479,273	687,623	585,934		
After three years	984,667	859,677	926,690	998,703	927,847	696,365	525,457	732,459			
After four years	1,044,832	927,451	986,411	1,022,738	941,401	717,145	555,194				
After five years	1,083,775	930,895	1,005,052	1,036,990	958,488	739,530					
After six years	1,104,557	941,919	1,013,560	1,048,785	970,664						
After seven years	1,109,506	943,992	1,003,077	1,056,812							
After eight years	1,115,982	954,273	1,009,804								
After nine years	1,121,855	961,210									
After ten years	1,123,643										
Cumulative claims (including payments)											
After one year	796,567	815,912	801,633	750,271	755,742	591,103	745,599	738,544	640,476	576,407	
After two years	1,241,963	1,181,153	1,187,760	1,305,079	1,426,955	805,098	585,731	798,966	651,745		
After three years	1,217,144	1,102,965	1,173,340	1,313,664	1,010,549	780,147	600,193	798,165			
After four years	1,217,485	1,106,245	1,182,951	1,363,024	994,484	775,409	598,821				
After five years	1,212,033	1,073,191	1,218,923	1,075,719	1,005,062	787,253					
After six years	1,193,830	967,304	1,040,293	1,080,420	1,005,008						
After seven years	1,126,894	963,307	1,026,720	1,087,163							
After eight years	1,128,978	970,844	1,030,533								
After nine years	1,130,328	978,165									
After ten years	1,132,664										
Cumulative cost of claims as of December 31, 2017	1,132,664	978,165	1,030,533	1,087,163	1,005,008	787,253	598,821	798,165	651,745	576,407	8,645,923
Cumulative payments until December 31, 2017	1,123,643	961,210	1,009,804	1,056,812	970,664	739,530	555,194	732,459	585,934	366,249	8,101,499
Balance of outstanding claims	9,021	16,955	20,728	30,351	34,344	47,724	43,627	65,706	65,810	210,158	544,424
Outstanding claims for years up to and including the 2007 damage year											10,898
Total outstanding claims in the property and others branches as of December 31, 2017											555,322
*) Outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	221	1,917									2,138

1) The above amounts are presented in values adjusted for inflation, in order to allow an evaluation of their development based on real values.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 20- Additional Details Regarding the Long Term Savings Segment

A. Liabilities with respect to insurance contracts and investment contracts, by exposure

Data as of December 31, 2017:

NIS in thousands	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
	Until 1990 ¹⁾	Until 2003	From 2004		Risk sold as a single policy		Total
			Non-investment-linked	Investment-linked	Individual	Collective	
1 By insurance exposure							
Liabilities with respect to insurance contracts							
Annuity without guaranteed factors	-	-	-	521,371	-	-	521,371
Annuity with guaranteed factors							
Until May 2001	10,951,585	24,414,386	-	-	-	-	35,365,971
From June 2001	-	4,354,770	103,669	14,692,517	-	-	19,150,956
Paid annuity	2,840,617	1,605,859	-	215,511	-	-	4,661,987
Capital-based (without annuity option)	2,318,936	7,457,536	-	2,352,891	-	-	12,129,363
Supplementary pension reserve ²⁾	1,786,456	802,892	-	10,601	-	-	2,599,949
Other risk components	168,207	711,499	4,022	553,390	605,932	305,443	2,348,493
Total with respect to insurance contracts	18,065,801	39,346,942	107,691	18,346,281	605,932	305,443	76,778,090
Liabilities with respect to investment contracts in life insurance	-	-	2,622	1,721,791	-	-	1,724,413
Total life insurance	18,065,801	39,346,942	110,313	20,068,072	605,932	305,443	78,502,503
Liabilities with respect to consolidated managing companies of provident funds ³⁾							2,331,823
Total							80,834,326
2 By financial exposure							
Non-investment-linked	17,731,917	311,340	107,691	321,235	419,479	299,973	19,191,635
Investment-linked	333,884	39,035,602	2,622	19,746,837	186,453	5,470	59,310,868
Total life insurance	18,065,801	39,346,942	110,313	20,068,072	605,932	305,443	78,502,503
Guaranteed-return liabilities with respect to managing companies of provident funds which were consolidated ³⁾							2,331,823
Total							80,834,326

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

2) In addition to the supplementary pension reserve which is included under liabilities with respect to insurance contracts, there is also a provision in the amount of NIS 1,913 million, which will be applied to the statement of income throughout the remaining lifetime of the policy until retirement age. For additional details, see Note 39(e)(1)(a)(4).

3) For details regarding the financial exposure with respect to the provident fund Bar A Provident Fund, where the Company is a guarantor for the minimum returns of its members, see Note 39(d)(1)(c).

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 20 - Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types

Data for the year ended December 31, 2017:

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		Total
	Until 1990 1)	Until 2003	From 2004		Risk sold as a single policy		
			Non-investment-linked	Investment-linked	Individual	Collective	
	NIS in thousands						
Gross premiums:							
Traditional / mixed	35,946	21,846	-	-	-	-	57,792
Savings component	176,162	1,394,666	9,244	2,575,968	-	-	4,156,040
Other	36,945	238,417	151	340,829	614,269	90,060	1,320,671
Total	249,053	1,654,929	9,395	2,916,797	614,269	90,060	5,534,503
Receipts with respect to investment contracts charged directly to insurance reserves 4)	-	-	-	290,982	-	-	290,982
Financial margin including management fees 3)	260,370	558,219	1,119	196,756	-	-	1,016,464
Payments and changes in liabilities with respect to insurance contracts, gross	1,130,016	4,898,629	10,239	3,843,002	282,345	72,686	10,236,916
Payments and changes in liabilities with respect to investment contracts 6)	-	-	22	114,427	-	-	114,449
Comprehensive income (loss) from life insurance businesses	107,300	229,501	1,599	(167,245)	43,881	20,639	235,675
Other comprehensive income (loss) from life insurance businesses	22,459	1,904	736	1,885	2,311	1,739	31,034
Total comprehensive income (loss) from life insurance businesses	129,759	231,405	2,335	(165,360)	46,192	22,378	266,709
Income (loss) from pension and provident funds							(95,049)
Other comprehensive income (loss) from pension and provident funds							4,881
Total comprehensive income (loss) from pension and provident funds							(90,168)
Total income (loss) from life insurance and long term savings							140,626
Total comprehensive income (loss) from life insurance and long term savings							176,541
Annualized premium with respect to insurance contracts - new business 2)	35	1,347	-	459,617	80,125	-	541,124
One-time premium with respect to insurance contracts	156	2,627	-	305,583	-	-	308,366
Annualized receipts with respect to investment contracts - new business	-	-	-	25	-	-	25
Non-recurring receipts with respect to investment contracts	-	-	-	208,725	-	-	208,725
Transfers to the Company with respect to insurance contracts and investment contracts 5)	-	-	-	38,772	-	-	38,772
Transfers from the Company with respect to insurance contracts and investment contracts 5)	32,372	225,279	-	300,331	-	-	557,982

1. Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2. Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
3. The financial margin includes gains (losses) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium, and is calculated before deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.
4. Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 2,532 thousand.
5. Not including internal transfers.
6. The line "payments and change in liabilities with respect to investment contracts" includes only the total profits from investments with respect to investment contracts.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 20 - Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types (Cont.)

Data for the year ended December 31, 2016:

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		Total
	From 2004				Risk sold as a single policy		
	Until 1990 ¹⁾	Until 2003	Non-investment-linked	Investment-linked NIS in thousands	Individual	Collective	
Gross premiums:							
Traditional / mixed	32,496	24,037	-	-	-	-	56,533
Savings component	177,399	1,353,781	11,718	2,129,830	-	-	3,672,728
Other	50,768	276,860	1,127	284,778	552,660	103,160	1,269,353
Total	260,663	1,654,678	12,845	2,414,608	552,660	103,160	4,998,614
Receipts with respect to investment contracts charged directly to insurance reserves ⁴⁾	-	-	-	469,704	-	-	469,704
Financial margin including management fees ³⁾	202,321	302,883	1,281	179,196	-	-	685,681
Payments and changes in liabilities with respect to insurance contracts, gross	1,128,755	2,584,299	10,992	2,620,699	276,988	77,708	6,699,442
Payments and changes in liabilities with respect to investment contracts ⁶⁾	-	-	17	30,200	-	-	30,217
Comprehensive income (loss) from life insurance businesses	(56,442)	74,279	5,919	(168,766)	(1,885)	15,149	(131,746)
Other comprehensive income (loss) from life insurance businesses	13,516	1,280	629	1,124	1,411	1,109	19,069
Total comprehensive income (loss) from life insurance businesses	(42,926)	75,559	6,548	(167,642)	(474)	16,258	(112,677)
Income (loss) from pension and provident funds							51,513
Other comprehensive income (loss) from pension and provident funds							37
Total comprehensive income (loss) from pension and provident funds							51,550
Total income (loss) from life insurance and long term savings							(80,233)
Total comprehensive income (loss) from life insurance and long term savings							(61,127)
Annualized premium with respect to insurance contracts - new business ²⁾	49	1,307	-	403,728	82,339	-	487,423
One-time premium with respect to insurance contracts	143	3,070	-	179,374	-	-	182,587
Annualized premium with respect to investment contracts - new business	-	-	-	4,735	-	-	4,735
One-time premium with respect to investment contracts	-	-	-	358,370	-	-	358,370
Transfers to the Company with respect to insurance contracts and investment contracts ⁵⁾	-	-	-	22,464	-	-	22,464
Transfers from the Company with respect to insurance contracts and investment contracts ⁵⁾	15,914	131,632	-	223,361	-	-	370,907

1. Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
2. Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
3. The financial margin includes gains (losses) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium, and is calculated before deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.
4. Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 2,657 thousand.
5. Not including internal transfers.
6. The line "payments and change in liabilities with respect to investment contracts" includes only the total profits from investments with respect to investment contracts.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 20 - Additional Details Regarding the Long Term Savings Segment (Cont.)

B. Details of results by policy types (Cont.)

Data for the year ended December 31, 2015:

	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		
	Until 1990 ¹⁾	Until 2003	From 2004		Risk sold as a single policy		
			Non-investment- linked	Investment- linked	Individual	Collective	Total
	NIS in thousands						
Gross premiums:							
Traditional / mixed	50,308	29,272	-	-	-	-	79,580
Savings component	182,354	1,328,578	15,907	1,920,986	-	-	3,447,825
Other	48,589	299,998	3,313	275,526	558,492	147,060	1,332,978
Total	281,251	1,657,848	19,220	2,196,512	558,492	147,060	4,860,383
Receipts with respect to investment contracts charged directly to insurance reserves ⁴⁾	-	-	-	799,903	-	-	799,903
Financial margin including management fees ³⁾	250,530	363,428	(874)	169,681	-	-	782,765
Payments and changes in liabilities with respect to insurance contracts, gross	1,096,277	2,871,090	19,105	2,355,548	174,780	163,183	6,679,984
Payments and changes in liabilities with respect to investment contracts ⁶⁾	-	-	17	30,200	-	-	30,217
Comprehensive income (loss) from life insurance businesses	26,156	58,705	6,214	(153,595)	146,138	(24,003)	59,615
Other comprehensive income (loss) from life insurance businesses	(87,615)	(8,017)	(5,442)	(6,723)	(10,822)	(6,288)	(124,907)
Total comprehensive income (loss) from life insurance businesses	(61,459)	50,688	772	(160,318)	135,316	(30,291)	(65,292)
Income (loss) from pension and provident funds							110,108
Other comprehensive income (loss) from pension and provident funds							(681)
Total comprehensive income (loss) from pension and provident funds							109,427
Total income (loss) from life insurance and long term savings							169,723
Total comprehensive income (loss) from life insurance and long term savings							44,135
Annualized premium with respect to insurance contracts - new business ²⁾	35	1,047	-	292,710	72,226	-	366,018
One-time premium with respect to insurance contracts	347	2,412	-	119,955	-	-	122,714
Annualized premium with respect to investment contracts - new business	-	-	-	-	-	-	-
One-time premium with respect to investment contracts	-	-	-	668,298	-	-	668,298
Transfers to the Company with respect to insurance contracts and investment contracts ⁵⁾	-	-	-	17,749	-	-	17,749
Transfers from the Company with respect to insurance contracts and investment contracts ⁵⁾	16,264	160,649	-	136,415	-	-	313,328

- Products issued until 1990 (including enlargements in respect thereof) are primarily guaranteed-return, and are primarily backed by designated bonds.
- Enlargements of existing policies are not included as part of the annualized premium with respect to new business, but rather as part of the results of operations of the original policy.
- The financial margin includes gains (losses) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium, and is calculated before deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.
- Not including premiums with respect to investment contracts in a consolidated provident fund (Bar A), in the amount of NIS 3,551 thousand.
- Not including internal transfers.
- The line "payments and change in liabilities with respect to investment contracts" includes only the total profits from investments with respect to investment contracts.

Note 21 - Additional Details Regarding The Health Insurance Segment**A. Liabilities with respect to insurance contracts****1. Details of liabilities with respect to insurance contracts, by financial exposure**

As of December 31, 2017

NIS in thousands	Long term care		Illness and hospitalization *)		Total
	Individual	Collective	Long term	Short term	
Investment-linked	789,158	3,266,758	-	-	4,055,916
Other	690,803	1,020,079	390,150	39,680	2,140,712
Total insurance liabilities	<u>1,479,961</u>	<u>4,286,837</u>	<u>390,150</u>	<u>39,680</u>	<u>6,196,628</u>

As of December 31, 2016

NIS in thousands	Long term care		Illness and hospitalization *)		Total
	Individual	Collective	Long term	Short term	
Investment-linked	722,640	2,812,043	-	-	3,534,683
Other	577,268	900,017	375,758	42,597	1,895,640
Total insurance liabilities	<u>1,299,908</u>	<u>3,712,060</u>	<u>375,758</u>	<u>42,597</u>	<u>5,430,323</u>

*) See details in section A(3) below.

2. Details of liabilities with respect to insurance contracts, by insurance exposure

As of December 31, 2017

NIS in thousands	Long term care		Illness and hospitalization		Total
	Individual	Collective	Long term	Short term	
Reserve for payable claims	109,490	808,368	6,267	-	924,125
Other risk components	<u>1,370,471</u>	<u>3,478,469</u>	<u>383,883</u>	<u>39,680</u>	<u>5,272,503</u>
Total insurance liabilities	<u>1,479,961</u>	<u>4,286,837</u>	<u>390,150</u>	<u>39,680</u>	<u>6,196,628</u>

The most material coverage included in long term illness and hospitalization insurance is medical expenses; with respect to short term, it is international travel.

As of December 31, 2016

NIS in thousands	Long term care		Illness and hospitalization		Total
	Individual	Collective	Long term	Short term	
Reserve for payable claims	88,626	688,914	5,319	-	782,859
Other risk components	<u>1,211,282</u>	<u>3,023,146</u>	<u>370,439</u>	<u>42,597</u>	<u>4,647,464</u>
Total insurance liabilities	<u>1,299,908</u>	<u>3,712,060</u>	<u>375,758</u>	<u>42,597</u>	<u>5,430,323</u>

The most material coverage included in long term illness and hospitalization insurance is medical expenses; with respect to short term, it is international travel.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 21 - Additional Data Regarding the Health Insurance Segment (Cont.)

3. The following are details regarding the composition and valuation basis in the illness and hospitalization branch

NIS in thousands	As of December 31					
	2017		2016		2017	
	Gross		Reinsurance		Retention	
Unearned premium reserve	20,412	20,503	-	-	20,412	20,503
Insurance reserves and premium deficiency reserve	230,870	220,053	10,095	9,389	220,775	210,664
Outstanding claims	178,548	177,799	12,640	11,531	165,908	166,268
Total for the illness and hospitalization branch *)	429,830	418,355	22,735	20,920	407,095	397,435
*) Of which - actuarial estimates	409,418	397,852	22,735	20,920	386,683	376,932
Provisions on the basis of other estimates:						
Unearned premium reserve	20,412	20,503	-	-	20,412	20,503
Total for the illness and hospitalization branch	429,830	418,355	22,735	20,920	407,095	397,435

B. Details of results by policy types

Data as of December 31, 2017

NIS in thousands	Long term care		Illness and hospitalization		Total
	Individual	Collective	Long term	Short term	
Gross premiums	244,456	801,855	747,355¹⁾	123,462¹⁾	1,917,128
Income from health insurance businesses	26,666	5,088	83,076	14,277	129,107
Other comprehensive income (loss) from health insurance businesses	16,952	26,447	11,334	(93)	54,640
Total comprehensive income from health insurance businesses	43,618	31,535	94,410	14,184	183,747
Annualized individual premium - new	18,439	-	147,744²⁾	-	166,183

1) Of which, individual premiums in the amount of NIS 655,049 thousand, and collective premiums in the amount of NIS 215,768 thousand.

2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

Data as of December 31, 2016

NIS in thousands	Long term care		Illness and hospitalization		Total
	Individual	Collective	Long term	Short term	
Gross premiums	235,789	752,455	668,887¹⁾	141,749¹⁾	1,798,880
Income from health insurance businesses	7,214	83,632	91,157	20,615	202,618
Other comprehensive income from health insurance businesses	4,277	7,543	1,331	322	13,473
Total comprehensive income from health insurance businesses	11,491	91,175	92,488	20,937	216,091
Annualized individual premium - new	16,200	-	132,484²⁾	-	148,684

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

2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 21 - Additional Data Regarding the Health Insurance Segment (Cont.)

Data as of December 31, 2015

NIS in thousands	Long term care		Illness and hospitalization		Total
	Individual	Collective	Long term	Short term	
Gross premiums	<u>231,664</u>	<u>708,074</u>	<u>588,026 ¹⁾</u>	<u>150,610 ¹⁾</u>	<u>1,678,374</u>
Income from health insurance businesses	(6,785)	60,521	133,239	10,964	197,939
Other comprehensive income (loss) from health insurance businesses	<u>(1,910)</u>	<u>(4,090)</u>	<u>(11,508)</u>	<u>(2,915)</u>	<u>(20,423)</u>
Total comprehensive income from health insurance businesses	<u>(8,695)</u>	<u>56,431</u>	<u>121,731</u>	<u>8,049</u>	<u>177,516</u>
Annualized individual premium - new	<u>16,356</u>		<u>115,550 ²⁾</u>		<u>131,906</u>

- 1) Of which, individual premiums in the amount of NIS 488,059 thousand, and collective premiums in the amount of NIS 250,577 thousand.
2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

Note 22 - Movement in Liabilities with Respect to Life Insurance Contracts, Investment Contracts and Health Insurance

	Life insurance and long term savings			Health insurance
	Insurance contracts	Investment contracts	Total	
NIS in thousands				
Balance as of January 1, 2016	67,737,427	4,505,096	72,242,523	5,011,837
Interest, linkage differentials and investment income ¹⁾	2,076,723	155,465	2,232,188	89,980
Increase with respect to premiums charged to liabilities ²⁾	3,899,732	472,295	4,372,027	365,705
Decrease in rate of management fees from accrual	(460,221)	(32,083)	(492,304)	-
Decrease with respect to claims, redemptions and end of period	(2,795,144)	(744,978)	(3,540,122)	-
Changes due to change in assumptions	50,913 ^{**)}	-	50,913	(18,969) ^{*)}
Other changes ³⁾	<u>280,251</u>	<u>-</u>	<u>280,251</u>	<u>(18,230)</u>
Balance as of December 31, 2016	<u>70,789,681</u>	<u>4,355,795</u>	<u>75,145,476</u>	<u>5,430,323</u>
Interest, linkage differentials and investment income ¹⁾	<u>4,847,042</u>	<u>295,381</u>	<u>5,142,423</u>	<u>309,573</u>
Increase with respect to premiums charged to liabilities ²⁾	<u>4,434,520</u>	<u>293,515</u>	<u>4,728,035</u>	<u>396,577</u>
Decrease in rate of management fees from accrual	<u>(739,075)</u>	<u>(28,497)</u>	<u>(767,572)</u>	-
Decrease with respect to claims, redemptions and end of period	<u>(3,332,469)</u>	<u>(818,039)</u>	<u>(4,150,508)</u>	-
Changes due to change in assumptions	<u>327,181 ^{**)}</u>	<u>-</u>	<u>327,181</u>	<u>14,731 ^{*)}</u>
Other changes ³⁾	<u>451,210</u>	<u>(41,919)</u>	<u>409,291</u>	<u>45,424</u>
Balance as of December 31, 2017	<u>76,778,090</u>	<u>4,056,236</u>	<u>80,834,326</u>	<u>6,196,628</u>

*) Derived from accumulated experience regarding the cost and frequency of claims, and their impact on expected results.

***) See Note 39(e)(e1)(a) - item regarding main assumptions used to calculate insurance liabilities.

- 1) This section including interest, linkage differentials and investment gains with respect to the balance at the start of the year, plus interest, linkage differentials and investment income with respect to the savings premiums only which were recorded during the reporting period.
2) These premiums include the savings premiums and part of the premiums in products with a fixed premium, after deducting management fees which are collected as a percentage of premiums, and do not include the entire premium which was recorded as income.
3) The section includes changes in the reserve with respect to outstanding claims, reserve for seasonal claims, IBNR claims, paid annuities, etc., according to the assumptions which were applied at the end of the previous year. The section also includes the impact of interest, linkage differentials and investment gains which were not included under the item for "interest, linkage differentials and investment income", such as interest, linkage differentials and investment income on claim payments and non-savings premiums.

Note 23 - Taxes on Income**A. Tax rates applicable to the Group's member companies****1. General**

Some of the consolidated companies (insurance companies, pension fund management companies, provident fund management companies and other companies) constitute "financial institutions" as defined in the Value Added Tax Law, 1975. The tax that is applicable to income of financial institutions consists of corporate tax and capital gains tax.

Corporate tax applies to the Company's income and to the income of the other investee companies in Israel.

2. Tax arrangements which are unique to the insurance branch

There is an agreement between the Israel Insurance Association and the tax authorities (hereinafter: the "**Tax Agreement**"), which is renewed and updated on an annual basis, and which regulates tax issues that are unique to the branch, up to and including the 2016 tax year. The tax arrangements refer, inter alia, to the following issues:

- A. Deferred acquisition costs (DAC) - direct expenses of insurance companies for the acquisition of life insurance contracts, with respect to underwriting years up to and including 2014, will be deductible for tax purposes in equal parts, distributed over four years, and with respect to the underwriting years 2015 to 2020, over ten years. Acquisition costs of pension and provident funds (as defined in the agreement) with respect to the underwriting years 2015 to 2020 will be deductible for tax purposes in equal parts, distributed over 10 years, or according to their distribution in the books, as chosen by the Company. Early expenses with respect to canceled pension and provident contracts will not be permitted.
Deferred acquisition costs in illness and hospitalization insurance are amortized over a period of 6 years, similarly to the amortization rate in the books.
- B. Attribution of expenses to preferred income - regarding income received in Clal Insurance which is subject to the reduced tax rates or which is tax exempt (hereinafter: "**Preferred Income**"), attribution of expenses will be performed when it signifies turning a part of the preferred income into fully taxable income, according to the attribution rate. The attribution rate stipulated in the agreement is dependent upon the financial source yielding the preferred income.
- C. Taxation method with respect to income from assets held as investments which overlap with investment-linked liabilities.
- D. Provision for indirect claim settlement expenses - partial adjustment of the provision for indirect claim settlement expenses in the non-life and health insurance segment will be performed with respect to each underwriting year from 2013 to 2020, the adjusted amount will be recognized for tax purposes during the next three tax years.
- E. Taxation of marketable and derivative securities - it was agreed that income and/or expenses from securities will be reported, for tax purposes, on a realization basis. Excluding the following exceptions:
 - Linkage differentials, interest and amortization of discount with respect to marketable bonds will be reported on an accrual basis.
 - Impairment applied to the statement of income will not be considered loss for tax purposes except on a realization basis.
 - Income and/or expenses with respect to derivatives of various types will be reported on an accrual basis.

The provision for tax and deferred taxes, as specified in the financial statements for 2017, was calculated in accordance with the principles specified above.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 23 - Taxes on Income (Cont.)

B. Tax rates applicable to the Group's member companies

1. The statutory tax applicable to financial institutions which constitute the majority of the Group's operations is comprised of corporate tax and capital gains tax.
2. Update to corporate tax rate

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

The effect of the reduction in the corporate tax rate resulted, in 2016, in a reduction of the balance of deferred tax liabilities in the amount of approximately NIS 37 million, against a reduction of tax expenses in the amount of approximately NIS 21 million, and a total of approximately NIS 16 million against the increase in other comprehensive income.

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

Year:	Corporate tax rate	Capital gains tax rate	Overall tax rate in financial institutions
	Percent		
2015	26.50	17.75 *)	37.58
2016	25.00	17.00	35.90
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.19

*) Weighted annual rate.

Current taxes for reporting periods are calculated in accordance with the tax rates presented in the above table.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 23 - Taxes on Income (Cont.)

C. Components of expenses (income) in taxes on income

	For the year ended December 31		
	2017	2016	2015
	NIS in thousands		
Current tax expenses (income)			
With respect to the current period	107,977	(2,130)	201,275
Adjustments with respect to previous years, net	(10,900)	(7,778)	4,641
	<u>97,077</u>	<u>(9,908)</u>	<u>205,916</u>
Deferred tax expenses (income)			
Creation and reversal of temporary differences	(21,830)	15,544	73,408
Adjustments with respect to previous years, net	-	1,617	-
Adjustment of deferred tax balances due to the change in tax rates	-	(20,966)	(4,694)
	<u>(21,830)</u>	<u>(3,806)</u>	<u>68,714</u>
Total taxes on income	<u>75,247</u>	<u>(13,713)</u>	<u>274,630</u>

D. 1. Taxes on income which were recognized directly under capital

NIS in thousands	For the year ended December 31		
	2017	2016	2015
The effect of the cancellation of the recording of accrual and the initial application of best practices in non-life insurance (see Note 3(d)(2)(b)(5))	-	-	9,972
	<u>-</u>	<u>-</u>	<u>9,972</u>

2. Components of tax on income with respect to components of other comprehensive income

	For the year ended December 31		
	2017	2016	2015
	NIS in thousands		
Foreign currency translation differences for foreign operations	(7,169)	(6,710)	(1,607)
Available for sale financial assets	99,492	(3,271)	(118,904)
Actuarial gains from defined benefit plan	753	938	2,935
Total tax benefit (tax expense) with respect to components of other comprehensive income	<u>93,076</u>	<u>(9,043)</u>	<u>(117,586)</u>

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 23 - Taxes on Income (Cont.)

E. Adjustment between theoretical tax on income before tax, and tax expenses

	For the year ended December 31		
	2017	2016	2015
	NIS in thousands		
Income before taxes on income	282,933	85,868	755,069
The Group's primary tax rate	35.04%	35.90%	37.58%
Tax is calculated according to the Group's primary tax rate	99,147	30,822	283,771
Addition to (savings in) tax liability with respect to:			
Adjustment with respect to a lower tax rate in investee companies which are not insurance companies	(2,256)	(1,807)	(1,770)
Tax neutralization is calculated with respect to the Company's share in the income of investee companies accounted by the equity method	(8,872)	(12,085)	(7,155)
Differences in the measurement of assets and liabilities for tax purposes, and for the purpose of the adjusted reports	5,436	3,503	2,848
Difference with respect to the tax rate used to calculate deferred taxes	(3,893)	(475)	(3,390)
Rental income exempt from capital gains tax	(2,988)	(3,250)	(3,448)
Tax-exempt income	(5,677)	(7,717)	(6,037)
Unrecognized expenses	4,074	2,236	7,250
Unrecognized expenses with respect to share-based payment (see Note 44)	565	1,662	3,341
Use of losses and benefits from previous years with respect to which no deferred taxes were recorded	(757)	(696)	(1,538)
Creation of deferred taxes with respect to losses for which deferred taxes were not recorded in the past	-	(1,822)	(860)
Losses and benefits for tax purposes for the period with respect to which no deferred taxes were recorded	1,369	3,044	1,671
Taxes with respect to previous years	(10,900)	(6,162)	4,641
Update of deferred tax balances with respect to changes in tax rates	-	(20,966)	(4,694)
Total taxes on income	75,247	(13,713)	274,630
Effective tax rate	26.60%	-15.97%	36.37%

Note 23 - Taxes on Income (Cont.)**F. Deferred tax assets and liabilities****1. Deferred tax assets and liabilities which were recognized**

Deferred tax assets and liabilities are attributable to the following items:

	<u>Intangible assets</u>	<u>Property, plant and equipment</u>	<u>Investment property</u>	<u>Financial instruments</u>	<u>Deferred acquisition costs in life insurance</u>	<u>Transferable deductions and losses for tax purposes</u>	<u>Employee benefits</u>	<u>Investee companies ¹⁾</u>	<u>Others ²⁾</u>	<u>Total</u>
	<u>NIS in thousands</u>									
Balance of deferred tax asset (liability) as of January 1, 2016	(162,987)	(3,524)	(59,603)	(45,992)	(237,532)	17,159	34,120	(3,369)	47,840	(413,888)
Changes applied to income statement	4,308	(2,255)	7,513	(24,730)	47,443	13,997	(6,459)	(25)	(8,442)	31,350
Changes applied to other comprehensive income	-	-	2,728	16,341	-	-	(235)	-	-	18,834
Classification of current taxes to deferred taxes	11	204	(1,443)	312	3,343	(3,679)	(162)	-	(10,191)	(11,605)
Impact of change in tax rate	<u>(16,046)</u>	<u>137</u>	<u>(6,345)</u>	<u>(9,791)</u>	<u>(14,960)</u>	<u>3,246</u>	<u>1,630</u>	<u>-</u>	<u>4,489</u>	<u>(37,640)</u>
Balance of deferred tax asset (liability) as of December 31, 2016	(174,714)	(5,438)	(57,150)	(63,860)	(201,706)	30,723	28,894	(3,394)	33,696	(412,949)
Changes applied to income statement	8,037	(2,196)	(5,871)	(7,193)	40,281	(26,208)	3,002	(52)	12,030	21,830
Changes applied to other comprehensive income	-	-	4,716	(97,022)	-	-	(770)	-	-	(93,076)
Classification of current taxes to deferred taxes	-	-	<u>(1,455)</u>	<u>(21,359)</u>	-	<u>(2,725)</u>	-	-	<u>7,038</u>	<u>(18,501)</u>
Balance of deferred tax asset (liability) as of December 31, 2017	<u>(166,677)</u>	<u>(7,634)</u>	<u>(59,760)</u>	<u>(189,434)</u>	<u>(161,425)</u>	<u>1,790</u>	<u>31,126</u>	<u>(3,446)</u>	<u>52,764</u>	<u>(502,696)</u>

1) As of December 31, 2016 and 2017, the Group has a balance of liabilities for deferred taxes with respect to a temporary difference due to the investment in investee companies, where the temporary difference with respect to them is expected to reverse in the foreseeable future.

2) Primarily due to the provision for doubtful debts.

Note 23 - Taxes on Income (Cont.)

F. Deferred tax assets and liabilities (Cont.)

	As of December 31	
	2017	2016
	NIS in thousands	
Deferred tax assets	8,637	10,344
Liability with respect to deferred taxes	(511,333)	(423,293)
	<u>(502,696)</u>	<u>(412,949)</u>

2. Deferred tax assets which were not recognized

Deferred tax assets which were not recognized are with respect to the following items:

	As of December 31	
	2017	2016
	NIS in thousands	
Losses for tax purposes	98,225	101,209
Capital losses and real difference from marketable securities	679,182	679,193
Total	<u>777,407</u>	<u>780,402</u>

According to the currently existing tax laws in Israel, there is no time restriction, in some of the Group's member companies, on the usage of losses for tax purposes or on the usage of the deductible temporary differences. However, deferred tax assets were not recognized with respect to these items, since it is not expected that taxable income will arise in the future against which the tax benefits may be used.

G. Tax assessments

(1) Final tax assessments:

- A. The tax reports of the Group's member companies up to and including the 2012 tax year are considered final tax assessments in accordance with the provisions of section 145 of the Income Tax Ordinance.
- B. Final tax assessments have been issued for Clal Insurance up to and including the 2013 tax year.
- C. Final tax assessments have been issued for Clal Pension and Provident Funds up to and including the 2013 tax year.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 24 - Employee Benefits

Employee benefits include post-employment benefits, severance benefits, other long term benefits and short term benefits, as well as share-based payments.

For details regarding benefits to key management personnel, see Note 40.

For details regarding share-based payments, see Note 41.

NIS in thousands	Details	For the year ended December 31	
		2017	2016
Present value of funded obligations		85,267	73,399
Present value of unfunded obligations		30,074	36,978
Total present value of obligations	A(2)	115,341	110,377
Fair value of plan assets	A(2)	47,698	41,790
Impact of the maximum limit for assets		(460)	(410)
Liability which was recognized with respect to defined benefit plan		68,103	68,997
Recognized liability with respect to other long term benefits	C	15,759	5,489
Liabilities with respect to short term benefits *)		201,143	144,791
Total employee benefits		285,005	219,277
Presented under the following sections:			
Other accounts receivable		1,143	712
Other accounts payable		201,896	145,412
Long term employee benefits		84,252	74,577

*) The liabilities with respect to short term benefits include liabilities with respect to salary, holiday, compensation and annual bonuses to employees.

For details regarding amounts which are deposited in Clal Insurance, as part of a defined benefit plan for the Group's employees, see Notes 17 and 18.

A. Post-employment benefit plans - defined benefit plan

The Group has defined benefit plans with respect to which amounts are deposited in provident funds, pension funds, appropriate insurance policies and insurance policies which were issued by Clal Insurance.

Labor laws and the Severance Pay Law, 1963 (hereinafter: the "**Severance Pay Law**") in Israel require the Group to pay severance to employees upon termination of employment, or upon retirement. The Group's liability with respect to employee benefits is calculated according to a valid employment agreement, and is based on the salary of an employee which, in management's opinion, creates the right to receive severance pay.

For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees, see section D below.

Note 24 - Employee Benefits (Cont.)

A. Post-employment benefit plans - defined benefit plan (Cont.)

1. Composition of plan assets

The composition of plan assets is as follows:

In percent	As of December 31	
	2017	2016
Central severance pay funds	4	5
Managers insurance	33	33
Provident funds and pension funds	63	62
	100	100

2. Movement in liabilities (assets), net, with respect to defined benefit plans and components thereof

NIS in thousands	Liability with respect to defined benefit plan		Fair value of plan assets		Total liability (asset), net, recognized with respect to defined benefit plan	
	2017	2016	2017	2016	2017	2016
Balance as of January 1	110,377	110,263	41,380	34,826	68,997	75,437
Expense/income applied to the statement of income ¹⁾						
Current service cost	12,656	15,824	-	-	12,656	15,824
Past service cost	(5,367)	(1,646)	-	-	(5,367)	(1,646)
Interest costs / income	4,702	4,419	1,639	1,386	3,063	3,033
Total expense/income applied to the statement of income	11,991	18,597	1,639	1,386	10,352	17,211
Recognized under other comprehensive income:						
Actuarial gains due to changes in demographic assumptions	31	-	-	-	31	-
Actuarial gains due to changes in financial assumptions ²⁾	6,870	(123)	-	-	6,870	(123)
Other actuarial gains	(7,948)	(4,214)	-	-	(7,948)	(4,214)
Actual returns less interest income	-	-	885	(1,171)	(885)	1,171
Total recognized under other comprehensive income:	(1,047)	(4,337)	885	(1,171)	(1,932)	(3,166)
Additional movements						
Benefits paid	(5,980)	(14,146)	(2,766)	(5,457)	(3,214)	(8,689)
Amounts deposited by the Group	-	-	6,100	11,796	(6,100)	(11,796)
Total additional movements	(5,980)	(14,146)	3,334	6,339	(9,314)	(20,485)
Balance as of December 31	115,341	110,377	47,238	41,380	68,103	68,997

1) Expenses are included under general and administrative expenses in the statement of income. See Note 36.

2) Such as the discount rate.

Note 24 - Employee Benefits (Cont.)

A. Post-employment benefit plans - defined benefit plan (Cont.)

3. Actuarial assumptions and sensitivity analysis

Main actuarial assumptions as of the end of the reporting period (by weighted average):

In percent	<u>2017</u>	<u>2016</u>	<u>2015</u>
Average real discount rate as of December 31	1.85	2.69	2.61
Rate of real future wage increases	2.00-3.00	2.00-3.00	2.00-3.00

The assets' total expected long term rate of return is based on the entire assets portfolio, and not on the returns amount of a separate group of assets. The returns are based on historical returns, without adjustments.

The assumptions made regarding the future mortality rate are based on published statistical data and commonly accepted mortality tables.

Reasonably possible changes on the reporting date in one of the actuarial assumptions, assuming that the other assumptions remain unchanged, affect the defined benefit liability as follows:

NIS in thousands	<u>As of December 31, 2017</u>	
	<u>Increase of one percent</u>	<u>Decrease of one percent</u>
Rate of future salary increases	13,128	(8,861)
Discount rate	(8,329)	14,063

4. Impact of the plan on the Group's future cash flows

For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees, see section D below.

The Company's estimate regarding expected deposits in 2018 in defined benefit plans, financed for the plan assets, amounts to NIS 5,627 thousand.

The Group's estimate throughout the lifetime of the plan (according to a weighted average) at the end of the reporting period is 9.1 years (for 2016 - 11.5 years).

5. Actual returns

NIS in thousands	<u>For the year ended December 31</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actual returns on plan assets	<u>2,713</u>	<u>366</u>	<u>893</u>

Note 24 - Employee Benefits (Cont.)**B. Post-employment benefit plans - defined deposit plan**

The Group has the following defined deposit plans:

1. Most severance payments are subject to the terms of section 14 of the Severance Pay Law, 1963, according to which the Company's current deposits in pension funds and/or in policies in insurance companies exempt it from any additional undertaking towards employees, for which the aforementioned amounts were deposited. See section D below on this matter as well.
2. Deposits for compensation in Israel.

For details regarding a collective agreement and an annex to the agreement, including its implications regarding the subject of the payment of severance pay to employees, see section D below.

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Amount recognized as expenditure with respect to defined deposit plans	<u>79,109</u>	<u>74,704</u>	<u>69,413</u>

C. Liabilities with respect to other long term benefits

NIS in thousands	As of December 31	
	2017	2016
Liabilities with respect to sick days	5,951	5,489
Liability with respect to dedication bonus	2,528	-
Liability with respect to seniority bonus	7,280	-
Total recognized liability with respect to other long term benefits	<u>15,759</u>	<u>5,489</u>

D. Signing of a collective agreement and an annex to an agreement between the Group's member companies and the employee committee in the Group

On January 2, 2014, the Company's subsidiaries, Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems Ltd. and Clal Credit and Finance Ltd. signed a collective agreement between them and the Histadrut New General Federation of Labor (the "Histadrut") and the Group's employee committee (hereinafter: the "Committee"). On December 22, 2015, the collective agreement was amended in a manner which applied its provisions also to some employees of Canaf - Clal Financial Management Ltd. (hereinafter: "Canaf") (a subsidiary of Clal Insurance which is engaged in investment management) (the agreement, including the addendum to the agreement, shall hereinafter jointly be referred to as: the "First Collective Agreement"). The first collective agreement applies to all employees of the aforementioned companies, excluding employees in specific positions which have been defined in the agreement, and managers of a rank defined in the agreement. An arrangement in accordance with section 14 of the Severance Pay Law, 1963, applies to all employees who are subject to the new collective agreement, for their entire employment period. The liability with respect to termination of employment was classified as a liability of the defined deposit type, in place of classification as a defined benefit plan, as was the case prior to the signing of the agreement. The above excludes certain components, which will continue being classified as a defined benefit plan, and will be measured accordingly.

On July 20, 2017, a new collective agreement (the "New Collective Agreement") entered into effect which was signed between the Company's subsidiaries, Clal Insurance, Clal Pension and Provident Funds, Clal Credit Insurance, Clalbit Systems Ltd., Clal Credit and Finance Ltd. and Canaf (hereinafter: the "Companies"), and the Histadrut employee committee in the Group, which extended the previous collective agreement for a period of 4 years, from January 1, 2017 to December 31, 2020 (the "Agreement Period"), subject to the changes which were implemented, as specified below.

Note 24 - Employee Benefits (Cont.)**B. Post-employment benefit plans - defined deposit plan**

The main terms of the agreement, and its estimated financial implications, are as follows:

- In July of each year, during the agreement period, salary bonuses are paid to employees, at an average rate of 3% of the base rate of employees who are entitled to a salary raise. In general, half of the total salary bonus budget will be paid as a uniform bonus, and the other half will be paid as a differential bonus, in the discretion of managers.

It is also noted that insofar as the Group fulfills, during the agreement period, an average annual profit of over NIS 342 million, in April 2021, a salary bonus will be given according to the formula which was determined between the parties, with a maximum rate of 4% from that date onwards (addition of up to 1% per year).
- Each year, and insofar as the Company's annual profit is no less than NIS 210 million, a annual payment will be paid to employees (without social provisions), at a rate of 1.4% of the annual cost of salary of the employees to whom the agreement applies (with respect to annual profit of no less than NIS 210 million), up to a maximum rate of 3% of the aforementioned annual cost of salary (with respect to annual profit of no less than NIS 400 million).

Additionally, in case the Company's annual profit is at least NIS 300 million, an additional payment will be paid to employees (without social provisions), at a variable rate (according to expenses) in the range between 0.5% (with respect to annual profit of no less than NIS 300 million) and 1% (with respect to annual profit of no less than NIS 400 million), of the annual cost of salary of the employees to whom the collective agreement applies, which will be granted to some of the employees who are entitled to the additional payment, by way of the allocation of options for the Company's shares. In case of fulfillment of the targets, in accordance with the terms of the agreement, including as regards the number of employees who will be entitled to the additional payment by way of options, options will be allocated to the employees at an exercise price which will constitute the average closing price of the Company's shares during the 30 trading days preceding the grant date, with an estimated maximum economic value of approximately USD 13 million.
- Additionally, it was agreed to increase the participation in meals and the participation in summer camp payments, as well as an increased welfare budget relative to the first collective agreement, a seniority bonus, and a persistence and excellence bonus for employees who joined the Company after November 2012, as well as an increase in the employer's deposits for compensation.
- Increasing the minimum wage for monthly employees in the companies to NIS 6,000, increasing the minimum wage for senior employees (employees who have been working in the companies between 10 and 30 years) to amounts from 7,000 to 8,500, and increasing the salary of service center employees. The cost of the aforementioned expense will be included in the salary bonuses specified in section 1 above. It was further agreed to extend the tenure period for new company employees, as well as changes to the performance improvement processes before dismissal.
- The agreement exhausts the demands and claims of all parties for the entire period of the agreement, including with respect to the demand for the provision of consideration to employees with respect to the sale of Company shares by the Company's controlling shareholder and/or with respect to a change in control of the Company, insofar as the foregoing occurs during the agreement period. It was further determined that industrial peace will be maintained throughout the entire agreement period, including with respect to the demand to grant consideration to employees with respect to the aforementioned sale of shares.
- The estimated average increase in the total cost of the human resources expenses in the Company (not including an increase which is conditional upon the fulfillment of targets, as specified below), in each of the agreement years, relative to relevant previous year, is approximately NIS 20 million.
- The estimated average cost of the human resources expenses in each of the agreement years, with respect to the components of the agreement which are conditional upon the Company's fulfillment of the profit targets, and assuming achieving 100% of the profit targets which will be determined, amounts to approximately NIS 18 million.
- Beyond that specified in sections 6 and 7 above, the companies recorded a non-recurring expense in the third quarter of 2017, with respect to the voluntary retirement plan which was offered to employees age 60 or older, in the amount of approximately NIS 23 million.

Note 24 - Employee Benefits (Cont.)**B. Post-employment benefit plans - defined deposit plan (Cont.)**

The employee committee agreed to waive the receipt of the additional payment by way of the allocation of options, as specified in section 2 above, with respect to 2017.

The agreement formalizes and replaces human resources increases and expenses which would have been given by the companies, had it not been signed, in accordance with the previous collective agreement, had it been extended.

Actual results may differ from that stated in section 7.

On November 13, 2017, the Histadrut announced that it is the representative employee organization for the employees of HaClal HaRishon Ltd. Following the aforementioned announcement, the parties began conducting negotiations towards the signing of an annex to the Group's collective agreement in accordance with the Collective Agreements Law, 1957.

For details regarding an agreement which was signed by IDB Development, the Histadrut New General Federation of Labor and the employee committee of the Company (the "Agreement"), according to which a bonus will be paid to the employees of the Company's group, upon the fulfillment of one of the cases which were specified, see Note 43(h). The Company is a not party to the aforementioned agreement, and has not estimated its effects.

Note 25 - Financial Liabilities**A. Liabilities to banking corporations and others**

	As of December 31			
	Book value		Fair value *)	
	2017	2016	2017	2016
	NIS in thousands			
Total financial liabilities presented at amortized cost:				
Bonds ^{b)}	3,130,426	3,203,395	3,534,690	3,434,392
Loans from banking corporations ^{d)}	111,938	185,027	117,882	188,115
Total liabilities presented at amortized cost *)	3,242,364	3,388,422	3,652,572	3,622,507
Liabilities measured at fair value through profit and loss:				
Liabilities with respect to derivative financial instruments and short sales:				
Future contracts	113,031	183,008	113,031	183,008
Foreign currency swap transactions	56,495	62,796	56,495	62,796
Maof options	1,098	66	1,098	66
Other	66	703	66	703
Total liabilities with respect to derivative financial instruments and short sales ¹⁾	170,690	246,573	170,690	246,573
Total financial liabilities	3,413,054	3,634,995	3,823,263	3,869,080

*) Of which, with respect to deferred liability notes which constitute current capital

3,169,812	3,214,247	-	-
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1) Of which, with respect to investment-linked liabilities

116,449	214,853	116,449	214,853
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For additional information regarding the Group's exposure to interest rate, foreign currency and liquidity risks, see Note 39(d).

*) Includes an approximation of fair value, in cases where the gap is immaterial. For additional information regarding fair value measurement, see section F below.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 25 - Financial Liabilities

B. Deferred liability notes - Composition as of December 31

	Additi onal inform ation	Issuing entity	Capital type *)	Linkage terms	Interest type	Annual interest rate		Market able / Non- marke table	Fair value		Original amount issued	Book value		Fair value		
						Effective	Nominal		Level **)	Interest in %		2017	2016	2017	2016	
													NIS in thousands			
Issued in March 2003	(1)	Clal Insurance	Tier 2 subordinated	CPI-linked	Fixed	7.04	7.00	Non- marke table	2	1.95	200,000	14,992	29,881	16,014	32,782	
Liability certificates (Series A)	(2)	Clalbit Finance	Tier 2 subordinated capital	CPI-linked	Fixed	4.99	4.89	Marketa ble	1	-	400,000	87,525	109,031	97,710	122,577	
Loan from interested party bank	(3)	Clal Insurance	Tier 3 hybrid capital	Unlinked	Variable	2.40	2.40	Non- marke table	2	1.48	111,938	111,938	111,938	117,882	112,867	
Liability certificates (Series B)	(4)	Clalbit Finance	Tier 2 subordinated capital	CPI-linked	Fixed	5.35	5.20	Marketa ble	1	-	100,000	13,814	27,531	14,510	29,373	
Liability certificates (Series C)	(5)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.97-4.35	3.75	Marketa ble	1	-	774,701	822,291	818,850	934,135	921,352	
Liability certificates (Series F)	(5)	Clalbit Finance	Tier 2 hybrid capital	Unlinked	Fixed	4.39-6.68	5.70	Marketa ble	1	-	743,428	-	29,298	-	31,468	
Liability certificates (Series G)	(5)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.39-2.45	2.32	Marketa ble	1	-	364,846	361,335	360,776	393,778	364,700	
Liability certificates (Series H)	(5)	Clalbit Finance	Tier 2 hybrid capital	Unlinked	Fixed	2.98-4.31	4.14	Marketa ble	1	-	469,388	472,618	473,215	526,043	499,664	
Liability certificates (Series I)	(5)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.51-3.84	2.48	Marketa ble	1	-	423,486	410,781	409,375	469,689	427,509	
Liability certificates (Series J)	(5)	Clalbit Finance	Tier 2 hybrid capital	Unlinked	Fixed	3.38-4.61	3.92	Marketa ble	1	-	959,854	947,070	945,438	1,082,811	1,004,967	
												3,242,364	3,315,333	3,652,572	3,547,259	

*) For details regarding the inclusion of deferred liability notes in the calculation of recognized capital, see Note 16(e).

**) For the definition of the hierarchy levels, see Note 2(e)(3).

Note 25 - Financial Liabilities (Cont.)**B. Deferred liability notes (Cont.)**

1. The liability certificates were issued in March 2003 (hereinafter: the “**2003 Liability Certificates**”). The principal is being repaid in ten equal annual installments, beginning on January 31, 2009. The interest is being paid on an annual basis beginning on January 31, 2004. On January 31, 2018, the entire principal balance was repaid.
2. The liability certificates (Series A) were issued in May 2006. The principal is repaid in 11 equal annual installments, in each of the years 2011 to 2021. The interest will be repaid in 15 annual installments, on June 1 of each calendar year, from 2007 until the final repayment date in 2021.
3. A loan from a banking corporation from March 2015, in the amount of approximately NIS 112 million, at an annual interest of prime + 0.8% (and, in parallel, a transaction was performed in which the variable interest was swapped with fixed interest, for a period of 6 years, in a manner whereby the interest was pegged at a rate of 3.48%). The principal of the letter of undertaking will be repaid in a one-time payment, 8 years after the date of issuance of the letter of undertaking. The interest is being paid in semi-annual installments.
 - A. Additional terms of the letter of undertaking:
 1. Right to early redemption
 - A. The first date when Clal Insurance will be entitled to perform a full or partial early redemption of the letter of undertaking, is two years before the principal repayment date.
 - B. After the first early redemption date, there is the right to perform an early redemption on the date of each interest payment.
 - C. Insofar as Clal Insurance does not exercise this right to an early repayment of the principal payment, then beginning from the effective date for the early repayment, the margin specified in section b(3) above will be increased by 45 percentage points (which constitutes no more than 30% of the original credit margin, as this term is defined in the Commissioner’s circular, on the signing date of the letter of undertaking), and will amount to prime + approximately 1.25% per year.
 - D. The conditions for early redemption are any of the following:
 1. In parallel, Clal Insurance will issue a Clal Insurance of a quality which will be equal or superior;
 2. Subject to the advance approval of the Commissioner, and to the conditions which will be determined.
 3. If the capital of Clal Insurance, after the early redemption, exceeds 120% of the minimum capital required of it under the Capital Regulations.
 2. Upon the fulfillment of any of the suspending circumstances, as specified below, the principal payment of the deferred liability note will be deferred:
 - A. The recognized capital amount of Clal Insurance has decreased below the minimum capital required of it, in accordance with the most recent financial statements (annual or quarterly) before the relevant principal repayment date, and Clal Insurance has not performed a capital supplementation as of the publication date of the report.
 - B. The Commissioner ordered the postponement of the principal payment, if he views a near and present concern regarding the ability of Clal Insurance to fulfill the minimum required capital which is required of it (according to the Capital Regulations).
 - C. In case suspending circumstances have been fulfilled on the principal repayment date of the liability note, the repayment of principal will be deferred until the date when the suspending circumstances cease to be fulfilled, with the approval of the board of directors of Clal Insurance (provided that notice of the above has been given to the Commissioner seven business days before the execution of the deferred payment, and the Commissioner has not announced, within the aforementioned period, her objection), or until a period of three years after the originally specified principal repayment date (hereinafter: the “**Maximum Principal Deferral Period**”), whichever is earlier (hereinafter: the “**New Principal Repayment Date**”). For the avoidance of doubt, it is hereby clarified that the principal payment will be paid no later than the new principal repayment date, even if suspending circumstances exist on the same date.
 - D. The principal amount which was deferred, as stated above, will not accrue interest in arrears, but rather will accrue interest beginning from the date of the deferral until the new principal repayment date, according to the stated interest rate or the updated interest rate with respect to non-early repayment of the loan.

Note 25 - Financial Liabilities (Cont.)**B. Deferred liability notes (Cont.)**

- B. The letter of undertaking has a status equal to the deferred liability notes and to the components and instruments which will be included under the Tier 2 and/or Tier 3 capital of Clal Insurance (however, it is hereby clarified that insofar as Tier 3 hybrid capital instruments will be issued in the future, which have a superior status relative to the Tier 2 capital of Clal Insurance, the status of the new letter of undertaking will be superior to those Tier 2 capital instruments); a status higher than the components and instruments which will be included under the Tier 1 capital of Clal Insurance; and a status lower than the remaining liabilities of Clal Insurance towards its creditors.
4. The liability certificates (Series B) were issued in June 2009. The principal is repaid in three equal annual installments, in each of the years 2016 to 2018. The interest on the liability certificates is paid in nine annual installments, on June 9 of each calendar year, from 2010 until the final repayment date in 2018.
5. A. Liability certificates (Series C) were issued in July 2010, and the series was extended in June 2011 and December 2012, within the framework of private allocations, and in May 2013, within the framework of an exchange. The principal will be repaid in a single payment on August 1, 2024, subject to the early redemption right, as specified in section g(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on February 1 and August 1 of each calendar year, between the years 2011 and 2024.
- B. Liability certificates (Series F) were issued in July 2010, and the series was extended in June 2011 and December 2012, within the framework of private allocations. The principal will be repaid in a single payment on August 1, 2020, subject to the early redemption right, as specified in section g(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on February 1 and August 1 of each calendar year, between the years 2011 and 2020. In 2017, the Company redeemed, through an early redemption, the entire balance of the series.
- C. Liability certificates (Series G) were issued in July 2014, and the series was extended in December 2016. The principal will be repaid in a single payment in December 2026, subject to an early redemption right, as specified in section G(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on June 30 and December 31 of each calendar year, between the years 2014 and 2026.
- D. Liability certificates (Series F) were issued in July 2014, and the series was extended in December 2016. The principal will be repaid in a single payment in December 2025, subject to an early redemption right, as specified in section G(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on June 30 and December 31 of each calendar year, between the years 2014 and 2025.
- E. Liability certificates (Series I) were issued in July 2015, and the series was extended in December 2016. The principal will be repaid in a single payment in July 2028, subject to an early redemption right, as specified in section G(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on January 31 and July 31 of each calendar year, between the years 2016 and 2028.
- F. Liability certificates (Series J) were issued in July 2015, and the series was extended in April 2016. The principal will be repaid in a single payment in July 2027, subject to an early redemption right, as specified in section G(1) below. The interest on the liability certificates is paid on an annual basis, in two semi-annual payments, on January 31 and July 31 of each calendar year, between the years 2016 and 2027.

Note 25 - Financial Liabilities (Cont.)**B. Deferred liability notes (Cont.)****5. (Cont.)****G. Additional terms of the liability certificates****1. Right to early redemption**

- A. Clalbit Finance will be entitled, without providing the right of choice to the holders of liability certificates and/or to the trustee, to redeem all or some of the liability certificates, upon the fulfillment of the following conditions (if required):

The first date when Clalbit Finance will be entitled to repay, through a full or partial early redemption, the liability certificates (hereinafter, with respect to each series: the “**First Early Redemption Date**”), is as follows:

Series C - On August 1, 2021;
Series G - On December 31, 2023;
Series H - On December 31, 2022;
Series I - On July 31, 2025;
Series J - On July 31, 2024;

After the first early redemption date, there is the right to perform an early redemption on the date of each interest payment, with respect to each liability certificate of the relevant series.

- B. Insofar as the right to early redemption will not be exercised on the first date for early redemption, an interest addition will be paid to the holders of the relevant liability certificates, in addition to the interest paid which the liability certificates bear at the time, with respect to the remainder of the period (from the first early redemption date which was not exercised, as stated above, until the actual repayment date), at a rate of 50% of the original risk margin which was determined in the issuance regarding the liability certificates of the relevant series.

The original risk margin is as follows:

Series C - 1.50%;
Series G - 1.35%;
Series H - 1.05%;
Series I - 1.83%;
Series J - 1.76%;

- C. The minimum amount required to perform the early redemption, with respect to each series of liability certificates, is NIS 25,000,000 par value of liability certificates of the relevant series.

- D. A condition for early redemption is:

- (1) Receipt of advance approval from the Commissioner, in accordance with the conditions which will be determined. In the event that the equity of Clal Insurance, after the early redemption, exceeds 120% of the minimum capital required of it under the Capital Regulations. It should be emphasized that the Commissioner’s directives may change from time to time.
- (2) With respect to Series G, H, I and J, an early redemption is possible even if, in parallel, the Company issues a capital instrument of identical or superior quality;

Note 25 - Financial Liabilities (Cont.)**B. Deferred liability notes (Cont.)****5. (Cont.)****G. Additional terms of the liability certificates (Cont.)****2. Deferral of principal and/or interest payments in case of suspending circumstances**

Upon fulfillment of any of the suspending circumstances described below, the principal payment and/or interest payments with respect to the liability certificates, as relevant, will be deferred:

A. With regard to the deferral of interest payments only - a lack of distributable earnings by Clal Insurance, as defined in the Companies Law, according to the last financial statements (annual or quarterly) prior to the relevant repayment date.

With respect to the deferral of principal and/or interest payments:

B. The recognized capital amount of Clal Insurance has decreased below the minimum capital required of it in accordance with the Capital Regulations, in accordance with the most recent financial statements (annual or quarterly) which were published before the relevant principal and/or interest repayment date, and with respect to Series G, H, I and J, insofar as Clal Insurance has not performed a capital supplementation as of the publication date of the report (as this term is defined in the Commissioner's directive regarding "Composition of an insurer's recognized capital" from August 2011).

C. The board of directors of Clal Insurance instructs the deferral of the principal and/or interest payment in the event that it finds that a near and present concern has arisen with regard to the ability of Clal Insurance to meet its minimum required capital in accordance with the Capital Regulations, on the condition that advance approval for such action has been received from the Insurance Commissioner.

D. The board of directors of Clal Insurance instructs a deferral of the principal and/or interest payment in the event that it finds that a near and present concern has arisen with regard to Clal Insurance's ability to repay, on time, liabilities whose priority rating is higher than that of the liability certificates, provided that advance approval for such action has been received from the Insurance Commissioner.

E. The Commissioner instructed a deferral of the principal and/or interest payment, due to significant harm to the recognized capital of Clal Insurance, or in the event that he observes real and near concern regarding Clal Insurance's ability to meet its minimum capital requirements according to the Capital Regulations.

F. Principal and/or interest amounts which have been deferred, as stated above, will accrue linkage differentials, insofar as the original principal is linked, beginning from the date of the deferral until the date of actual payment, according to the known index on the actual payment date, as well as interest beginning from the date of the deferral until the actual payment date:

1. With respect to Series G, H, I and J - according to the interest rate specified in the terms of the liability certificates, on the date of the deferral.
2. With respect to Series C, according to the interest rate specified in the terms of the liability certificate on the date of the deferral, plus 50% of the original risk margin which was determined in the issuance, or the market interest rate (as defined in section 3.1.9.3 of the amended shelf prospectus which was published on July 12 and 13, 2010), according to whichever rate results in the higher amount.

Note 25 - Financial Liabilities (Cont.)**B. Deferred liability notes (Cont.)****5. (Cont.)****G. Additional terms of the liability certificates (Cont.)****3. The Commissioner's position regarding "definition of recognized capital and required capital in hybrid capital instruments"**

In light of the entry into effect of the economic solvency regime, and the publication of the accounting solvency regime circular (see Note 16(e) above), in March 2018, the Capital Market Authority published a position according to which the appropriate interpretation for the terms "required capital" and "recognized capital", which exist in hybrid capital instruments which were issued by the insurance companies, with respect to suspending circumstances, will be as follows:

A. With respect to insurance companies which did not receive the Commissioner's approval regarding the performance of an audit on the adoption of the economic solvency regime, the terms "equity" and "solvency equity requirement" will be interpreted in accordance with the provisions of the accounting solvency regime circular.

B. With respect to insurance companies which received the Commissioner's approval for the performance of an audit on the implementation of the economic solvency regime, the term "required capital" (including similar terms) will be interpreted in accordance with the definition of the term "minimum capital requirement", in its upper limit (45% of SCR), and calculated without the provisions during the distribution period, and the term "equity" (including similar terms) will be interpreted in accordance with the definition of the term "equity" in the economic solvency regime.

In accordance with the regulatory directives, insurance companies are required to perform an audit on the economic solvency ratio beginning with the report with respect to the data as of December 31, 2018, during 2019.

In light of the foregoing, the relevant provisions of the bonds which were issued by the Company, until the date of entry into effect of the economic solvency regime, will be interpreted in accordance with the aforementioned position paper.

H. In accordance with the amendment to the agreement between Clalbit Finance and Clal Insurance dated March 17, 2014 (hereinafter: the "Amendment to the Agreement**"), the priority order of Clal Insurance's liabilities will be changed as follows:**

1. The deposits which will be deposited in Clal Insurance out of the consideration from issuances of liability certificates which will be issued after the amendment date of the agreement, and which will be considered as Tier 3 hybrid capital of Clal Insurance, and the undertaking of Clal Insurance to comply with the terms of the aforementioned liability certificates, will have the following status:
 - The same status as the deferred liability notes which were issued by Clal Insurance and/or Clalbit Finance until the date of the amendment to the agreement.
 - An equal status to that of the components and instruments which will be included in the Tier 3 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
 - A status equal to or higher than the components and instruments which will be included in the Tier 2 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance from the date of the amendment to the agreement, as specified in the issuance terms of the aforementioned liability certificates (which will be recognized as Tier 3 hybrid capital).
 - With a status higher than the components and instruments which will be included in the Tier 1 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
 - With a status lower than the remaining liabilities of Clal Insurance towards its creditors.

Note 25 - Financial Liabilities (Cont.)**B. Deferred liability notes (Cont.)****5. (Cont.)**

H. In accordance with the amendment to the agreement between Clalbit Finance and Clal Insurance dated March 17, 2014 (hereinafter: the “**Amendment to the Agreement**”), the priority order of Clal Insurance’s liabilities will be changed as follows: (Cont.)

2. The deposits which will be deposited in Clal Insurance out of the consideration from the issuances of liability certificates which will be issued after the amendment date of the agreement will be considered Tier 2 hybrid capital of Clal Insurance, and the undertaking of Clal Insurance to comply with the terms of the aforementioned liability certificates will have the following status:

- A status equal to the deferred liability notes which were issued by Clal Insurance and/or Clalbit Finance until the date of the amendment to the agreement.
- A status equal to the components and instruments which will be included in the Tier 2 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
- A status equal to or lower than the components and instruments which will be included in the Tier 3 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance from the date of the amendment to the agreement, as specified in the issuance terms of the aforementioned liability certificates (which will be recognized as Tier 2 hybrid capital).
- A status higher than the components and instruments which will be included in the Tier 1 capital of Clal Insurance, which will be issued by Clal Insurance and/or Clalbit Finance.
- With a status lower than the remaining liabilities of Clal Insurance towards its creditors.

It is clarified that any priority level which was determined in any letter of undertaking cannot be changed in any subsequent letter of undertaking.

6. The balance of the liability certificates is after deducting issuance costs in the amount of NIS 14 million, which are amortized using the effective interest method.

7. Repayment dates

Presented below are the contractual repayment dates of the deferred liability notes: *)

NIS in thousands	As of December 31	
	2017	2016
First year	46,513	75,900
Second year	17,539	46,492
Third year	17,381	17,635
Fourth year	955,783	17,488
Fifth year and thereafter	<u>2,205,148</u>	<u>3,157,818</u>
	<u>3,242,364</u>	<u>3,315,333</u>

*) Assuming early redemption, see section A(5)(g)(1) above.

Note 25 - Financial Liabilities (Cont.)**B. Deferred liability notes (Cont.)****8. Movement in liabilities from financing activities**

	Bonds	Loans	Total liability certificates	Interest payable with respect to deferred liability notes	Total
Balance as of January 1, 2017	3,203,395	185,027	3,388,422	40,246	3,428,668
Changes due to cash flows from financing activities			-		
Repayment of loans	(80,023)	(73,089)	(153,112)	-	(153,112)
Interest paid	-	-	-	(120,165)	(120,165)
Total cash from financing activities	(80,023)	(73,089)	(153,112)	(120,165)	(273,277)
Effect of changes in index	2,927	-	2,927	-	2,927
Other changes	4,127	-	4,127	117,537	121,664
Balance as of December 31, 2017	3,130,426	111,938	3,242,364	37,618	3,279,982

C. Shelf prospectus

On April 21, 2015, the Company published a shelf prospectus based on its financial statements as of December 31, 2014. In April 2017, approval was received from the Israel Securities Authority for an extension of the Company's shelf prospectus by 12 months, until April 2018.

D. Loans from banking corporations

In June 2017, and as part of the Group's strategy of reducing the financing expenses with respect to liabilities which are not recognized as capital in Clal Insurance, the Company performed an early and self-initiated repayment of the entire balance of the loan to an interested party banking corporation, in the amount of NIS 70 million.

It is noted that the loan agreement with the banking corporation included provisions regarding the Company's right to perform an early repayment of the loans (including as regards the formula used to calculate the early repayment fee).

E. Rating

Presented below are details regarding the ratings of the Company and the Group's member companies, as well as liability certificates which were issued by them, as of the publication date of the report, and changes during the reporting period:

Rating company	Name Company	Rating	Outlook	Date Update Last	Date Ratification Last	
Maalot	Clal Insurance	(IFSR) ¹⁾ Debt rating for deferred liability notes	(AA+) (AA)	Stable Stable	Dec 14	Oct 17 ²⁾
		Debt rating (Tier 2 hybrid capital)	(AA-)	Stable		
		(IFSR) ¹⁾ Debt rating - subordinated Tier 2 liability certificates	Aa1(hyb)	Stable		
Midroog	Clal Insurance	Debt rating - liability certificates under Tier 2 hybrid capital	Aa2(hyb) Aa3(hyb)	Stable Stable	Jul 14	Oct 17 ³⁾

1) Financial stability rating of an insurer.

2) In 2016, and in October 2017, Maalot left unchanged the ratings presented in the above table.

3) In 2016, and in October 2017, Midroog left unchanged the ratings presented in the above table.

Note 25 - Financial Liabilities (Cont.)**F. Fair value of liabilities with respect to derivative financial instruments and short sales**1) Fair value measurement

The fair value of the financial liabilities was determined with reference to their quoted closing asking price, as of the reporting date. In the event that no quoted price exists, the fair value is measured using a valuation technique which includes the discounted future cash flow method with respect to the principal and interest components, which are discounted using market interest rates for similar liabilities as of the calculation date, which are determined by a company supplying interest rate quotes (for additional details, see Note 14(b)).

2) Fair value hierarchy

The following table presents the financial liabilities distributed by levels in the fair value hierarchy. For details regarding the levels of the hierarchy, see Note 2(e)(3) above.

NIS in thousands	As of December 31, 2017		
	Level 1	Level 2	Total
Derivatives and short sales	1,164	169,526	170,690

NIS in thousands	As of December 31, 2016		
	Level 1	Level 2	Total
Derivatives and short sales	768	245,805	246,573

G. Additional information regarding derivatives

Presented below is the total net exposure to the underlying asset, according to the delta terms of the transaction in derivative instruments made as of the dates of the financial statements by member companies in the Group which are insurance companies in Israel:

NIS in thousands	As of December 31	
	2017	2016
Stocks	32,328	3,369
CPI	1,612,055	806,539
Foreign currency	9,012	(1,941,666)
Fixed interest	120,919	123,423

Note 26 - Other Accounts Payable**A. Composition**

NIS in thousands	As of December 31	
	2017	2016
Employees and other wage and salary commitments	201,896	145,412
Expenses payable	163,695	155,779
Provisions with respect to legal claims ¹⁾	39,031	25,794
Suppliers and service providers	28,232	30,231
Government institutions and authorities	11,445	10,465
Reinsurers' share in deferred acquisition costs in non-life insurance	83,022	61,544
Insurance companies and insurance mediators:		
Deposits of reinsurers	862,419	671,139
Other accounts	156,686	121,501
Total insurance companies	1,019,105	792,640
Insurance agents	413,118	416,486
Policyholders and members	555,078	533,960
Provision for profit sharing of policyholders	45,626	42,593
Interest payable with respect to deferred liability notes	37,618	40,249
Prepaid premiums	68,610	92,321
Securities with respect to non-marketable futures contracts	56,998	26,108
Payables with respect to the acquisition of non-marketable shares	544,124	-
Associate companies	15,704	15,435
Other payables	38,830	9,643
Total other accounts payable	3,322,132	2,398,660

1) Movement in the provisions with respect to legal claims

NIS in thousands	For the year ended	
	December 31	
	2017	2016
Balance as of January 1	25,794	25,172
Provisions realized during the year	(2,864)	(3,879)
Provisions created during the year	16,101	4,501
Balance as of December 31	39,031	25,794

For details regarding the exposure with respect to currency and linkage risk, see Note 39(c)(4).

For details regarding other accounts payable vis-à-vis related parties, see Note 40(c).

Note 27 - Operating Leases**A. Leases in which the Group is the lessee**

The Group is engaged in an operating lease agreement with respect to a property which serves as the Group's office. This lease is non-cancellable, and is in effect until 2030, with an option to extend the lease term by an additional 8 years.

The Group's member companies have non-cancelable operating lease agreements with respect to their vehicle fleets, for an average period of approximately 3 years.

As of the end of the reporting period, the minimum future lease fees required for payment with respect to the non-cancellable operating lease agreements are as follows *):

NIS in thousands	As of December 31	
	2017	2016
Up to one year	61,171	55,167
One year to five years	133,840	145,739
Over five years	256,676	287,091
	451,687	487,997

Presented below are the lease payments and income with respect to subleases which were applied to the statement of income: *)

NIS in thousands	As of December 31		
	2017	2016	2015
Minimum lease payments recognized as expenses	60,009	57,554	71,167
Income from subleasing	(6,429)	(6,252)	(1,616)
	53,580	51,302	69,551

*) For details regarding an onerous contract, see Note 35.

B. Leases in which the Group is the lessor

The Group leases several commercial buildings and office buildings (which are classified as investment property) to external entities. The leasing agreements are for varying periods (up to approximately 38 years), and are non-terminable, in consideration of the lessees' options to renew the contracts at the end of the period.

The following are the minimum lease payments which are expected to be received with respect to lease agreements, including with respect to the optional contract renewal periods, whose disposal was considered likely as of the date of engagement in the agreement:

NIS in thousands	As of December 31	
	2017	2016
Up to one year	247,994	235,407
One year to five years	874,225	818,703
Over five years	1,944,774	1,885,313
	3,066,994	2,939,423
Of which, receivable future minimum lease payments attributed to properties in which the Company is the lessee under a finance lease	725,340	591,050

For additional information regarding leasing agreements in connection with investment property, see Note 10.

Note 28 - Premiums Earned

NIS in thousands	For the year ended December 31, 2017		
	Gross	Reinsurance **	Retention
Premiums in life insurance	5,534,503	168,245	5,366,258
Premiums in health insurance	1,917,128	262,060	1,655,068
Premiums in non-life insurance	2,298,967	861,479	1,437,488
Total premiums	9,750,598	1,291,784	8,458,814
Change in unearned premium balance and other changes *)	(21,395)	(101,503)	80,108
Total premiums earned	9,729,203	1,190,281	8,538,922

NIS in thousands	For the year ended December 31, 2016		
	Gross	Reinsurance	Retention
Premiums in life insurance	4,998,614	168,386	4,830,228
Premiums in health insurance	1,798,880	212,416	1,586,464
Premiums in non-life insurance	2,232,680	645,637	1,587,043
Total premiums	9,030,174	1,026,439	8,003,735
Change in unearned premium balance and other changes *)	79,829	15,808	64,021
Total premiums earned	9,110,003	1,042,247	8,067,756

NIS in thousands	For the year ended December 31, 2015		
	Gross	Reinsurance	Retention
Premiums in life insurance	4,860,383	163,571	4,696,812
Premiums in health insurance	1,678,374	186,941	1,491,433
Premiums in non-life insurance	2,395,289	665,150	1,730,139
Total premiums	8,934,046	1,015,662	7,918,384
Change in unearned premium balance and other changes *)	120,679	41,720	78,959
Total premiums earned	9,054,725	1,057,382	7,997,343

*) For details regarding changes in unearned premiums in non-life insurance, see Note 19.

There are also changes which are due to a deduction with respect to amounts deposited in the Company within the framework of a defined benefit plan for the Group's employees.

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

Note 29 - Income (Loss) from Investments, Net, and Financing Income

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Income (loss) from assets held against investment-linked liabilities			
Investment property	198,179	106,240	225,367
Financial investments			
Marketable debt assets	928,205	260,519	111,096
Non-marketable debt assets	312,905	107,773	211,731
Stocks	1,060,307	(11,451)	495,935
Other	2,267,035	884,962	466,795
Cash and cash equivalents	(63,639)	(10,163)	(6,370)
Other	(52,932)	(22,413)	(52,538)
Total income from assets held against investment-linked liabilities, net	<u>4,650,060</u>	<u>1,315,467</u>	<u>1,452,016</u>
Income (loss) from assets held against non-investment-linked liabilities, capital and others			
<u>Income from investment property</u>			
Revaluation of investment property	36,583	2,218	31,018
Current income with respect to investment property	69,363	41,632	71,254
Total income from investment property	105,946	43,850	102,272
Income (loss) from financial investments, excluding interest, linkage differentials, foreign currency differences and dividends with respect to:			
Available for sale assets ^{a)}	175,683	133,161	382,367
Assets presented at fair value through profit or loss ^{b)}	172,859	58,915	33,058
Assets presented as loans and receivables ^{c)}	(6,046)	5,139*	14,256
Total	342,496	197,215	429,681
Interest income ¹⁾ and linkage differentials from financial assets not at fair value through profit and loss	1,139,908	1,032,761*)	972,092
Interest income and linkage differentials from financial assets at fair value through profit and loss	1,848	(4,128)	10,559
Loss from foreign currency differences with respect to investments which are not measured at fair value through profit or loss and from other assets ²⁾	(47,627)	(15,524)	(8,264)
Income from dividends	41,917	46,733	52,037
Total income (loss) from investments, net, and financing income	<u>6,234,548</u>	<u>2,616,374</u>	<u>3,010,393</u>
1) The aforementioned income includes interest with respect to impaired financial assets which are not measured at fair value through profit or loss	4,553	712	1,829

2) For details regarding foreign currency differences with respect to financial liabilities, see Note 37.

*) Reclassified.

Note 29 - Income (Loss) from Investments, Net, and Financing Income (Cont.)

A. Net profits from investments with respect to available for sale financial assets

NIS in thousands	<u>For the year ended December 31</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net gains from disposed securities	245,190	234,495	451,739
Net impairment charged to profit and loss	(69,507)	(101,334)	(69,372)
Total income from investments with respect to available for sale financial assets	<u>175,683</u>	<u>133,161</u>	<u>382,367</u>

B. Income (loss) from investments with respect to assets presented at fair value through profit and loss

NIS in thousands	<u>For the year ended December 31</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net changes in fair value, including profit from disposal			
With respect to assets designated upon initial recognition	(1,920)	(16,046)	(21,285)
With respect to assets held for trading	<u>174,779</u>	<u>74,961</u>	<u>54,343</u>
Total income from investments with respect to assets presented at fair value through profit or loss	<u>172,859</u>	<u>58,915</u>	<u>33,058</u>

C. Income (loss) from investments with respect to assets presented as loans and receivables

NIS in thousands	<u>For the year ended December 31</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Income (loss) from disposal of assets presented as loans and receivables	(6,389)	4,072*)	27,353
Reversal of impairment (impairment) charged to profit and loss	<u>343</u>	<u>1,067</u>	<u>(13,097)</u>
Total gains from investments with respect to assets presented as loans and receivables	<u>(6,046)</u>	<u>5,139</u>	<u>14,256</u>

*) Re-classified.

Note 30 - Income from Management Fees**A. Composition**

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Management fees in the pension and provident fund branches	466,448	471,760	502,873
Variable management fees with respect to life insurance contracts *)	351,977	106,048	167,566
Fixed management fees with respect to life insurance contracts **)	387,098	354,173	343,035
Management fees with respect to investment contracts	20,960	24,476	25,923
Total income from management fees	1,226,483	956,457	1,039,397

*) For details regarding the ongoing decline in management fees in the pension and provident branches, as a result of the competitive conditions in the segment, and accordingly, the provision for impairment of goodwill in the provident fund segment, which was recorded by the Company, see Note 6(b)(1).

**) For details regarding the method used to calculate variable management fees, see Note 3(n)(3)(a).

Note 31 - Income from Commissions

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Insurance agency commissions	61,475	50,281	53,216
Reinsurance commissions, less change in deferred acquisition costs with respect to reinsurance	205,638	176,137	185,507
Total income from commissions	267,113	226,418	238,723

Note 32 - Other Income

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Capital gains from the sale of assets	1,393	1,249	1,966
Profit from disposal of investments in investee companies and other companies	2,081	-	-
Others	84	170	129
	3,558	1,419	2,095

Note 33 - Payments and Changes in Liabilities with Respect to Insurance Contracts and Investment Contracts on Retention

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Total payments and change in liabilities on retention with respect to insurance contracts and investment contracts in long term savings			
With respect to life insurance contracts			
Paid and outstanding claims			
Death, disability and other events	718,376	750,843	710,610
Less reinsurance	(101,320)	(111,943)	(104,785)
	617,056	638,900	605,825
Redeemed policies	2,131,164	1,854,805	1,753,580
Expired policies	323,369	306,698	194,030
Retirement	331,866	268,396	221,826
Claim settlement costs	16,369	22,089	22,275
Total claims	3,419,824	3,090,888	2,797,536
Increase (decrease) in liabilities with respect to life insurance contracts (excluding changes in contingencies) on retention	7,506,718	3,496,443	3,739,234
Increase in liabilities with respect to life insurance investment contracts due to the yield component	(684,646)	30,217	21,635
Increase in liabilities with respect to a contract for the management of a guaranteed return provident fund	131,475	118,063	104,878
Total payments and change in liabilities on retention with respect to insurance contracts and investment contracts in long term savings	10,373,371	6,735,611	6,663,283
Total payments and change in liabilities with respect to non-life insurance contracts			
Gross	1,874,324	1,611,703	1,578,083
Reinsurance	(703,535)	(357,905)	(435,722)
On retention	1,170,789	1,253,798	1,142,361
Total payments and change in liabilities with respect to health insurance contracts			
Gross	1,654,538	1,227,856	1,153,321
Reinsurance	(293,904)	(189,484)	(159,246)
On retention	1,360,634	1,038,372	994,075
Total payments and change in liabilities with respect to insurance contracts and investment contracts on retention	12,904,794	9,027,781	8,799,719

Note 34 - Commissions, Marketing Expenses and Other Acquisition Costs

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Acquisition costs:			
Acquisition commissions	665,562	640,734	681,759
Other acquisition costs	473,578	459,663	443,396
Change in deferred acquisition costs	(21,210)	(73,146)	(91,841)
Total acquisition costs	1,117,930	1,027,251	1,033,314
Other current fees	631,271	607,696	610,077
Other marketing expenses	207,351	179,252	186,839
Total commissions, marketing expenses and other acquisition costs	1,956,552	1,814,199	1,830,230

Note 35 - General and Administrative Expenses**A. Details of expenses by main operation types**

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Insurance agencies and HaClal HaRishon	167,345	155,711	154,874
Managing companies of provident and pension funds	155,357	111,280	113,043
Insurance companies and others	940,968	869,500	891,548
Total excluding automation expenses	1,263,670	1,136,491	1,159,465
Automation expenses	426,271	404,031	353,773
Total general and administrative expenses	1,689,941	1,540,522	1,513,238

B. Details of expenses

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Payroll and associated expenses ¹⁾	1,091,138	960,334	984,650
Depreciation and amortization	255,975	236,730	219,789
Office maintenance and telecommunication	128,946	135,946	126,518
Marketing and advertising	13,025	15,896	20,847
Legal and professional consulting	32,848	31,794	28,239
Operating expenses of provident funds in banks	14,602	14,070	18,833
Others ²⁾	153,407	145,752	114,362
Total	1,689,941	1,540,522	1,513,238
Less:			
Amounts classified under the item for liabilities and payments with respect to insurance contracts	136,951	128,255	129,877
Amounts classified under the item for commissions, marketing expenses and other acquisition costs	680,929	638,915	630,235
General and administrative expenses	872,061	773,352	753,126

1. For additional details regarding payroll expenses and associated expenses, including share-based payments, see Note 41. For additional details regarding provisions with respect to employee benefits, including bonuses with respect to the fulfillment of targets and the implications of a collective agreement, see Note 24(d).

2. The amount was primarily due to automation expenses which are not depreciation and amortization.

Note 36 - Other Expenses

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Amortization of intangible assets (Note 6)	5,454	7,828	119,165
Provision for claims and financial sanctions*)	15,068	6,511	11,815
Onerous contract **)	3,103	(507)	10,061
Others *)	148	930	1,550
Total other expenses	23,773	14,827	143,946

*) Re-classified.

***) As a result of the Group's transition to the Atidim Building in 2014, the Group's member companies vacated most of the areas which are rented in the region of Central Tel Aviv. Some of the areas were subleased, or the leasing rights with respect to them were assigned to an alternative lessee. As a result of the foregoing, the Group's member companies will continue paying rent with respect to the difference, insofar as any will be created, between the rent which they are required to pay according to the rental agreements, and the rent which will be paid by the alternative lessees.

Note 37 - Financing Expenses

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Interest expenses and linkage differentials with respect to			
Deferred liability notes ¹⁾	123,539	148,722	127,536
Liabilities to banks ²⁾	1,055	1,994	5,457
Interest expenses to reinsurers	18,477	10,693	8,794
Exchange differences, net, with respect to liabilities ³⁾	(8,686)	(2,063)	(2,805)
Commissions and other financing costs	70	349	206
Total financing expenses	134,455	159,695	139,188

1) The balance in 2016 includes the cost of early repayments in the amount of approximately NIS 24 million, and a total of approximately NIS 10 million in 2015.

2) Primarily due to foreign currency differences with respect to the settling of accounts vis-à-vis reinsurers.

3) For details regarding foreign currency differences with respect to financial investments, see Note 29.

Note 38 - Earnings Per Share

A. Earnings attributable to holders of ordinary shares of the Company (basic and diluted)

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Earnings (loss) attributed to holders of ordinary shares	203,096	96,401	477,285

B. Weighted average of the number of ordinary shares (basic)

	For the year ended December 31		
	2017	2016	2015
	Shares of NIS 1 par value		
Balance as of January 1	55,412,244	55,412,244	55,360,370
Impact of warrants exercised into shares	34,506	-	29,876
Weighted average of the number of ordinary shares used to calculate basic earnings (loss) per share	55,446,750	55,412,244	55,390,246

C. Weighted average of the number of ordinary shares (diluted) ¹⁾

	For the year ended December 31		
	2017	2016	2015
	Shares of NIS 1 par value		
Weighted average of the number of ordinary shares used to calculate basic earnings per share	55,446,750	55,412,244	55,390,246
Impact of warrants for shares	171,401	-	94,077
Weighted average of the number of ordinary shares used to calculate diluted earnings (loss) per share	55,618,151	55,412,244	55,484,323

1) The average market value of the Company's stock, for the purpose of calculating the dilution effect of warrants based on quoted market prices for the period when the warrants were outstanding.

Note 39 - Risk Management**A. General**

The Group's activities expose it to the following primary risks: market risks, liquidity risks, insurance risks, credit risks and operational risks.

This note provides information with regard to the Group's exposure to these risks, and regarding the Group's goals, policies and procedures with regard to the measurement and management of each risk. An additional quantitative disclosure was included throughout the entire financial statements.

A1. Description of procedures and methods for the management, measurement and control of risks

The main risks to which the Company is exposed include risks which are associated with insurance operations (see section A2 below). The main principles of the financial risk management policy are determined by the appropriate organs of each of the Group's member companies, which convene from time to time. The board of directors receives ongoing reports and updates, and periodically holds discussions with respect to these exposures.

The risk management unit in the Group is responsible for risk management in the institutional entities in the Group, and periodically concentrates the Group's financial exposures.

The Group periodically convenes professional forums led by the CEO, which include discussions, inter alia, regarding risk aspects in the Group's operating segments.

The Company invests its liquid balances in short term, low risk investments.

For subsidiaries that invest in financial assets, a specific investment policy is determined that is relevant to the nature and activities of each subsidiary. This policy was determined and is supervised by the subsidiary's board of directors.

The Company is subject to a minimum capital requirement by virtue of the permit for control of Clal Insurance, which was issued to it by the Commissioner (for details, see Note 16(e)(3)). For details regarding the changes in the control of the Company, and their implications on the control permit, see Note 1 above. The board of directors evaluates, from time to time, the capital cushion which is required beyond the above minimum capital requirements, with respect to unexpected developments which may occur in capital and in the capital requirements, as a result of changes in the central risk factors to which the Group is exposed.

A2. Description of management processes and methods, and measurement of risks in the consolidated insurance companies

The risk management policy of the consolidated insurance companies in Israel, and of the investee companies held by them (hereinafter: "**Clal Insurance Group**"), which was approved by the boards of directors, is intended to ensure controlled exposure to the risks to which Clal Insurance Group is exposed, while meeting Clal Insurance Group's regulatory requirements, and maintaining its business goals and financial stability.

Risk management in the Clal Insurance Group is based on three "lines of defense":

- The business entities, which are responsible for the identification, assessment, monitoring, mitigation and reporting of risks inherent in the products, activities, processes and systems which are subject to their responsibility and control. This responsibility includes, inter alia, the definition of processes, internal policies and decision making. The business entities enlist the assistance of supportive departments, including the actuarial, comptrollership, regulatory and legal consulting, reinsurance and information system departments.

Note 39 - Risk Management (Cont.)**A. General (Cont.)****A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)**

- The risk management, control and enforcement unit supplements the risk management activities of the business entities, and is responsible for formulating the framework for risk management in the Group, for developing tools and methods of risk assessment, and for assessing the total risk to which it is exposed. The risk management unit is independently engaged in the formulation of recommendations to management and board of directors regarding the overall risk level and capital adequacy, for the analysis and reporting of the risk exposure level, for the approval of products, analysis of business engagements which are material terms of risk, and for the implementation of the Commissioner's directives regarding risk management. As an important part of its function, the risk management unit challenges the identification and assessment of risks associated with the business entities, and the actions taken by them to address the risk, and helps to reinforce the ability of business entities to identify, assess, manage and control risks. The risk management unit works in cooperation with the actuarial division, the comptrollership division and the SOX division, which also constitute a part of the second line of defense.
- The internal audit unit, which independently audits and challenges the internal processes, controls and systems which are used, inter alia, for risk management, and follows up on the correction of deficiencies which it identified.

Clal Insurance Group endeavors to implement a framework for enterprise risk management, with the aim of creating risk awareness in all of its activities, creating the ability to assess various risks, implementing risk measurement in business processes, and adjusting the total exposure to the Group's ability to bear risks over time. This includes taking actions towards building an automational and procedural infrastructure, in order to address the risks to which Clal Insurance Group is exposed, as well as the identification, mapping, assessment and quantification of material financial and insurance risks to the rights of members and policyholders and to the stability of the institutional entities in the Group, and evaluating the controls which are in place for these risks, across the entire scope of activities performed by Clal Insurance Group, and while continuously improving the tools available to quantify the various risks.

As part of the implementation of the provisions of the Solvency II-based economic solvency regime (see Note 16(e)(2(c))), Clal Insurance Group estimates the economic equity which is required for its operations, in accordance with these provisions. As part of risk management, the Company is working to control and assess significant business operations also in terms of capital aspects and the integration of economic equity considerations into decision making processes.

Clal Insurance is evaluating its capital adequacy in relation to overall risk, including with respect to the impact of changes in risk factors on its capital adequacy from an accounting perspective, which is determined in accordance with the Capital Regulations. This evaluation is performed based on risk factor scenarios, and on assessments made regarding the correlations existing between them, and provides Clal Insurance with an indication regarding capital adequacy relative to risks. The board of directors of Clal Insurance determined the capital target of Clal Insurance based on these analyses (for additional details, see Note 16(d)).

The boards of directors in the Clal Insurance Group established policies with regard to risk exposure, measurement methods used in this regard, restrictions for various risks, and control and reporting methods used for these risks, while monitoring the fulfillment of the established restrictions by means of the reports submitted to them. The board of directors of Clal Insurance appointed a risk management and information technology committee in order to deepen the control over these areas. The routine monitoring and control of investment management is performed by separate investment committees for the nostro funds, monies managed in pension funds and provident funds, and investment-linked policies.

Note 39 - Risk Management (Cont.)**A. General (Cont.)****A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)****Processes and methods for the management and measurement of various risks:****1. Market and liquidity risks**

The market risks in the managed portfolios of the Clal Insurance Group are managed by Canaf, the investment company of the Clal Insurance Group, under the supervision of separate investment committees for the various portfolios.

The Clal Insurance Group operates with respect to its investments in accordance with legal provisions and the investment policies, credit policies and risk policies set forth by the boards of directors, including in accordance with the restrictions set forth by them.

The financial risks are mitigated by maintaining distribution between investment channels, branches, issuers, and between assets in Israel and assets abroad, evaluating and analyzing the stability of the entities to which Clal Insurance Group is exposed, and their solvency prior to performance of the investment and during the investment's lifetime, evaluating the profile of the assets relative to the profile of the liabilities against which they are held, including in terms of liquidity and compliance with the exposure restrictions regarding credit risks and market risks, as determined by the boards of directors and the investment committees, from time to time.

The investment committees and boards of directors monitor the exposure to the various investment channels, as well as the results of scenarios, sensitivity tests and other risk indicators, in order to ensure that the exposure to market risks corresponds to the risk appetite of Clal Insurance Group. The calculation and analysis of risk indices is performed by the risk management unit using a designated system. Information regarding the risk indicators and exposures, relative to the established restrictions, is presented to the investment committees and boards of directors on an ongoing basis, and supports the decision making and investment management processes.

These periodic analyses constitute a control tool with regard to the market risks of Clal Insurance Group's asset portfolios. In parallel, routine monitoring is conducted by the investment control unit of Canaf, which manages the investments in terms of the fulfillment of the investment regulations and investment and credit policies in place for the various investment portfolios and operational controls with respect to the activity.

For details regarding the exposure to market risks, see section C below. For details regarding the exposure to liquidity risks, see section D below.

Note 39 - Risk Management (Cont.)**A. General (Cont.)****A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)****Processes and methods for the management and measurement of various risks: (Cont.)****2. Insurance risks**

The insurance risks are managed subject to the risk policy approved by the board of directors, by the business managers of the various insurance areas, inter alia, by determining guidelines for underwriting, receipt of business and hierarchies, as well as by transferring risks to reinsurers within the framework of contracts, or through facultative insurance, according to the retention policy approved by the board of directors.

The insurance risks are mitigated by distributing the insurance contracts, and are also reduced by selecting and implementing underwriting strategies and creating distribution by branches, geographical areas, risk types, coverage limits, etc.

As part of the process of launching new products, and before engaging in material transactions, a comprehensive process of identifying and evaluating the risks associated with the product or the transaction takes place, and the methods used to manage and monitor them are determined. In the event that a concern has arisen regarding a deterioration in the underwriting results which is not due to random fluctuations, in-depth tests are conducted, inter alia, to assess the embodied risk, and if necessary, the assessment of insurance liabilities is updated accordingly, and the underwriting policy is evaluated.

Additionally, in order to reduce the exposure to risks, Clal Insurance implements a stringent evaluation policy for claims, including ongoing evaluation of claims handling processes, and conducts investigations in order to identify cases of fraud. Clal Insurance also employs an active management policy for ongoing claims, in order to reduce the exposure to unexpected developments which may adversely affect it.

Clal Insurance Group employs a policy of limiting the exposure to catastrophic risks by stipulating maximum coverage amounts in certain contracts, and also by acquiring appropriate reinsurance coverage. One of the purposes of the underwriting policy and reinsurance policy is to restrict the exposure to catastrophes to a predetermined maximum loss amount, with reference to a given probability, based on models and/or studies, and in accordance with the risk appetite of the Clal Insurance Group, as determined by the board of directors.

The overall quantitative estimate of the exposure to insurance risks is performed based on the provisions of the economic solvency regime, which includes an evaluation of extreme scenarios for various risk categories, and an evaluation of overall risk, in consideration of the factors between them. The Group works to perform internal estimates based on the same methodology, and using various parameters, as needed.

The actuarial department conduct studies, exposure analyses, and periodic evaluations of risk factors, including profitability tests for the operation branches, for specific products and for collective businesses, mortality and morbidity studies, deficiency reserves and exposure to earthquakes. These analyses serve both as the basis for risk assessment, while using statistical indicators and sensitivity tests, in collaboration with the risk management unit, and as part of the system used to control insurance activities.

The Clal Insurance Group uses an automated system to calculate the best estimate of insurance liabilities in life insurance, health insurance and pension, for profitability analysis and for the performance of sensitivity tests with respect to the primary risk factors in these areas. Within this framework, the profitability of new business sold throughout the year is also evaluated.

The estimated exposure of Clal Insurance Group to earthquake risk in Israel, which is the primary catastrophic event to which it is exposed, is performed using international models, and Clal Insurance acquires protection against this risk based on this estimate. The assessment of the exposure to other catastrophic risks is primarily performed by means of internal studies.

The risk estimates are brought for review on a periodic basis to the managements and boards of directors of the insurers in the Group.

For additional details regarding insurance risks, see section E below.

Note 39 - Risk Management (Cont.)**A. General (Cont.)****A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)****Processes and methods for the management and measurement of various risks: (Cont.)****3. Credit risks**

With regard to credit risks in the investment assets, Clal Insurance Group operates in the various credit areas by means of specialized units. The boards of directors and investment committees of the Group's institutional entities have established a detailed credit policy which provide guidelines and restrictions regarding the credit types, credit ratings, exposure to market branches, geographical exposure, exposure to groups of borrowers and individual borrowers, to the various portfolios managed according to their characteristics, and according to the regulations which are applicable to them. This operation is supported by a procedural, organizational and automational infrastructure which is used to estimate the credit risks and to monitor and handle activities for early identification of problematic debts. A credit approval hierarchy was established in the institutional entities, in addition to ongoing reports which are submitted to senior management, to the investment committees, to credit committees and to the boards of directors, regarding credit exposures in the portfolios.

The work procedures include, inter alia, tests and analyses which are performed upon provision of credit, and routine monitoring of the composition and quality of the credit exposures, including by means of automated systems which track the exposures by various cross-sections, and against the restrictions which have been established, on the level of the individual portfolio, of the Group's various member companies, and of the Clal Insurance Group. Before engaging in material transactions, a comprehensive process of risk identification and assessment takes place, inter alia, with the participation of the risk management unit.

For the assessment of credit risks in certain transactions, the Clal Insurance Group also used an internal rating model which was developed by it and approved by the Commissioner.

Credit transactions in a scope exceeding the determined limit are presented for discussion and advance approval in the relevant credit committee and/or investment committee, as applicable, in accordance with the hierarchy of authorities which was determined for the approval of credit transactions.

Clal Insurance Group implements a routine process for the identification of sensitive and troubled debts, which is also evaluated by the risk management unit. The Group has a troubled debts center, which includes a team of relevant senior position holders, which is responsible for ongoing evaluation of the debt position of institutional entities in the Group.

The investment control department in Canaf monitors the credit exposures with respect to investments performed by Canaf in the various portfolios, as well as their fulfillment of the credit policies determined for these portfolios. This monitoring is based on the individual exposure data for each borrower, including data pertaining to the Group of borrowers, rating and branch classification. The control unit in Canaf applies operational controls to the credit activities as part of the activity of the organizational control unit.

In addition to the restrictions which were determined with respect to credit risk in investing activities, the board of directors of Clal Insurance determined restrictions with respect to the total exposure to counterparties in all of the Group's operations. The risk management unit evaluates the aggregation of the various exposures to counterparties which are due to all of the Group's activities, with the assistance of automated systems which allow monitoring of the exposures on the level of the single portfolio, on the level of the various companies in the Group, and on the level of the Clal Insurance Group, by various types of segmentation, and evaluates the fulfillment of the determined restrictions. Based on this information, the risk management unit evaluates and analyzes the exposure to counterparties, with reference to the quantitative data regarding the exposure, such as: portfolio distribution by branches and ratings, and concentration indicators which monitor changes in the portfolio's risk level.

For details regarding the exposure to credit risks, including the policy regarding exposure to reinsurers, see section F below.

Note 39 - Risk Management (Cont.)**A. General (Cont.)****A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)****Processes and methods for the management and measurement of various risks: (Cont.)****4. Operational risks**

The management and control of operational risks is implemented as part of the organizational work routine, under the responsibility of the business managers, and with the professional support of the risk management unit. The organizational system for the management and control of operational risks includes the following entities:

- The operational risks and control managers in the business units and their subordinate employees (hereinafter: "Controllers").
- The manager of the operational risks and control unit in the risk management unit, and his employees.
- The "regulatory bodies", which include designated bodies specializing in specific categories of operational risks, including the supervisor of enforcement, the SOX division, the cybersecurity protection and business continuity division, and the ombudsman.

The internal audit unit also performs audits in various operating segments, which also include identification of operational risks and estimation of exposure and the effectiveness of controls.

The controllers are subordinate to the managers of the business units. Their responsibilities include identifying operational exposures in their units, and working to reduce them, while handling the adequacy of processes, with reference to a variety of aspects, including preventing embezzlement and fraud, compliance with regulations and policies, compliance with procedure, and the adequacy of financial reporting. The controllers receive professional guidance, by means of a matrix, issued by the manager of the operational risks and control unit in the risk management unit, who, as part of his position, is responsible for issuing professional instructions to the controllers, coordinating between the regulatory bodies and the controllers, monitoring the findings, concentrating the overall picture, and reporting on it.

The quantitative estimate of the exposure to operational risks is also performed as part of the calculation of the solvency ratio in accordance with the provisions of the economic solvency regime.

The risk management policy which determined by the boards of directors in the Clal Insurance Group also addresses the management of operational risks. Additionally, a specific policy was determined for various categories of operational risks, including prevention of embezzlement and fraud, cybersecurity risks, business continuity, outsourcing and compliance, including with respect to the regulatory requirements on these subjects.

A3. Control of risks

Clal Insurance Group considers effective control an important component of its risk management system.

As described extensively above, the Group operates an organizational monitoring unit. This unit is responsible for implementing control over the entire array of aspects involving the operations of the Clal Insurance Group, including control of risks of various types.

Additionally, the independent activity of the risk management unit, actuarial unit, comptrollership unit and SOX unit provides an additional layer of control over risks.

In particular, the risk management unit controls the overall exposure to risks in the activities of Clal Insurance Group, and implements controls of financial and insurance risks, including control of its fulfillment of the restrictions regarding market risks in the nostro activities of Clal Insurance Group, in restrictions on the exposure to reinsurers, and in restrictions on the exposure to counterparties, which were determined in the policy regarding risk management and monitoring of risks in members' portfolios. The risk management unit also assesses the quality of risk identification and assessment, with reference to certain transactions which are performed in Canaf.

The Company's internal auditor also conducts periodic reviews which are based, inter alia, on risk surveys.

Note 39 - Risk Management (Cont.)**B. Legal requirements for institutional entities**

Institutional entities are legally obliged to appoint a chief risk officer, whose principal responsibilities are as follows:

- Ensuring the existence of high-quality processes to identify material insurance and financial risks inherent in assets which are held against savings of members and policyholders and in other assets of the insurance company, and inherent in the liabilities of the insurance company or pension fund, as applicable, which may materially affect the rights of members and policyholders, and the financial stability of the institutional entity.
- Quantification of exposure and estimation of the potential impact of the significant risks which were identified, in accordance with tools and criteria which will be defined by the insurer, and assessment of the methods used to manage the identified risks.
- Periodic reporting to the CEO, the board of directors, the investment committees and the credit committees regarding the risks.
- Addressing the risks which are inherent in new products, regulatory changes, entry into new investment segments and entry into transactions which, as determined by the board of directors, have the potential to significantly affect the business results of the institutional entity or the funds of its customers.

The Group appointed a risk manager who acts, inter alia, to implement the regulatory requirements in this area.

Various regulatory requirements regarding risk management apply to the institutional entities in the Group, of which the primary requirements include the following:

- The provisions of the consolidated circular regarding the appointment of a risk manager, as well as his authorities, functions and methods of activity.
- A requirement to establish of a risk exposure policy, exposure limits and procedures and tools for the measurement and control of risks.
- Provisions regarding the management, assessment and control of credit risks.
- Provisions regarding the management of exposure to reinsurers.
- Provisions regarding the handling of specific categories of operational risks: embezzlement and fraud, cybersecurity risks, outsourcing, compliance, prevention of money laundering and monitoring of financial reporting (SOX).

The Company is also subject to the provisions of the economic solvency regime (for additional details, see Note 16(e)(3)(c)).

For details regarding legal requirements and capital management policies, see Notes 16(d)-(f).

Note 39 - Risk Management (Cont.)**C. Market Risks**

Market risk is the risk that the reported value, fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, inter alia, risks arising from changes in interest rates, stock prices, the CPI and foreign currency.

1. Investment-linked contracts

Most of Clal Insurance's investment-linked liabilities are liabilities with respect to contracts where the insurance benefits which the beneficiary is entitled to receive are contingent upon returns produced by certain investments of Clal Insurance, less management fees, as described below:

- A. Regarding policies which were issued until 2004 - fixed management fees and variable management fees at a rate of 15% of real returns, after deducting fixed management fees.
- B. Regarding policies which were issued in 2004 and thereafter - fixed management fees.

In general, with respect to those products, Clal Insurance is not directly exposed to market risks through their impact on the fair value of the investments. However, Clal Insurance is indirectly exposed to market risks through their potential impact on the variable management fees, in accordance with the volatility in returns charged to policyholders, only with regard to investment-linked policies issued until 2004, and on the total amount of the liability from which the fixed management fees of Clal Insurance are derived, with respect to all investment-linked products. Additionally, in certain conditions, exposure may be created for the Company to changes in the interest rates and in the margins which affect the discount rate which is used by the Company in the calculation of the liabilities, including the effect on the K factor and on the deferred pension liabilities (for details, see Note 39(e)). Additionally, with respect to those products, Clal Insurance has indirect exposure to changes in the consumer price index, which will affect the real returns that were achieved, and accordingly, on the variable management fees which will be collected.

In light of the above, the sensitivity tests and maturity dates of the liabilities specified in the following sections do not include investment-linked contracts, except through the effect of interest on the K factor and on the deferred pension liabilities with respect to those contracts.

The scope of liabilities in investment-linked contracts with respect to policies which were issued until 2004, as of December 31, 2016, amounts to approximately NIS 35.9 billion (last year - approximately NIS 34.8 billion). Any change of 1% in the scope of accrual affects fixed management fees in the amount of approximately NIS 2 million. Any change of 1% in the real returns in this portfolio affects the variable management fees in the amount of approximately USD 48 million.

For details regarding the management fees which were collected during the reporting period, see Notes 20 and 30.

2. Sensitivity tests to market risks

The following is a sensitivity analysis performed with regard to the impact on the change in variables on income for the period and on comprehensive income.

The sensitivity analysis was prepared in reference to the financial assets, financial liabilities and liabilities with respect to insurance contracts and investment contracts, with reference to the relevant risk variable as of each reporting date, and assuming that all other variables remain constant. Thus, for instance, the change in interest rate includes the assumption that all other parameters remain unchanged. The sensitivity analysis does not include, as stated above, the impact of investment-linked contracts, and particularly, does not take into account indirect effects for assets with respect to investment-linked liabilities, through their effect on the management fees which will be collected. It was also assumed that the above changes do not reflect impairment of assets presented at amortized cost, or of available for sale financial assets, and therefore, the above sensitivity analysis did not take into account impairment losses with respect to these assets. The sensitivity analysis only reflects direct impacts, without secondary impacts.

It should also be noted that the sensitivities are not necessarily linear, such that very large or small changes with regard to the changes described below are not necessarily a simple extrapolation of the impact of those changes.

Note 39 - Risk Management (Cont.)**C. Market risks (Cont.)**2. Sensitivity tests to market risks (Cont.)

As of December 31, 2017:	Interest rates ¹⁾		Investments in capital instruments ²⁾		Rate of change in the Consumer Price Index		Rate of change in foreign currency exchange rate ^{3) 6)}	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
NIS in thousands								
Income (loss) ⁵⁾	339,864	(1,373,535)	24,533	(14,902)	(15,146)	13,904	(114,853)	114,853
Comprehensive income (equity) ^{4) 5)}	112,672	(1,109,851)	274,978	(265,377)	(15,146)	13,904	73,262	(73,262)
As of December 31, 2016:	Interest rates ¹⁾		Investments in capital instruments ²⁾		Rate of change in the Consumer Price Index		Rate of change in foreign currency exchange rate ^{3) 6)}	
	+1%	-1%	+10%	-10%	+1%	-1%	+10%	-10%
NIS in thousands								
Income (loss) ⁵⁾	245,755	(1,188,729)	12,672	(6,488)	(19,046)	19,046	(76,840)	76,840
Comprehensive income (equity) ^{4) 5)}	40,911	(956,913)	221,397	(215,213)	(19,046)	19,046	59,653	(59,653)

- 1) The sensitivity analysis with regard to interest changes also pertains to fixed interest instruments, and to variable interest instruments. Relative to fixed interest instruments, the exposure is proportional to the instrument's book value. The exposure with regard to variable interest instruments is calculated in relation to the cash flow derived from the financial instrument.
The sensitivity analyses are based on book values, rather than on economic value. Therefore, the sensitivity tests did not include taking into account, out of the assets and liabilities with direct interest rate risk and at fixed interest, the non-marketable debt assets, which are classified as loans and receivables (totaling approximately NIS 22 billion), cash and cash equivalents, reinsurance assets, liabilities with respect to insurance contracts and investment contracts, except as stated below, financial liabilities and reinsurance deposits and balances. Additionally, the rate of assets to which the interest sensitivity analysis was applied amounted to approximately 16% of total assets for non-investment-linked contracts. The rate of liabilities to which the sensitivity analysis was applied, out of the total liabilities with respect to non-investment-linked insurance contracts, amounted to approximately 0.3%.
The sensitivity analysis includes the impact on the insurance liabilities, due to the low interest rate environment in which the Company has operated in recent years, which affects the amount of insurance liabilities.
For additional details regarding the strengthening of insurance reserves, in light of the low interest rate environment and its impact on the life insurances in life insurance during the reporting year, see section e(e1)(d) below.
- 2) Investments in instruments with no fixed flows, or alternatively, regarding which the Company does not have information regarding such flows (in accordance with the definition in IFRS 7), do not include investments in investee companies accounted by the equity method.
- 3) One primary foreign currency is the US Dollar, as specified in the details regarding assets and liabilities, segmented by linkage bases, in section 4 below.
- 4) The sensitivity analyses performed with regard to comprehensive income also reflect the impact on income for the period.
- 5) The sensitivity analyses were performed with regard to income for the period after tax, and with regard to comprehensive income after tax.
- 6) The sensitivity tests to foreign currency, as presented above, include sensitivity with respect to non-monetary items denominated in foreign currency, in the amount of approximately NIS 2,879 million, with respect to an increase of 10% in foreign currency exchange rates, including income in the amount of 39 million and comprehensive income in the amount of approximately NIS 187 million (2016: approximately NIS 40 million and approximately NIS 147 million, respectively). The primary currency in these instruments is the US Dollar.

Note 39 - Risk Management (Cont.)**C. Market risks (Cont.)**3. Direct interest rate risk

Direct interest rate risk is the risk that a change in market interest will cause a change in the fair value or in the cash flow arising from an asset or liability. This risk relates to assets settled in cash. The addition of the word "direct" emphasizes the fact that the change in interest rate may also affect other asset types, though not directly, such as the impact of the change in interest rate on stock prices. It is emphasized that changes in fair value are not necessarily reflected in the book value of the financial instruments (see Note 3(f)).

The following are details regarding assets and liabilities by exposure to interest rate risk:

NIS in thousands	As of December 31, 2017		
	Non-investment-linked	Investment-linked	Total
Assets with direct interest rate risk			
Marketable debt assets	5,532,612	24,285,740	29,818,352
Non-marketable debt assets:			
HETZ bonds and deposits in treasury	15,767,858	-	15,767,858
Other	6,065,236	6,534,433	12,599,669
Other financial investments	409,592	5,662,889	6,072,481
Cash and cash equivalents	1,405,863	4,529,446	5,935,309
Reinsurance assets	2,610,451	191,325	2,801,776
Total assets with direct interest rate risk	31,791,612	41,203,833	72,995,445
Assets without direct interest rate risk *)	9,855,574	23,106,487	32,962,061
Total assets	41,647,186	64,310,320	105,957,506
Liabilities with direct interest rate risk			
Financial liabilities	3,296,605	116,449	3,413,054
Liabilities with respect to insurance contracts and investment contracts	30,184,292	63,346,079	93,530,371
Other	728,082	171,228	899,310
Total liabilities with direct interest rate risk *)	34,208,979	63,633,756	97,842,735
Liabilities without direct interest rate risk	2,770,281	253,289	3,023,570
Capital	5,091,201	-	5,091,201
Total capital and liabilities	42,070,461	63,887,045	105,957,506
Total assets, less liabilities	4,667,926	423,275	5,091,201
Off-balance sheet risk	734,010	767,839	1,501,849

*) Assets and liabilities without direct interest rate risk - Include stocks, property, plant and equipment and investment property, deferred acquisition costs and intangible assets, as well as balance-sheet groups of property, plant and equipment (other accounts receivable, outstanding premiums, and current balances of insurance companies) whose average lifetime is up to one year, and therefore the interest rate risk with respect to which is relatively low.

Notes:

- Regarding non-investment-linked life insurance - the life insurance portfolio is primarily comprised of investment-linked policies, which are primarily backed by designated (HETZ) bonds issued by the Bank of Israel throughout the entire lifetime of the policy. The Company therefore has financial coverage which overlaps with the main financial liabilities, in terms of interest and linkage over the lifetime of the policies. As of December 31, 2017 and 2016, the designated bonds covered approximately 77% and 75%, respectively, of all insurance liabilities in life insurance in these plans.
- With respect to the remaining investments of Clal Insurance, as part of its life and health insurance activities, exposure exists to the interest rates which will be in force upon the refinancing of investments the lifetime of which may be shorter than the average lifetime of the insurance liabilities. With respect to these products, including with respect to ongoing payment claims in long term care insurance and loss of working capacity insurance, the calculation of the insurance liabilities is based on the nominal interest rate in the policy, subject to an evaluation of the discount rate in some of the pension reserves and to a liability adequacy test (LAT) which is calculated based on the risk-free interest rate curve. For additional details regarding the discount rates of insurance liabilities, see section e(e1)(d) and e(e2)(4)(a) below.

Note 39 - Risk Management (Cont.)**C. Market risks (Cont.)****3. Direct interest rate risk (Cont.)**

NIS in thousands	As of December 31, 2016		
	Non- investment- linked	Investment- linked	Total
Assets with direct interest rate risk			
Marketable debt assets	5,575,059	21,106,921	26,681,980
Non-marketable debt assets:			
HETZ bonds and deposits in treasury	15,329,115	-	15,329,115
Other	5,952,598	6,243,667	12,196,265
Other financial investments	366,947	4,130,784	4,497,731
Cash and cash equivalents	1,390,775	2,953,235	4,344,010
Reinsurance assets	2,040,880	187,159	2,228,039
Total assets with direct interest rate risk	30,655,374	34,621,766	65,277,140
Assets without direct interest rate risk *)	9,239,862	23,773,854	33,013,716
Total assets	39,895,236	58,395,620	98,290,856
Liabilities with direct interest rate risk			
Financial liabilities	3,420,142	214,853	3,634,995
Liabilities with respect to insurance contracts and investment contracts	29,768,979	57,275,793	87,044,772
Other	699,784	-	699,784
Total liabilities with direct interest rate risk	33,888,905	57,490,646	91,379,551
Liabilities without direct interest rate risk *)	1,949,573	248,527	2,198,100
Capital	4,713,205	-	4,713,205
Total capital and liabilities	40,551,683	57,739,173	98,290,856
Total assets, less liabilities	4,056,758	656,447	4,713,205
Off-balance sheet risk	623,037	936,992	1,560,029

*) Assets and liabilities without direct interest rate risk - Including stocks, property, plant and equipment and investment property, deferred acquisition costs and intangible assets, as well as balance-sheet groups of financial assets (other accounts receivable, outstanding premiums, and current balances of insurance companies) whose average lifetime is up to one year, and therefore the interest rate risk with respect to which is relatively low.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 39 - Risk Management (Cont.)**C. Market risks (Cont.)**

4. Details regarding assets and liabilities, distributed by linkage bases

As of December 31, 2017:

	NIS		Foreign currency				Non-monetary items	Liabilities with respect to investment-linked contracts ¹⁾	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other			
NIS in thousands									
Intangible assets	-	-	-	-	-	-	1,391,753	-	1,391,753
Deferred tax assets	-	-	-	-	-	-	8,637	-	8,637
Deferred acquisition costs	-	-	-	-	-	-	1,939,452	5,122	1,944,574
Property, plant and equipment	-	-	-	-	-	-	231,670	-	231,670
Investments in investee companies accounted by the equity method	-	-	-	-	-	-	296,172	-	296,172
Investment property for investment-linked contracts	-	-	-	-	-	-	-	2,869,967	2,869,967
Other investment property	-	-	-	-	-	-	1,212,109	-	1,212,109
Reinsurance assets	9,075	2,596,830	2,875	1,671	-	-	-	191,325	2,801,776
Current tax assets	-	176,496	-	-	-	-	-	-	176,496
Other accounts receivable	156,657	68,098	3,504	736	-	-	50,448	227,646	507,089
Outstanding premiums	13,130	523,417	101,073	369	-	-	-	255,853	893,842
Financial investments for investment-linked contracts	-	-	-	-	-	-	-	56,230,961	56,230,961
Other financial investments:									
Marketable debt assets	358,872	4,768,954	369,548	23,958	11,280	-	-	-	5,532,612
Non-marketable debt assets	1,038,899	20,458,575	203,983	13,112	118,525	-	-	-	21,833,094
Stocks	-	-	-	-	-	-	1,367,841	-	1,367,841
Other	59,381	20,360	242,169	68,271	2,791	9,616	2,321,016	-	2,723,604
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	4,529,446	4,529,446
Other cash and cash equivalents	1,154,984	-	224,366	26,370	143	-	-	-	1,405,863
Total assets	2,790,998	28,612,730	1,147,518	134,487	132,739	9,616	8,819,098	64,310,320	105,957,506

1) See Note 39(g) below.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 39 - Risk Management (Cont.)**C. Market risks (Cont.)**

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2017 (Cont.):

NIS in thousands	NIS		Foreign currency				Non-monetary items	Liabilities with respect to investment-linked contracts ¹⁾	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other			
Total capital	-	-	-	-	-	-	5,091,201	-	5,091,201
Liabilities									
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	30,178	30,112,350	37,542	4,222	-	-	-	-	30,184,292
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	63,346,079	63,346,079
Deferred tax liabilities	-	-	-	-	-	-	511,333	-	511,333
Liabilities with respect to employee benefits, net	84,252	-	-	-	-	-	-	-	84,252
Deferred liability notes	-	-	-	-	-	-	-	-	-
Other accounts payable	1,358,763	1,351,268	133,366	5,533	-	-	48,685	424,517	3,322,132
Current tax liabilities	-	5,163	-	-	-	-	-	-	5,163
Financial liabilities	1,576,975	1,710,738	-	8,892	-	-	-	116,449	3,413,054
Total liabilities	3,050,168	33,179,519	170,908	18,647	-	-	560,018	63,887,045	100,866,305
Total capital and liabilities	3,050,168	33,179,519	170,908	18,647	-	-	5,651,219	63,887,045	105,957,506
Total balance sheet exposure	(259,170)	(4,566,789)	976,610	115,840	132,739	9,616	3,167,879	423,275	-
Exposure to underlying assets via derivatives, in delta terms	1,232,044	1,638,135	(2,479,321)	(162,590)	(297,731)	(46,696)	116,160	-	-
Total exposure	972,874	(2,928,654)	(1,502,711)	(46,750)	(164,992)	(37,080)	3,284,039	423,275	-

1) See Note 39(g) below.

The majority of insurance contracts issued by the consolidated insurance companies in Israel are denominated in NIS, and their exposure to changes in exchange rates is immaterial. In cases where exposure to exchange rates exists, it primarily results from exposure to the USD and to the EUR.

Note 39 - Risk Management (Cont.)**C. Market risks (Cont.)**

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2016

	NIS		Foreign currency				Non-monetary items	Liabilities with respect to investment-linked contracts ¹⁾	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other			
NIS in thousands									
Intangible assets	-	-	-	-	-	-	1,505,403	-	1,505,403
Deferred tax assets	-	-	-	-	-	-	10,344	-	10,344
Deferred acquisition costs	-	-	-	-	-	-	1,917,680	5,684	1,923,364
Property, plant and equipment	-	-	-	-	-	-	252,567	-	252,567
Investments in investee companies accounted by the equity method	-	-	-	-	-	-	270,044	-	270,044
Investment property for investment-linked contracts	-	-	-	-	-	-	-	2,742,180	2,742,180
Other investment property	-	-	-	-	-	-	1,185,907	-	1,185,907
Reinsurance assets	3,884	2,031,427	3,898	1,671	-	-	-	187,159	2,228,039
Current tax assets	-	135,969	-	-	-	-	-	-	135,969
Other accounts receivable	133,281	17,163	17,306	859	-	-	20,323	103,272	292,204
Outstanding premiums	63,485	471,537	121,623	277	-	-	-	209,596	866,518
Financial investments for investment-linked contracts	-	-	-	-	-	-	-	52,194,494	52,194,494
Other financial investments:									
Marketable debt assets	648,265	4,578,540	339,715	-	8,539	-	-	-	5,575,059
Non-marketable debt assets	854,007	20,008,240	208,722	36,687	174,057	-	-	-	21,281,713
Stocks	-	-	-	-	-	-	1,139,560	-	1,139,560
Other	5,187	14,463	207,447	115,269	24,558	-	1,976,557	-	2,343,481
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	2,953,235	2,953,235
Other cash and cash equivalents	1,173,502	-	123,424	73,270	19,963	616	-	-	1,390,775
Total assets	2,881,611	27,257,339	1,022,135	228,033	227,117	616	8,278,385	58,395,620	98,290,856

1) See Note 39(g) below.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 39 - Risk Management (Cont.)**C. Market risks (Cont.)**

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2016 (Cont.):

NIS in thousands	NIS		Foreign currency				Non-monetary items	Liabilities with respect to investment-linked contracts ¹⁾	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other			
Total capital	-	-	-	-	-	-	4,713,205	-	4,713,205
Liabilities									
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	24,399	29,699,295	42,782	2,503	-	-	-	-	29,768,979
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	57,275,793	57,275,793
Deferred tax liabilities	-	-	-	-	-	-	423,293	-	423,293
Liabilities with respect to employee benefits, net	74,577	-	-	-	-	-	-	-	74,577
Deferred liability notes	-	-	-	-	-	-	-	-	-
Other accounts payable	1,040,571	895,923	136,030	9,143	-	-	68,466	248,527	2,398,660
Current tax liabilities	-	1,354	-	-	-	-	-	-	1,354
Financial liabilities	1,657,421	1,758,532	3,777	412	-	-	-	214,853	3,634,995
Total liabilities	2,796,968	32,355,104	182,589	12,058	-	-	491,759	57,739,173	93,577,651
Total capital and liabilities	2,796,968	32,355,104	182,589	12,058	-	-	5,204,964	57,739,173	98,290,856
Total balance sheet exposure	84,643	(5,097,765)	839,546	215,975	227,117	616	3,073,421	656,447	-
Exposure to underlying assets via derivatives, in delta terms	1,291,884	1,302,712	(1,952,871)	(291,141)	(333,110)	(36,584)	19,110	-	-
Total exposure	1,376,527	(3,795,053)	(1,113,325)	(75,166)	(105,993)	(35,968)	3,092,531	656,447	-

1) See Note 39(g) below.

The majority of insurance contracts issued by the consolidated insurance companies in Israel are denominated in NIS, and their exposure to changes in exchange rates is immaterial. In cases where exposure to exchange rates exists, this is primarily due to exposure to the USD and to the EUR.

Note 39 - Risk Management (Cont.)**C. Market risks (Cont.)**

5. Details regarding exposure to market branches with respect to capital instruments

NIS in thousands	As of December 31, 2017					
	Listed on the Tel Aviv 125 index	Listed on the Yeter stock indices	Non- mark etable	Foreign	Total	% of total
Industry	77,478	-	3,173	-	80,651	6%
Construction, real estate and infrastructure	212,614	18,292	-	202,863	433,769	31%
Electricity and water	140,441	-	321	32,176	172,938	13%
Commerce	26,615	29,223	-	-	55,838	4%
Tourism and hotels	-	-	-	10,333	10,333	1%
Telecommunications and IT services	74,096	10,450	-	50,966	135,512	10%
Banks	165,093	2,148	737	9,354	177,332	13%
Financial services	87,187	7,051	-	12,875	107,113	8%
Other business services	-	-	74,767	10,999	85,766	6%
Food	28,569	-	-	-	28,569	2%
Drugs and medical services	38,804	-	-	41,172	79,976	6%
Total	850,897	67,164	78,998	370,738	1,367,797	100%

NIS in thousands	As of December 31, 2016					
	Listed on the Tel Aviv 125 index	Listed on the Yeter stock indices	Non- mark etable	Foreign	Total	% of total
Industry	50,919	31,552	-	11,477	93,948	8%
Construction and real estate	133,491	13,110	-	12,069	158,670	14%
Electricity and water	155,962	-	-	7,131	163,093	15%
Commerce	38,804	26,714	-	6,068	71,586	6%
Tourism and hotels	-	-	-	1,921	1,921	-
Telecommunications and IT services	88,954	16,673	-	25,284	130,911	12%
Banks	169,972	-	-	93	170,065	15%
Financial services	81,928	181	-	-	82,109	7%
Other business services	-	6,655	76,995	10,831	94,481	8%
Food	23,225	9,501	-	3,946	36,672	3%
Drugs and medical services	98,899	1,092	-	35,582	135,573	12%
Total	842,154	105,478	76,995	114,402	1,139,029	100%

Note 39 - Risk Management (Cont.)**D. Liquidity risks****1. General**

The Company's policy is to verify the existence of the cash balances which it requires in order to service its financial liabilities, inter alia, through dividend distributions from investee companies.

Clal Insurance Group is exposed to risks arising from uncertainty associated with the date when it will be required to pay claims and other benefits to policyholders, relative to the total amount of funds available for this purpose at that time. It is noted that the possible need to raise sources in an unexpected manner, and within a short time, may require significant and rapid disposal of assets, and the sale of such assets at prices that may not necessarily reflect their market value.

A significant part of the insurance liabilities of Clal Insurance in the long term savings segment and the health segment is not exposed to liquidity risk, due to the characteristics of the various insurance contracts, as described below:

- A. Investment-linked contracts - Under the contractual terms, the owners are entitled to receive only the value of the aforementioned investments. Therefore, if the value of the investments declines for any reason, a corresponding decline will take place in Clal Insurance's amount of liabilities. The total liabilities in these contracts as of December 31, 2017 and 2016 amounted to approximately NIS 63.3 billion and approximately NIS 57.3 billion, respectively.
- B. Approximately 77% of the liabilities with respect to non-investment-linked insurance contracts and investment contracts in the life insurance branch which were issued until 1990 are backed by designated (HETZ) bonds, which are issued by the Bank of Israel. Clal Insurance is entitled to realize these bonds when the redemption of the aforementioned policies is required. The scope of HETZ bonds as of December 31, 2017 and 2016 amounted to a total of approximately NIS 13.7 billion and approximately NIS 13.2 billion, respectively.
- C. Deposits with the Accountant General are held with respect to approximately 89% of the liabilities to members of the guaranteed-return provident fund "Bar A Keren Gemulim Ltd." (hereinafter: "**Bar A**"), which Bar A is entitled to withdraw upon demand for redemption of member funds. The scope of these deposits as of December 31, 2017 and 2016 amounted to a total of approximately NIS 2.1 billion.

The Group's potential liquidity risk therefore primarily arises from the Group's balance of assets held against liabilities which are non-investment-linked and which are also not designated (HETZ) bonds or deposits with the Accountant General. The sum of these assets amounted to a total of approximately NIS 20.8 billion (last year - approximately NIS 19.9 billion), and constitutes approximately 20% (last year - approximately 20%) of the total assets in the statement of financial position.

Out of assets which are not held against investment-linked liabilities, a total of approximately NIS 9.4 billion (last year - approximately NIS 9.1 billion) constitutes marketable assets and balances of cash and cash equivalents.

It is noted that in accordance with the Investment Rules Regulations, the consolidated insurance companies are required to hold liquid assets against liabilities due to insurance business in an amount which will not fall below 30% of part of the minimum equity required of them. In this regard, liquid assets, as defined in the Ways of Investment Regulations include, inter alia, government bonds, cash and cash equivalents, corporate bonds and short term deposits with high ratings, stocks which are included in major indices, ETF's and mutual funds.

The institutional entities in Israel manage their assets and liabilities in accordance with the relevant requirements set forth in the Control Regulations, including the amendments enacted pursuant thereto.

Note 39 - Risk Management (Cont.)**D. Liquidity risks (Cont.)****2. Estimated maturity dates of liability amounts**

The following tables present the estimated maturity dates of the Company's non-discounted insurance and financial liability amounts. Due to the fact that the amounts in question are not discounted, they do not correspond to the balances of financial and insurance liabilities in the statement of financial position.

- A. The estimated repayment dates of the liabilities in the long term savings segment and in the health segment were included in the tables as follows:

Savings funds - On the basis of contractual repayment dates, i.e., retirement age, without cancellation discounts, and assuming that the entire savings will continue in the capital track, and not the annuity track.

Paid retirement, paid loss of working capacity, and paid long term care - Based on an actuarial estimate.

Outstanding claims and risk reserves - Reported under the item for "Without defined maturity date".

- B. The liabilities in non-life insurance, for the purpose of this note, also include net surplus revenues - see Note 3(d)(2)(b)(4)(4.3), the unexpected deviations reserve, and the reserve for unearned premiums, and are net of deferred acquisition costs.

The estimated maturity dates of the aforementioned undertakings were included in the tables as follows:

Liabilities in statistical branches which are estimated by an actuary - are reported in the columns on the basis of an actuarial estimate which assigns an estimated date to the amount of non-discounted liabilities, based on past claims payment experience.

Insurance liabilities in non-statistical debt branches and net surplus revenues - are reported in a column without a defined repayment date.

Insurance liabilities in property and others branches, which are not statistical or on whose estimates the actuaries do not sign - are reported in the column representing a repayment period of up to 3 years.

The liabilities are exposed to reserve risks, as described in Section E below. The actuarial models are based on the assumption that the pattern of past behavior and claims will also continue in the future. The estimated flow is exposed to model risk and to parameter risk, which includes the risk that the amount that paid to settle the insurance liabilities will be different than expected.

- C. The maturity dates of the financial liabilities and liabilities with respect to investment contracts were included on the basis of the contractual maturity dates. In contracts where the counterparty is entitled to choose the timing of the payment, the liability is included on the basis of the earliest date when the Company may potentially be required to pay the liability.

The repayment dates of liabilities with respect to investment contracts in Bar A were calculated based on the average abandonment rate and redemption rate.

Liabilities in the long term savings segment and health segment *)

NIS in thousands	Up to one year **)	One year to 5 years	5 years to 10 years	10 years to 15 years	Over 15 Years	No defined repayment date	Total
As of December 31, 2017	3,611,361	5,760,036	4,197,563	2,460,884	4,501,267	1,766,012	22,297,123
As of December 31, 2016	3,166,879	5,775,173	4,147,938	2,395,204	2,875,471	1,865,000	20,225,665

*) Excluding liabilities with respect to investment-linked contracts.

***) The liabilities up to one year include a total of NIS 515,243 thousand (as of December 31, 2016 - NIS 468,481 thousand), repayable on demand. These liabilities were classified as required for repayment in up to one year, despite the fact that the actual repayment dates may be in later years.

Note 39 - Risk Management (Cont.)**D. Liquidity risks (Cont.)****(2) Estimated maturity dates of liability amounts (Cont.)****Liabilities with respect to insurance contracts**

NIS in thousands	<u>Up to 3 years</u>	<u>3 years to 5 years</u>	<u>5 years</u>	<u>No defined repayment date</u>	<u>Total</u>
As of December 31, 2017	3,349,917	858,994	940,891	1,161,303	6,311,106
As of December 31, 2016	3,356,813	921,277	1,029,721	1,108,772	6,416,583

Financial liabilities and liabilities with respect to investment contracts

NIS in thousands	<u>Book value</u>	<u>Up to one year</u>	<u>One year to 5 years</u>	<u>5 years to 10 years</u>	<u>10 years to 15 years</u>	<u>Over 15 years</u>	<u>No defined repayment date</u>	<u>Total</u>
<u>As of December 31, 2017</u>								
Liabilities with respect to investment contracts	1,707,619	137,613	465,838	445,792	330,816	324,938	2,622	1,707,619
Liabilities with respect to investment-linked investment contracts	1,721,791	-	-	-	-	-	1,721,791	1,721,791
Financial liabilities	3,242,364	166,500	1,227,481	2,524,791	-	-	-	3,918,772
Other accounts payable	3,273,447	3,273,447	-	-	-	-	-	3,273,447
Total	<u>9,945,221</u>	<u>3,577,560</u>	<u>1,693,319</u>	<u>2,970,583</u>	<u>330,816</u>	<u>324,938</u>	<u>1,724,413</u>	<u>10,621,629</u>
<u>As of December 31, 2016</u>								
Liabilities with respect to investment contracts	2,328,379	153,064	516,212	476,345	339,335	840,435	2,988	2,328,379
Liabilities with respect to investment-linked investment contracts	2,027,483	-	-	-	-	-	2,027,483	2,027,483
Financial liabilities	3,315,333	226,980	661,516	2,144,422	1,441,971	-	-	4,474,889
Other accounts payable	2,330,194	2,330,194	-	-	-	-	-	2,330,194
Liabilities to banking corporations and others	73,089	3,089	70,000	-	-	-	-	73,089
Total	<u>10,074,478</u>	<u>2,713,327</u>	<u>1,247,728</u>	<u>2,620,767</u>	<u>1,781,306</u>	<u>840,435</u>	<u>2,030,471</u>	<u>11,234,034</u>

Note 39 - Risk Management (Cont.)**D. Liquidity risks (Cont.)**Analysis of expected disposal dates of financial assets

As of December 31, 2017

NIS in thousands	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>5</u> <u>years</u>	<u>Not yet</u> <u>determined</u>	<u>With</u> <u>respect to</u> <u>consolidat</u> <u>ed</u> <u>insurance</u> <u>companies</u> <u>registered</u> <u>in Israel ¹⁾</u>	<u>Total</u>
Fair value through profit and loss								
Marketable debt assets	26,589	-	-	-	1,281	-	108,231	136,101
Non-marketable debt assets	-	-	-	-	-	-	5,291	5,291
Stocks	-	-	-	-	-	-	-	-
Other financial investments	-	-	-	-	-	-	224,448	224,448
Available for sale								
Marketable debt assets	-	-	-	-	-	-	5,396,511	5,396,511
Non-marketable debt assets	-	-	-	-	-	-	-	-
Stocks	-	-	-	-	-	44	1,367,797	1,367,841
Other financial investments	-	-	-	-	-	-	2,499,156	2,499,156
Loans and receivables								
Non-marketable debt assets	2,281	1,704	1,102	466	553	-	21,821,697	21,827,803
Total other financial investments	<u>28,870</u>	<u>1,704</u>	<u>1,102</u>	<u>466</u>	<u>1,834</u>	<u>44</u>	<u>31,423,131</u>	<u>31,457,151</u>

As of December 31, 2016

NIS in thousands	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>5</u> <u>years</u>	<u>Not yet</u> <u>determined</u>	<u>With</u> <u>respect to</u> <u>consolidat</u> <u>ed</u> <u>insurance</u> <u>companies</u> <u>registered</u> <u>in Israel ¹⁾</u>	<u>Total</u>
Fair value through profit and loss								
Marketable debt assets	19,583	26,441	-	-	-	-	49,640	95,664
Non-marketable debt assets	-	-	-	-	-	-	8,290	8,290
Stocks	-	-	-	-	-	-	-	-
Other financial investments	-	-	-	-	-	-	204,423	204,423
Available for sale								
Marketable debt assets	-	-	-	-	-	-	5,479,395	5,479,395
Non-marketable debt assets	-	-	-	-	-	-	-	-
Stocks	-	-	-	-	-	531	1,139,029	1,139,560
Other financial investments	-	-	-	-	-	-	2,139,058	2,139,058
Loans and receivables								
Non-marketable debt assets	8,397	3,071	1,816	1,148	571	-	21,258,420	21,273,423
Total other financial investments	<u>27,980</u>	<u>29,512</u>	<u>1,816</u>	<u>1,148</u>	<u>571</u>	<u>531</u>	<u>30,278,255</u>	<u>30,339,813</u>

1) For additional details regarding these financial investments, see also Note 14.

Note 39 - Risk Management (Cont.)**E. Insurance risks**

Insurance risks include the following, inter alia:

Underwriting risks: The risk that erroneous costing will be used as a result of deficiencies in the underwriting process, and of the gap between the risk at the time of pricing and the determination of premium, and the actual occurrence, such that the collected premiums are not sufficient to cover future claims and expenses. The gaps may result from incidental changes in business results, and from changes in average claims costs and/or in the prevalence of claims as a result of various factors.

Reserve risks: The risk of an incorrect estimation of insurance liabilities, which may result in the actuarial reserves being insufficient to cover all of the liabilities and claims. The actuarial models which are used by the insurance companies in the Group, inter alia, to estimate their insurance liabilities, are mostly based on the assumption that the pattern of past behavior and claims represent what will happen in the future. The exposure of the Group's insurance companies is comprised of the following risks:

Model risk - The risk that the wrong model will be chosen for pricing and/or for the evaluation of insurance liabilities;

Parameter risk - The risk that incorrect parameters will be used, which may result in a situation wherein, inter alia, the amount paid to settle the insurance liabilities of Clal Insurance, or the settlement date of the insurance liabilities, is different than expected.

Parameter risk - The risk that incorrect parameters will be used, which may result in a situation wherein, inter alia, the amount paid to settle the insurance liabilities, or the settlement date of the insurance liabilities, is different than expected.

The total maximum expected loss in non-life insurance business operations, as a result of the exposure to a single damage event or to the accumulation of damages with respect to a particularly large event, with an MPL of approximately 1.5% in the apartment branches and approximately 2.5% in the other property branches, amounts to approximately NIS 8,025 million gross and approximately NIS 53 million on self-retention, as of December 31, 2017.

For details regarding the various insurance products with respect to which insurance risk is created for the insurer, see details regarding insurance liabilities by insurance risks in Notes 5, 19, 20(a) and 21.

E1. Insurance risk in life and health insurance contracts**Non-life**

The following describes the various insurance products and the assumptions used to calculate the liabilities in respect thereto, by product type.

In general, according to instructions issued by the Commissioner, the insurance liabilities are calculated by an actuary, using generally accepted actuarial methods in Israel, and in a manner that is consistent with the previous year. The liabilities are calculated using the relevant coverage data, including the policyholder's age and gender, the insurance period, the insurance commencement date, insurance type, periodic premium and insurance amount.

A. Actuarial methods used to calculate insurance liabilities**1. Insurance plans of the "Preferred" and "Investment tracks" types**

Insurance plans of the "Preferred" type and "Investment Tracks" type include an identified savings component. The basic and main reserve is equal to the cumulative savings amount, with the addition of returns under the policy terms, as follows:

- Fund linked to investment portfolio returns (investment-linked contracts).
- CPI-linked fund with the addition of fixed interest is guaranteed or credited with guaranteed returns against adjusted assets (guaranteed-return contracts).

A separate insurance liability is calculated with respect to the insurance components which are attached to these policies (loss of working capacity, death, long term care, etc.), as described below.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)****A. Actuarial methods used to calculate insurance liabilities (Cont.)**

2. For policies of the “Investment Tracks” type, and for immediate annuity (third age) policies, in which the principal is CPI-linked with the addition of guaranteed fixed interest, Clal Insurance calculates an additional reserve with respect to a possible mismatch, if any, between the flow of liabilities and the flow of assets held against them. In this calculation, Clal Insurance performs a comparison between the discounted worth of the flow of liabilities and the discounted worth of the flow of assets, using different interest rate curve scenarios for discounting which are based on the risk-free interest rate curve. The held reserve is the maximum amount of results of various scenarios, insofar as the value of the liabilities is higher than the value of the assets.
3. Insurance plan of the “Traditional” type, with fixed premiums
There are insurance plans of the “Traditional” type with fixed premiums, such as the “Combined” insurance plan, etc., which combine a savings amount component, in case the policyholder remains alive at the end of the plan period, with an insurance component involving risk of death during the plan period, as well as pure savings plans (primarily loss of working capacity and long term care) with fixed premiums.

The insurance liability with respect to these products is calculated for each coverage as a discount of cash flows with respect to expected claims, including payment upon conclusion of the period, less projected future claims. This calculation is based on the assumptions used to price the products and/or on discounts derived from claims experience, including the interest rates (hereinafter: the “**Nominal Interest**”), mortality table or morbidity table. The calculation is performed using a method known as “Net Premium Reserve”, which does not include, in the projected flow of receipts, the component loaded on the premium rate to cover fees and expenses, while also not deducting the expected expenses and fees.

With respect to investment-linked insurance plans of the “Traditional” type, the reserve also includes a provision in the amount of the balance of the actual accumulated bonus. The bonus reflects the difference between the actual return less management fees, and the nominal interest rate.

4. Paid pension liabilities and liabilities to supplement annuity reserves:
Paid pension liabilities are calculated in accordance with life expectancy, based on mortality tables which were created based on the tables which were published in March 2013, in the Commissioner’s circular, on the subject of the calculation of annuity payment reserves in life insurance policies (hereinafter: the “**Annuity Reserves Circular**”).

Liabilities to supplement annuity reserves are calculated for policies which are in effect (paid and settled), which allow lifetime annuity payouts, and which have not yet reached the annuity realization stage, or whose policyholders who reached retirement age but have not yet begun actually receiving an annuity (the “**Policies**”). Liabilities to supplement annuity reserves are calculated in accordance with the probability of annuity withdrawal (realization of eligibility for annuity), in accordance with the annuity tracks which policyholders are expected to choose, and based on life expectancy in accordance with mortality tables, which were published in the annuity reserves circular.

Insofar as the probability of annuity withdrawal is higher, the liabilities required to supplement the annuity reserve are also higher. Changes in the amount of liabilities may also be due to changes in the mix of annuity track selections. Additionally, insofar as the difference between the updated mortality tables in the annuity reserves circular (which indicate increased life expectancy) and the mortality tables which were used to price the guaranteed annuity factors in the policies is greater, the paid pension liability and the liability to supplement annuity reserves are also higher.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)****A. Actuarial methods used to calculate insurance liabilities (Cont.)**4. Paid pension liabilities and liabilities to supplement annuity reserves: (Cont.)

The provision for the supplementation of annuity reserves is performed in a gradual manner with respect to the funds that accumulated in the policies until the end of the reporting period, in consideration of the profit which is expected to arise from the policies until the policyholders reach retirement age. In other words, given sufficient future profitability in the policies, the provision for supplementation of annuity reserves is implemented over the years in parallel with the recognition of profit from management fees or the financial margin with respect to the policies. The gradual provision for premiums received in the future within the framework of the policies will be calculated in a similar manner, beginning on the date the premiums are received.

The gradual provision was implemented based on the K factor, which is derived from the rate of future income which is expected to be received from management fees or from the financial margin, due to investments which are held against the insurance reserve due to the policy or to the premium payments for the policy (hereinafter: the “**K Factor**”). The K factor is taken into account in the calculation of the accrual of the liability to supplement annuity reserves. The higher the K factor, the lower the liability to supplement the annuity reserve which will be recognized in the financial statements, and the higher the amount which will be deferred and recorded in the future.

In the annuity reserves circular, the mortality tables were updated based on the updated estimates regarding life expectancy and the future improvements therein, and additionally, the requirement regarding the method used to determine the K factor was updated. According to this circular, the Company is required to determine, in accordance with the professional judgment of the actuary, two K factors: one, for the liabilities with respect to the investment-linked savings component, and the other for the liabilities with respect to the guaranteed-return savings component. In accordance with the circular, the determination of the K factors will be done cautiously, based on an evaluation of the policies which were sold before June 1, 2001. The analysis will be performed based on conservative financial assumptions, in a manner which indicates that the management fees or the financial margin which are due to investments held against the annuity paying reserve, due to the policy and the premium payments for the policy, may generate future income which could suffice to cover all expenses associated with the policy until the expected retirement age, and to cover the expenses to supplement the accrual. The chosen K factor will be the one which results in adequate distribution of the aforementioned annuity payment reserve.

During the year, the risk-free interest rate curve decreased. In light of the above, the Company updated, including also with respect to other changes in assumptions, the K factors as follows: for guaranteed-return policies, the Company left the K factor at 0.0%, as it was last year. For profit sharing policies, the Company reduced the K factor from 0.96% last year to 0.88% this year.

From time to time, the Company conducts studies in which it evaluates the rate of policyholders who are expected to realize their eligibility to receive annuities, the mix of annuity tracks chosen by retiring policyholders, which were used to determine the annuity payment period and other parameters which affect the amount of the annuity reserve payment liability. The realization rates and annuity tracks are adjusted to the various insurance plans and savings types.

The total estimated cost of the increase in life expectancy may change due to several factors, including, inter alia, changes in life expectancy and in the rate of policyholders who exercise their eligibility to receive annuities, change in the reasons of policyholders for choosing the annuity tracks upon retirement, increase in the savings funds of policyholders, due to future premium payments and/or an increase in investment income, and due to changes in discount interest rate assumptions, and other assumptions.

For additional details regarding the impact of the updates, see d(3) below.

For additional details regarding the amount of the provision and the total cost, see Note 20A.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)****A. Actuarial methods used to calculate insurance liabilities (Cont.)**4. Paid pension liabilities and liabilities to supplement annuity reserves: (Cont.)

For details regarding the discount interest rate for liabilities in the supplementation of annuity reserves, see b(1) below.

5. Other life insurance plans include a pure risk products with fixed premiums (loss of working capacity, death, long term care, etc.) which are sold as independent policies or are attached to policies with a basic plan of the “preferred”, “investment tracks” or “traditional” types. An actuarial liability is calculated with respect to these plans. The calculation was performed using the net premium reserve method. In the other plans, the reserve is calculated in accordance with the amount of IBNR claims.6. Insurance plans for medical expenses, critical illness and personal accidents

Medical expenses insurance plans primarily include coverages for surgery abroad, and for transplants and special treatments abroad, selection of a private surgeon in private hospitals, drugs which are not included in the basket, and additional ambulatory covers.

The illness and hospitalization branch includes the following basic insurance coverages:

- Insurance coverage that provides the policyholder the right to finance private medical services. Within this framework, the insured is given the right to choose the date of receiving the medical service, the identity of the attending physician and the medical institution. The aforementioned insurance coverage provides a refund for medical expenses or compensation, inter alia, in connection with surgery, transplants and/or special treatment overseas etc.
- Insurance coverage in case of diagnosis of a critical illness, in which the policyholder is entitled to receive compensation in the amount which was determined upon joining the insurance.
- Insurance coverage for purchasing medication which is not included in the national health basket.
- Additionally, it is possible to acquire additional coverage, as a rider to the policy, or as a chapter in the basic policy, such as ambulatory services (medical services given not at the time of hospitalization, including consultation with specialized physicians, tests, and physiotherapy treatments).

The personal accidents branch is sold in the Company as an independent policy or as a rider to health policies in the illness and hospitalization branch. The insurance coverages include:

- Accidental death
- Accidental disability and/or loss/reduction of working capacity
- Fractures due to accidents
- Burns due to accidents
- Daily compensation due to hospitalization as a result of an accident
- Compensation due to long term care situation as a result of an accident

With respect to these plans, which are sold as individual policies, the reserve is calculated using the gross premium reserve method, which includes the total expected flow of receipts, including all premium components, and deducts the cost of the liability, and the expected expenses and commissions, and the expected reinsurance payments (if a sub-arrangement for coverage exists). The calculation assumptions regarding parameters pertaining to morbidity assumptions, demographic assumptions and economic assumptions were made on a stringent basis as compared with the pricing basis, which is a commonly accepted practice for the pricing of reserves.

The international travel branch is comprised of a basket of insurance coverages which are intended for policyholders in connection with their time spent abroad, which includes, inter alia, coverage with respect to illness, personal accidents, reduction of travel period, location, extraction and cargo. The insurance period in an international travel policy is specified in days, according to the period of the policyholder’s residence abroad, or for the duration of all travel days in a single calendar year.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)****A. Actuarial methods used to calculate insurance liabilities (Cont.)**6. Insurance plans for medical expenses, critical illness and personal accidents (Cont.)

In the international travel branch, outstanding claims are calculated based on reports submitted by the claims department of Clal Insurance, and on an actuarial valuation performed on the basis of accumulated experience in the portfolio.

Outstanding claims are calculated based on the report submitted by the claims department, and on a statistical model of claim payments based on past experience. The calculation is performed by based on the triangle methods (Bornhuetter-Ferguson, Chain Ladder) for paid claim amounts, for outstanding claims, and for claim amounts by damage months, including a discounting and confidence range for the personal accidents for students branch.

7. With respect to ongoing payment claims, in long term care insurance and in loss of working capacity insurance, an insurance liability is calculated according to the expected payment period, and is discounted according to the product's nominal interest rate.
8. Insurance liabilities with respect to collective insurance are comprised of liabilities with respect to unearned premiums, ongoing claims reserve, outstanding claims, continuity reserve and the provision for future losses, as required. Additionally, the provision for participation in profits is presented under the item for payables, as relevant.
9. Liabilities with respect to outstanding claims in life insurance primarily include provisions for outstanding claims with respect to death and disability cases.

B. Main assumptions used to calculate insurance liabilities1. Discount rate

- A. With respect to insurance plans and pure savings products with fixed premiums, the interest rate used for discounting is as follows:

In insurance plans of the "traditional" and "preferred" types, which are non-investment-linked, and which are primarily backed by designated bonds, an official real interest rate of 3.5% to 4.8% is used.

With respect to investment-linked products which were issued in 1991 or later, an official real interest rate of 2.5% is used. Under the policy terms, changes will be charged to policyholders.

With respect to long term, non-investment-linked individual long term care and health products, a real nominal interest rate of 2.5% is applied.

- B. With respect to guaranteed-return insurance plans of the "investment tracks" type, in reserves without designated bonds (which were sold beginning in 2004), the discount rates are 2.7% to 3%.
- C. With respect to paid pension liabilities and liabilities to supplement guaranteed-return annuity reserves, the discount rate was calculated for each fund separately by weighing the estimated market returns on the mix of free assets (2.2%-2.79%; last year - 2.4%-3.28%), and the HETZ bond gross interest rate for the fund. The weighting process is implemented based on the weight of free assets and the weight of HETZ bonds in the fund backing up those reserves. The determination of the discount rate also includes reference to the risk-free interest rate for an average lifetime which is suitable for the liability.

With respect to liabilities for paid pensions, and the supplementation of the profit sharing annuity reserve, in accordance with the estimated market returns on the mix of assets, including with respect to the investment tracks where the funds are intended for investment.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E1. Insurance risk in life and health insurance (Cont.)****B. Main assumptions used to calculate insurance liabilities**1. Discount rate (Cont.)

The Company may decide to implement a change to the discount rate as a result changes in the risk-free interest rate and/or in the estimated rate of return in the portfolio of assets held against insurance liabilities. For details regarding the impact of the update to the interest rates which are used to discount the liabilities to supplement annuity and paid pension reserves, see section d(1) and (2) below.

2. Mortality and morbidity rates

A. The mortality rates used to calculate insurance liabilities with respect to the mortality of policyholders before reaching retirement age (in other words, not including the mortality of policyholders receiving pension annuities, and those receiving monthly benefits with respect to loss of working capacity or long term care) are generally identical to the rates used to determine the rate which was approved by the Commissioner.

B. The liabilities for lifetime payout annuities are calculated in accordance with mortality tables which were published by the actuary of the Ministry of Finance in the Commissioner's circular.

An increase in assumed mortality rates, due to an increase in the actual mortality rate above the current assumption level, will result in an increase in insurance liabilities with respect to policyholder mortality before retirement age, and in a reduction of liabilities for lifetime payout annuities.

It should be noted that in recent decades an opposite trend has occurred, which involved increased life expectancy and a decreased mortality rate. The mortality assumption which is used to calculate the liability annuity takes into account the assumption regarding the future increase in life expectancy.

C. The morbidity rates refer to the prevalence of claim events with respect to critical illness, loss of working capacity, long term care, surgeries and hospitalization, accidental disability, etc. These rates were determined based on the experience of Clal Insurance and/or studies of reinsurers. In the long term care and loss of working capacity branches, the annuity payment period used by the Company to calculate the liabilities is determined according to the experience of Clal Insurance or studies of reinsurers.

The higher the increase in the assumption regarding the morbidity rate and/or annuity payment period, the higher the insurance liability with respect to morbidity from critical illness, loss of working capacity, long term care, surgeries and hospitalization, and accident disability.

3. Annuity realization rates

Life insurance contracts which include a savings component were conducted, with respect to funds which were deposited until 2008, in two tracks: a capital track or an annuity-paying tracks with a guaranteed annuity factor, which can also be sold through different tracks (such as entire lifetime, couple, 10 year guarantee). In some of the contracts, the policyholder is entitled to choose the track upon retirement. In light of the fact that the amount of insurance liabilities is different in each of these two tracks, Clal Insurance is required to determine the rates of policies which policyholders will choose in the annuity track, including the annuity track which will be chosen. This rate was determined in accordance with guidelines issued by the Control of Insurance Office, and also includes an adjustment for the experience of Clal Insurance. Beginning in 2008, new deposits for all plans are for annuities.

For details regarding the impact of the change in the assumptions regarding annuity realization rates in the corresponding period last year, see section 4 above regarding the actuarial methods used to calculate the aforementioned insurance liabilities.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)****B. Main assumptions used to calculate insurance liabilities (Cont.)**4. Cancellation rates

The cancellation rate affects insurance liabilities with respect to some types of health insurance, as well as lifetime payout annuities in the period prior to commencement of the payments. Insurance contract cancellations may arise due to policy cancellations initiated by Clal Insurance due to discontinuation of premium payments, or redemption of policies at the request of their owners. The assumptions regarding cancellation rates are based on the experience of Clal Insurance, and also on the product type, product lifetime and sale trends.

During the reporting period, the Company updated the estimated cancellation rates which affect the lifetime payout annuities in the period before the commencement of payments, based on the Company's studies. For additional details, see section 4 regarding the actuarial methods used to calculate the aforementioned insurance liabilities above.

5. Continuity rates

Certain types of collective life insurance, health insurance and long term care insurance allow policyholders to remain insured under the same terms, even in the event that the collective contract is not resumed. The Company has a liability with respect to this policyholder option, which is based on assumptions regarding the continuity rates of collective insurance types, and on the continuity rates of contracts with the policyholders after the termination of the collective contract. See section E1(A)8 for details regarding the actuarial methods used to calculate the aforementioned insurance liabilities.

The higher the probability that the collective contract will not be renewed (therefore meaning a higher continuity rate), the higher the insurance liability with respect to continued insurance under the previous conditions, without adjusting the underwriting to the change in the policyholder's health condition.

C. Sensitivity tests in life and health insurance

As of December 31, 2017

NIS in thousands	Cancellation rate (Redemptions, settlements (and reductions))		Morbidity rate		Mortality rate		Pension realization rate *)	
	10%+	10%-	10%+	10%-	10%+	10%-	5%+	5%-
Profit (loss)	12,733	(14,923)	(210,737)	53,988	407,792	(528,314)	(84,290)	84,290

*) For the total supplementary pension reserve, see Note 20(a).

As of December 31, 2016

NIS in thousands	Cancellation rate (Redemptions, settlements (and reductions))		Morbidity rate		Mortality rate		Pension realization rate *)	
	10%+	10%-	10%+	10%-	10%+	10%-	5%+	5%-
Profit (loss)	24,539	(36,239)	(184,075)	48,649	352,974	(448,885)	(66,522)	66,522

*) For the total supplementary pension reserve, see Note 20(a).

Note 39 - Risk Management (Cont.)

E. Insurance risks (Cont.)

E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)

D. Changes in main estimates and assumptions which were used to calculate insurance liabilities

1. Strengthening of insurance reserves in the low interest rate environment, and its effect on discount rates in life insurance and the Commissioner's directives with respect to the liability adequacy test (LAT)

- A. The Commissioner's directives regarding the liability adequacy test (LAT)

In August 2015, an insurance circular was published on the subject of the method used to calculate the liability adequacy test (LAT) in life and health insurance (the "LAT Circular"). The circular addresses guidelines for the measurement and selection of certain assumptions.

The circular applies to financial statements as of June 30, 2015 and thereafter. As a result of the adoption of this circular, the LAT reserve in life insurance for the year ended December 31, 2015 was increased by approximately NIS 130 million.

- B. Strengthening of insurance reserves in light of the low interest rate environment

Further to that stated in section B(1) above, the discount rates which are used to calculate the liabilities to supplement the annuity and paid pension reserves may change as a result of changes in the risk-free interest rate and/or the estimated rate of return in the portfolio of assets held against insurance liabilities.

The impact of the financial results on the update to these assumptions in the life insurance branch is specified below:

NIS in millions	For the year ended December 31		
	2017*)	2016*)	2015
	Audited		
Change in the discount interest rate used in the calculation of the liabilities to supplement the annuity and paid pension reserves (**)	197	32	35
Change in pension reserves following the decreased forecast of future income (K factor)	126	-	86
Liability adequacy test (LAT)	(64)	162	144
Life insurance - total impact of the low interest rate environment before tax	259	194	265
Total (income) loss after tax	168	124	166

*) The amount includes the immaterial effect due to the implementation of the distribution of general and administrative expenses, see Note 43(g).

***) Including the effect of interest on the assets of pension recipients, and the management fees which are derived therefrom.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)****D. Changes in main estimates and assumptions which were used to calculate insurance liabilities (Cont.)**2. Discount rate used to calculate liabilities for paid pensions

The allocation of designated bonds bearing guaranteed interest, which are issued by the State of Israel, with respect to the liabilities of Clal Insurance to policyholders with guaranteed-return life insurance policies (the "policyholders"), is performed based on the Company's reports, which are prepared based on the calculation of the aforementioned liabilities. During the reporting period, Clal Insurance found that a correction was required in order to associate its liabilities to pension receiving policyholders, to various HETZ bond funds bearing guaranteed returns, and accordingly, contacted the Capital Market Authority to perform an effective allocation of HETZ bonds of the relevant series, in accordance with the aforementioned amendment. The allocation of bonds in accordance with the aforementioned re-attribution, which, according to the Company's estimate, is expected to take place, is expected to confer upon Clal Insurance, in the future, the right to receive a higher interest rate with respect to the liabilities to pension receiving policyholders. As a result, during the reporting period, Clal Insurance updated the discount rate which is used to discount liabilities with respect to paid pensions, in consideration of the estimated rate of return on the mix of assets which is expected in the future (which is subject to the actual allocation of HETZ bonds). As a result, in 2017, the insurance reserves decreased, and pre-tax profit increased in the amount of approximately NIS 88 million (of which, approximately NIS 22 million with respect to the decrease of the liability adequacy test (LAT) reserve), and accordingly, profit after tax increased in the amount of approximately NIS 57 million.

3. Change in cancellation studies on liabilities to supplement the annuity reserve

During the reporting period, changes occurred which resulted in an increase of the liabilities in the amount of approximately NIS 67 million, primarily in light of the Company's research regarding the cancellation rates which affect the lifetime payout annuities during the period before the commencement of payments, as compared with an increase in the amount of approximately NIS 20 million in the corresponding period last year, in light of the update of the assumptions regarding the annuity realization rate.

4. Changes in other estimates which affect the liability adequacy test (LAT)

As a result of the change in the estimated fair value of the portfolio of loans (see Note 14(b)(1)), the reserve decreased, and profit for the year increased in the amount of approximately NIS 81 million before tax, and accordingly, profit after tax increased in the amount of approximately NIS 52 million. It is noted that the effect specified in section 1 above includes this change.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****2. Insurance risk in non-life insurance contracts****(1) Summary description of the main insurance branches in which the Group operates**

The Group issues non-life insurance contracts primarily in the compulsory motor, liabilities, motor property and property insurance branches.

Compulsory motor insurance policies cover the policyholder and the driver for all liabilities which they may incur under the Compensation for Victims of Road Accidents Law, 1975, due to physical injury caused as a result of the use of a motor vehicle, to the vehicle driver, to passengers in the vehicle, or to pedestrians injured by the vehicle. Claims in the compulsory motor branch are characterized as “long-tail” claims, meaning that a long period of time passes from the actual occurrence of the event until the final settlement of the claim.

Liability insurance is intended to cover the policyholder’s liability for any damages which it may cause to third parties. The main types of insurance include: third party liability insurance, employers’ liability insurance and other liability insurance such as professional liability, product liability and directors and officers liability insurance. The timing of the filing and settlement of claims is affected by a number of factors, including coverage type, policy terms and legal precedents. In general, claims in the liabilities branch are characterized as “long-tail” claims, meaning that a long period of time passes from the actual occurrence of the event until the final settlement of the claim.

Insurance policies covering motor property damage and third party motor property damage grant the policyholder coverage for property damages. The coverage is generally limited to the value of the damaged vehicle and/or to the third party liability limit in the policy. The Insurance Commissioner’s approval is required for the motor property insurance rate, as well as for the entire policy. This rate is a statistical rate, and is in part also differential (not uniform to all policyholders, and adjusted for risk). The above rate is based on several parameters, including those related to the policyholder’s vehicle (such as vehicle type, production year, etc.) and those related to the policyholder’s characteristics (driver age, claims experience, etc.). The underwriting process is partly performed using the rate itself, and partly using a series of policies, which are intended to evaluate the policyholder’s claims experience, including presentation of an approval regarding lack of claims from previous insurers during the preceding three years, presentation of an updated protection approval, etc., and are combined in an automated manner into the policy production process. In most cases, the motor property insurance policies are issued for a period of one year. Additionally, in most cases, claims with respect to these policies are settled near the date of the insurance event, and are characterized as “short tail” claims.

Property insurance types are intended to grant the policyholder coverage against physical damage to their property, and loss of income due to the damage to their property. The primary risks covered in property policies include risks of fire, explosion, break-in, earthquake and natural disasters. Property insurance branches sometimes include coverage for loss of income damages due to physical damage to property. Property insurance types constitute an important component of apartment insurance, business insurance, engineering insurance, cargo transportation (land, air, and sea) insurance, etc. In most cases, claims with respect to these policies are evaluated proximate to the date of the occurrence of the insurance event, and characterized as “short tail”.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E2. Insurance risk in non-life insurance contracts (Cont.)****(2) Principles used in the calculation of the actuarial estimate in non-life insurance**General

- A. The liabilities with respect to non-life insurance contracts include the following main components: unearned premium reserve; premium deficiency; outstanding claims; and net surplus revenues, depending on the relevant branch. The provisions for unearned premiums and net surplus revenues are calculated using a method than is independent of any assumptions, and therefore they are not directly exposed to reserve risk. For details regarding the method used to calculate these provisions, see Note 3(d)(2).
- B. In accordance with instructions issued by the Commissioner, outstanding claims are calculated by an actuary, using commonly accepted actuarial methods, and in a manner that is consistent with the previous year. The selection of the appropriate actuarial method for each insurance branch and for each event/underwriting year is determined based on judgment, according to the degree of correspondence between the method and the branch. At times, a combination of the various methods is employed. The estimates are primarily based on past experience of the development in claim payments and/or the development of payment amounts and individual estimates. The estimates include assumptions with regard to the average claim cost, claims handling costs and frequency of claims. Other assumptions may refer to changes in interest rates, in exchange rates and in the timing of payments. The claim payments include direct and indirect expenses for the settlement of claims, less claims of recourse and deductibles.
- C. The use of actuarial methods which are based on the development of claims, is for the most part appropriate when stable and sufficient information exists regarding claim payments and/or individual estimates in order to estimate the total projected cost of claims. When the available information regarding actual claims experience is insufficient, the actuary will at times use a calculation that weighs a known approximation (in the Company and/or in the branch), such as the loss ratio, against the actual development of claims. A greater weight is given to an estimate based on claims experience as time passes, and as additional information regarding the claims is accumulated.
- D. Additionally, qualitative estimates and judgments are prepared with respect to the degree to which past trends will not continue in the future. For example: due to a one-time event, internal changes such as a change in the portfolio mix, in the underwriting policy, in the claims handling policies, and with respect to the impact of external factors, such as legal ruling, legislation, etc. When changes as above are not fully reflected in past experience, the actuary updates the models and/or performs specific provisions based on statistical and/or legal estimates, as relevant.
- E. In a number of large claims with non-statistical characteristics, the reserve is determined (gross and retention) based on the opinion of experts in Clal Insurance, and in accordance with the recommendations of their legal counsel.
- F. The share of reinsurers in outstanding claims is estimated in consideration of the agreement type (relative / non-relative), actual claims experience and premiums transferred to reinsurers.
- G. The estimate of outstanding claims for Clal Insurance's share in the Pool, in incoming business and in joint insurances which are received from other insurance companies (leading insurers), was based on a calculation performed by the Pool or by the leading insurers, or on a separate calculation in the Company.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E2. Insurance risk in non-life insurance contracts (Cont.)****(3) Details of actuarial methods in the main insurance branches in non-life insurance**

For the purpose of evaluating outstanding claims, use was made of the following actuarial models, in combination with the various assumptions:

- A. **Chain ladder**- This method is based on the historical development of claims (development of payments and/or development of the payment amounts and individual claim estimates, development of claim amounts, etc.) in order to estimate the projected development of current and future claims. The use of this method is primarily appropriate after passage of a sufficient period from the event or the policy underwriting, when sufficient information exists from past claims to estimate the amount of projected claims.
- B. **Bornhuetter-Ferguson**- This method combines an a priori estimate which is known among the consolidated insurance companies or in the branch, and an additional estimate, which is based on the claims themselves. The preliminary estimate is used in premiums and damage rates to estimate the total amount of all claims. The second estimate uses actual claims experience, based on other methods (such as Chain Ladder). The integrated claims estimate weighs both estimated figures, with a greater weight given to the estimate that is based on past claims experience as time passes, and as additional information regarding the claims is accumulated. The used of this method is for the most part suitable in cases where insufficient claims information exists, or where the business in question is new, or does not have sufficient historical information.
- C. **Averages** - At times, similarly to the Bornhuetter-Ferguson method, when the claims experience in past periods is insufficient, use is made of the historical average method. When using this method, the cost of claims is determined based on the claim cost per policy in earlier years, and on the amount of policies in the later years. Similarly, the cost of claims is calculated based on the forecasted amount of claims (the chain ladder method) and on the historical average of claims.
- D. **Other** - For professional illness type claims in employers' liability insurance, which are claims based on continuing damages, a provision is calculated based on projected future cost. Such claims include no specific date in which the worker was injured, and the formation of the damage is as a result of prolonged exposure to risk factors. Claims of this kind are characterized by a very long period following the exposure to the risk factors (the insurer's exposure) until reporting of the claim (long-tail claims). This pattern of the rate of reporting and of the insurer's exposure to continuing damages requires a provision for each exposure year in employers' liability insurance, even if no claims were reported, or if the policy expired many years ago.

In the motor property, comprehensive apartment and personal accidents branches, a payment development model was used for payments and gross contingencies. For periods which have not yet reached maturity, the averages method and the Bornhuetter-Ferguson method were used. The model is calculated in terms of gross claims. The estimate of the share of reinsurers, insofar as it is relevant, is done in accordance with the estimate of specific claims plus IBNR, according to the gross IBNR rate which was determined in the actuarial model.

In the compulsory motor and liabilities branches, semi-annual models were used for the development of payments, and the development of payments and contingencies. For periods which have not reached maturity, the Bornhuetter-Ferguson and/or the Expected Loss Ratio methods are used. The claims development model in the liabilities branches is based on net claims from facultative reinsurance. The estimated share of reinsurers in the non-relative contract is obtained based on an estimation of individual outstanding claims for old years, and according to the loss ratio for recent years.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E2. Insurance risk in non-life insurance contracts (Cont.)****(3) Details of actuarial methods in the main insurance branches in non-life insurance (Cont.)**

In the loss of property and engineering branches, an annual development model was prepared based on payments and contingencies.

In branches for which no actuarial valuation was performed, including the branches for cargo shipping insurance, marine insurance, aviation insurance, guarantees, credit risks and incoming business, outstanding claims were included according to expert estimates, as described in Note 3(d)(2)(d), in section 4.2.

In the investment insurance branch for apartment buyers, in accordance with the Reserve Calculation Regulations, and in accordance with an evaluation which was conducted by the Company through an independent expert, the reserve for net surplus revenues is calculated cumulatively over 3 years.

(4) Main assumptions used for the purpose of the actuarial estimate

- A. The reserves for outstanding claims in the compulsory motor, liabilities and personal accidents branches are discounted according to the annual real interest rate determined by the chief actuary. As part of the process of preparing the financial statements, the actuary evaluates, on a quarterly basis, the discount rate for the indicators, including:
- Returns in the portfolio of assets held against insurance liabilities, following an amortization with respect to expected credit defaults;
 - Market returns - as reflected in the “deposit yield curve”, in accordance with average lifetime and the investments’ rating in the portfolio.

These indicators are also evaluated in combination with the evaluation of macro-economic assessments with respect to long term developments in the interest rate environment, and with respect to the average lifetime of the relevant liabilities.

The Company may decide to change the discount rate as part of the overall evaluation of the adequacy of the insurance liabilities, as a result of material and ongoing changes in the risk-free interest rate and/or in the rate of return of the portfolio of assets held against liabilities in non-life insurance and/or changes in market returns.

In the years 2017 and 2016, no change occurred in the discount interest rate, and it stands at 1.30%. In 2015, the interest rate was updated from a real annual rate of 1.25%, to a real annual rate of 1.30%, with no significant impact.

The amortization with respect to discounting on retention in Clal Insurance, as of the date of the update to the actuarial model amounted to approximately NIS 129 million during the reporting year (last year - approximately NIS 159 million).

- B. In the compulsory motor, liabilities and student personal accidents branches, an addition was included with respect to the risk margin (standard deviation) which underlies the reserve.

The total addition on retention in Clal Insurance, as of the date of the update to the various actuarial models, amounted to approximately NIS 220 million (last year - approximately NIS 246 million).

- C. When necessary, Clal Insurance adds a claim tail to the analysis of payment developments. In the analysis of the development of payment amounts and outstanding individual claims, actuarial judgment for the most part does not allow negative IBNR on the level of each underwriting year.
- D. See also Note 19(c).

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E2. Insurance risk in non-life insurance contracts (Cont.)****(4) Main assumptions used for the purpose of creating the actuarial valuation (Cont.)**

- E. Implementation of the Commissioner's position was implemented in connection with best practices in the calculation of insurance reserves in non-life insurance (hereinafter: the "Practice"), which serves as the basis for determining a minimum amount for the required reserves.

The policy includes, inter alia, the following determinations:

1. "Applying caution" means, with respect to a reserve which was calculated by an actuary, that an "adequate reserve to cover the insurer's liabilities" signifies that it is fairly likely that the determined insurance liability will suffice to cover the insurer's liabilities. Regarding outstanding claims in compulsory and liabilities branches, the evaluation of "fairly likely" will mean an estimated likelihood of at least 75%.

However, insofar as there are restrictions in the statistical analysis, the actuary will exercise judgment, and will take into account, for example, the following considerations:

- A. Random risk (risk of random deviation from the results of the actuarial model)
- B. Systemic risk (risks which are not included in the model, such as risk of use of an incorrect model or incorrect parameters, or external changes which are not reflected in the model).

The appropriate discount interest rate used to evaluate caution is in accordance with the risk free interest curve which is adjusted to the illiquid nature of the liabilities. This evaluation also requires taking into account the revaluation method used in the financial statements for assets held against liabilities.

2. Selection of a discount rate for the flow of liabilities.
3. Grouping - for the purpose of the principle of caution in non-grouped branches (as defined in the circular - statistical branches), it is necessary to address each branch separately, although it is possible to group together all of the underwriting (or damage) years in the branch. In grouped (non-statistical) branches, all of them can be addressed as a single unit. Additionally, it is possible to take into account the absence of a complete correspondence between the various branches for the purpose of reducing the total margin.
4. The determination of the amount of insurance liabilities with respect to policies which were sold in time frames proximate to the balance sheet date and the risks which have not yet passed.

It is noted that in accordance with the LAT circular, the implementation of the principle of caution, as stated above, constitutes sufficient calculation for the purpose of the liability adequacy test in non-life insurance.

Note 39 - Risk Management (Cont.)**E. Insurance risks (Cont.)****E2. Insurance risk in non-life insurance contracts (Cont.)****(4) Main assumptions used for the purpose of creating the actuarial valuation (Cont.)****F. 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), 1978 (the “**Discounting Regulations**” and the “**Committee**”). In June 2016, an amendment to the Regulations (hereinafter: the “**Amendment**”) was published which includes, inter alia, updates to the mortality tables and the discount rates which are used to calculate the aforementioned annuities.

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

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

The amendment to the Discounting Regulations entered into effect in October 2017.

The Company estimated the total effect of the foregoing, including amounts which the insurance companies may be required to pay in other disability and death claims, while taking into account the uncertainty with respect to its actual impact and the manner of its occurrence, if any, and accordingly, increased the insurance liabilities for 2017, in the compulsory motor and liabilities branches by approximately NIS 78 million on retention before tax (last year, a total of approximately NIS 141 million), and by a total of approximately NIS 51 million after tax (last year, a total of approximately NIS 90 million). The estimated impact on insurance liabilities included taking into account the full impact of the recommendations of the Winograd committee on the discount rates which will be determined in court, and a scenario according to which the discount rates which will be determined in court will reflect the returns of relevant low-risk investment instruments, based on a legal opinion.

Note 39 - Risk Management (Cont.)**F. Credit risks****1. Distribution of debt assets by location**

NIS in thousands	As of December 31, 2017		
	Marketable (*)	Non- marketabl e	Total
In Israel	5,198,696	21,682,733	26,881,429
Foreign	333,916	150,361	484,277
Total debt assets	<u>5,532,612</u>	<u>21,833,094</u>	<u>27,365,706</u>

NIS in thousands	As of December 31, 2016		
	Marketable (*)	Non- marketabl e	Total
In Israel	5,263,908	21,035,605	26,299,513
Foreign	311,151	246,108	557,259
Total debt assets	<u>5,575,059</u>	<u>21,281,713</u>	<u>26,856,772</u>

*) For additional details regarding marketable debt assets, see Note 14(a).

See also section 2 below for details regarding assets distributed by ratings, as presented below.

It is noted that the data presented above are not with respect to debt assets for investment-linked contracts. For details regarding financial investments for investment-linked contracts, see section G below.

Note 39 - Risk Management (Cont.)**F. Credit risks (Cont.)****2. Details of assets by rating****A.1. Debt assets**

NIS in thousands	Local rating *)				Total
	AA and higher	A to BBB	Lower than BBB	Unrated	
As of December 31, 2017					
Debt assets in Israel					
<u>Marketable debt assets</u>					
Government bonds	3,333,048	-	-	-	3,333,048
Corporate bonds	1,568,640	265,374	-	31,634	1,865,648
Total marketable debt assets in Israel	4,901,688	265,374	-	31,634	5,198,696
<u>Non-marketable debt assets</u>					
Government bonds	15,767,858	-	-	-	15,767,858
Corporate bonds	619,645	93,910	-	36,898	750,453
Deposits in banks and financial institutions	830,594	1,057	-	-	831,651
Other debt assets by type of collateral:					
Mortgages	-	-	-	2,531,731	2,531,731
Loans on policies	-	-	-	21,710	21,710
Loans secured by real estate	-	127,491	-	36,071	163,562
Secured by bank guarantee	117,460	-	-	-	117,460
Loans secured by control shares	56,828	994	-	23,257	81,079
Other collateral	604,297	518,419	1,815	258,315	1,382,846
Non-guaranteed	28,277	6,106	-	-	34,383
Total non-marketable debt assets in Israel	18,024,959	747,977	1,815	2,907,982	21,682,733
Total debt assets in Israel	22,926,647	1,013,351	1,815	2,939,616	26,881,429
Of which - internally rated debt assets	-	213,237	-	-	213,237

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

Note 39 - Risk Management (Cont.)**F. Credit risks (Cont.)****2. Details of assets by rating (Cont.)****A.1. Debt assets (Cont.)**

NIS in thousands	International rating *)				Total
	A and higher	BBB	Lower than BBB	Unrated	
Foreign debt assets					
<u>Marketable debt assets</u>					
Government bonds	22,585	-	-	-	22,585
Corporate bonds	-	241,839	69,492	-	311,331
Total foreign marketable debt assets	22,585	241,839	69,492	-	333,916
<u>Non-marketable debt assets</u>					
Loans secured by real estate	-	-	-	124,711	124,711
Other debt assets	-	-	-	25,650	25,650
Total foreign non- marketable debt assets	-	-	-	150,361	150,361
Total foreign debt assets	22,585	241,839	69,492	150,361	484,277

*) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

Note 39 - Risk Management (Cont.)**F. Credit risks (Cont.)****2. Details of assets by rating (Cont.)****A.1. Debt assets (Cont.)**

NIS in thousands	Local rating *)				Total
	AA and higher	A to BBB	Lower than BBB	Unrated	
As of December 31, 2016					
Debt assets in Israel					
<u>Marketable debt assets</u>					
Government bonds	3,395,649	-	-	-	3,395,649
Corporate bonds	1,567,136	267,245	24,329	9,549	1,868,259
Other debt assets	-	-	-	-	-
Total marketable debt assets in Israel	<u>4,962,785</u>	<u>267,245</u>	<u>24,329</u>	<u>9,549</u>	<u>5,263,908</u>
<u>Non-marketable debt assets</u>					
Government bonds	15,329,115	-	-	-	15,329,115
Corporate bonds	588,400	116,146	29,912	8,525	742,983
Deposits in banks and financial institutions	896,588	1,362	-	-	897,950
Other debt assets by type of collateral:					
Mortgages	-	-	-	2,371,211	2,371,211
Loans on policies	-	-	-	31,592	31,592
Loans secured by real estate	-	203,206	-	30,395	233,601
Secured by bank guarantee	126,437	-	-	-	126,437
Secured by vehicle pledge	-	4,597	-	-	4,597
Loans secured by control shares	27,466	32,696	-	57,560	117,722
Other collateral	454,886	630,890	2,162	50,877	1,138,815
Non-guaranteed	<u>28,658</u>	<u>12,877</u>	<u>-</u>	<u>47</u>	<u>41,582</u>
Total non-marketable debt assets in Israel	<u>17,451,550</u>	<u>1,001,774</u>	<u>32,074</u>	<u>2,550,207</u>	<u>21,035,605</u>
Total debt assets in Israel	<u>22,414,335</u>	<u>1,269,019</u>	<u>56,403</u>	<u>2,559,756</u>	<u>26,299,513</u>
Of which - internally rated debt assets	-	<u>306,377</u>	-	-	<u>306,377</u>

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

Note 39 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.1. Debt assets (Cont.)

NIS in thousands	International rating *)				Total
	A and higher	BBB	Lower than BBB	Unrated	
As of December 31, 2016					
Foreign debt assets					
<u>Marketable debt assets</u>					
Government bonds	24,974	-	-	-	24,974
Corporate bonds	2,971	237,510	45,696	-	286,177
Other debt assets	-	-	-	-	-
Total foreign marketable debt assets	<u>27,945</u>	<u>237,510</u>	<u>45,696</u>	<u>-</u>	<u>311,151</u>
<u>Non-marketable debt assets</u>					
Loans secured by real estate	<u>32,893</u>	<u>-</u>	<u>16,346</u>	<u>196,869</u>	<u>246,108</u>
Total foreign non-marketable debt assets	<u>32,893</u>	<u>-</u>	<u>16,346</u>	<u>196,869</u>	<u>246,108</u>
Total foreign debt assets	<u><u>60,838</u></u>	<u><u>237,510</u></u>	<u><u>62,042</u></u>	<u><u>196,869</u></u>	<u><u>557,259</u></u>

*) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

Note 39 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.2. Credit risks with respect to other assets (in Israel)

NIS in thousands	Local rating *)			
	As of December 31, 2017			
	AA and higher	A to BBB	Unrated	Total
Other accounts receivable, excluding reinsurer balances	32,419	3,363	197,444	233,226
Deferred tax assets	-	-	8,637	8,637
Other financial investments	58,268	-	28,539	86,807
Cash and cash equivalents	1,370,159	34,215	-	1,404,374
Total	1,460,846	37,578	234,620	1,733,044

NIS in thousands	Local rating *)			
	As of December 31, 2016			
	AA and higher	A to BBB	Unrated	Total
Other accounts receivable, excluding reinsurer balances	9,112	-	159,249	168,361
Deferred tax assets	-	-	10,344	10,344
Other financial investments	17,215	-	14,689	31,904
Cash and cash equivalents	1,343,652	45,657	-	1,389,309
Total	1,369,979	45,657	184,282	1,599,918

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

A.3. Credit risks with respect to off-balance sheet instruments (in Israel))**

NIS in thousands	Local rating *)			
	As of December 31, 2017			
	AA and higher	A to BBB	Unrated	Total
Unused credit lines	8,234	48,897	636,020	693,151

NIS in thousands	Local rating *)			
	As of December 31, 2016			
	AA and higher	A to BBB	Unrated	Total
Unused credit lines	74,962	32,736	480,690	588,388

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

***) The Group has no financial guarantees which were given in Israel and which are not treated as insurance contracts.

Note 39 - Risk Management (Cont.)

F. Credit risks (Cont.)

2. Details of assets by rating (Cont.)

A.4. Credit risks with respect to other assets (foreign)

NIS in thousands	International rating *)				Total
	A and higher	BBB	Lower than BBB	Unrated	
As of December 31, 2017					
Other accounts receivable, excluding reinsurer balances	4,509	4,713	-	36,995	46,217
Other financial investments	142,671	8	64,857	115,249	322,785
Cash and cash equivalents	640	-	-	849	1,489
Total	147,820	4,721	64,857	153,093	370,491

NIS in thousands	International rating *)				Total
	A and higher	BBB	Lower than BBB	Unrated	
As of December 31, 2016					
Other accounts receivable, excluding reinsurer balances	19,913	379	-	279	20,571
Other financial investments	169,679	2,030	67,169	96,165	335,043
Cash and cash equivalents	524	-	-	942	1,466
Total	190,116	2,409	67,169	97,386	357,080

*) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

A.5. Credit risks with respect to off-balance sheet instruments (foreign) ()**

NIS in thousands	Local rating *)			
	AA and higher	A to BBB	Unrated	Total
As of December 31, 2017				
Unused credit lines	-	-	40,859	40,859
International rating *)				
As of December 31, 2016				
NIS in thousands	AA and higher	A to BBB	Unrated	Total
Unused credit lines	-	-	34,649	34,649

*) All foreign rated debt assets were rated by recognized foreign rating agencies. Each rating includes all ranges, for example, the A rating includes A- to A+.

***) The Group has no financial guarantees which were given abroad and which are not treated as insurance contracts.

Note 39 - Risk Management (Cont.)**F. Credit risks (Cont.)****3. Additional information regarding the rating of debt assets**

- A. Internal rating is based on a model formulated by Clal Insurance. Clal Insurance periodically conducts validation of the internal model against the ratings of external rating agencies, and other credit rating models. These tests showed a good correlation between the internal rating and the external criteria. Additionally, the model was monitored by external entities which approved the ability to rely on the internal rating model.
- B. There are differences between the rating scales for debt assets in Israel and foreign debt assets. It is noted that, in accordance with capital market circular 2008-6-1, the rating companies which received approval from the Commissioner to operate as rating companies in accordance with capital market circular 2004/1, published a conversion index between the local rating scale and the international rating scales.
4. The information presented in this note regarding credit risks does not include assets for investment-linked contracts, which are presented in section G below.
5. For details regarding balances of outstanding premiums, see Note 12.
6. For details regarding the aging of investments in non-marketable financial debt assets, see Note 14(b)(2).
7. **Details regarding the exposure to industry branches with respect to investments in marketable and non-marketable financial debt assets**

NIS in thousands	As of December 31, 2017		
	Amount	% of total	Off-balance sheet risk
<u>Market branch</u>			
Industry	94,755	0%	-
Construction and real estate	1,737,929	6%	312,257
Electricity and water	1,191,865	4%	86,126
Trading	2,160	0%	-
Telecommunications and IT services	87,775	0%	-
Banks	1,830,152	7%	-
Financial services	213,678	1%	-
Other business services	80,235	0%	-
Public services	318,757	1%	-
Private individuals	2,684,909	11%	335,627
Government bonds	19,123,491	70%	-
Total	27,365,706	100%	734,010
	As of December 31, 2016		
	Amount	% of total	Off-balance sheet risk
<u>Market branch</u>			
Industry	86,025	0%	-
Construction and real estate	1,776,904	7%	94,155
Electricity and water	1,020,051	4%	109,607
Trading	24,917	0%	-
Transport and storage	-	0%	-
Telecommunications and IT services	36,141	0%	-
Banks	2,109,001	8%	-
Financial services	210,464	1%	-
Other business services	95,879	0%	-
Public services	194,259	1%	-
Private individuals	2,553,393	9%	419,275
Government bonds	18,749,738	70%	-
Total	26,856,772	100%	623,037

Note 39 - Risk Management (Cont.)**F. Credit risks (Cont.)**8. Reinsurance**A. Policy of Clal Insurance regarding the management of credit risks in connection with reinsurers**

Clal Insurance Group insures some of its business operations in reinsurance, mostly through foreign reinsurers. However, the reinsurance does not release the consolidated insurance companies from their obligation towards their policyholders according to the insurance policies.

The Group is exposed to risks arising from uncertainty regarding the ability of reinsurers to pay their share in liabilities with respect to insurance contracts (reinsurance assets), and their debts with respect to claims paid. This current exposure is managed via ongoing monitoring of the reinsurer's position in the global market, and of its fulfillment of its financial liabilities.

In accordance with the instructions issued by the Commissioner, the boards of directors of the consolidated insurance companies determine, once per year, maximum exposure frameworks to specific reinsurers and to groups of reinsurers, with which Clal Insurance Group has entered / will enter into contractual agreements, based on their international ratings. These exposures are managed by means of case-by-case evaluations of the reinsurers to which exposure is material, and by monitoring indicators of the risk level relative to all reinsurers with which Clal Insurance is engaged. The risk management unit conducts quarterly monitoring of the exposures to reinsurers which are reported to it, monitors the financial position of the large reinsurers based on various data, including from international capital markets, and conducts credit monitoring of analyses which were performed with respect to specific reinsurers. The risk management unit reports to the boards of directors on a quarterly basis regarding the exposure relative to the defined limits.

The exposures of these companies are also distributed between different reinsurers, with the primary ones being to reinsurers with high international ratings.

As a result of the implementation of the policy described above, the concentration of exposure to any single reinsurer is not high, however, the Company may be exposed to concentrated credit risk with respect to a single reinsurer in case of a catastrophic event.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 39 - Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance (Cont.)

B. Information regarding exposure to credit risks of reinsurers

NIS in thousands	Total premiums for reinsurers in 2017	Debit (credit) balances, net	Reinsurance assets less reinsurers' share of deferred acquisition costs				Total reinsurance assets	Deposits of reinsurers	Total letters of credit received from reinsurers	Total exposure	Debts in arrears	
			In life insurance	In health insurance	In property insurance	In liabilities insurance					Six months to one year	Over one year
Rating group												
AA												
Munich Re	237,048	(53,403)	88,333	16,343	55,293	117,112	277,081	151,097	-	72,581	-	-
SCOR	206,357	11,233	-	219,732	27,836	52,136	299,704	246,550	-	64,387	-	-
Swiss Re	183,868	(17,203)	105,704	17,875	112,396	107,961	343,936	105,141	53,152	168,440	-	-
Other	171,749	(19,454)	30,977	11,050	84,638	379,248	505,913	71,637	5,787	409,035	242	26
Total	799,022	(78,827)	225,014	265,000	280,163	656,457	1,426,634	574,425	58,939	714,443	242	26
A												
Lloyd's	69,694	(12,831)	-	252	47,754	162,012	210,018	65	-	197,122	-	-
Other	421,575	9,029	1,608	198,143	285,680	570,104	1,055,535	287,929	23,083	753,552	596	632
Total	491,269	(3,802)	1,608	198,395	333,434	732,116	1,265,553	287,994	23,083	950,674	596	632
BBB	-	19	-	-	53	63	116	-	-	135	-	19
Lower than BBB- or unrated	1,493	(1,116)	547	-	427	25,477	26,451	-	-	25,335	20	167
Total	1,291,784	(83,726)	227,169	463,395	614,077	1,414,113	2,718,754	862,419	82,022	1,690,587	858	844

Note 39 - Risk Management (Cont.)**F. Credit risks (Cont.)**8. Reinsurance (Cont.)B. Information regarding exposure to credit risks of reinsurers (Cont.)

NIS in thousands	Total premiums for reinsurers in 2016	Debit (credit) balances, net	Reinsurance assets less reinsurers' share of deferred acquisition costs				Total reinsurance assets	Deposits of reinsurers	Total letters of credit received from reinsurers	Total exposure	Debts in arrears	
			In life insurance	In health insurance	In property insurance	In liabilities insurance					Six months to one year	Over one year
Rating group												
AA												
Swiss Re	193,087	(20,405)	108,508	17,415	75,460	112,996	314,379	101,917	58,947	133,110	-	-
Munich Re	134,821	(33,320)	85,916	16,663	52,794	54,392	209,765	104,422	-	72,023	-	-
SCOR	128,101	(1,976)	-	152,072	24,033	2,508	178,613	163,155	-	13,482	-	-
Other	105,226	(17,537)	26,453	8,251	72,644	250,598	357,946	41,249	6,418	292,742	14	28
Total	<u>561,235</u>	<u>(73,238)</u>	<u>220,877</u>	<u>194,401</u>	<u>224,931</u>	<u>420,494</u>	<u>1,060,703</u>	<u>410,743</u>	<u>65,365</u>	<u>511,357</u>	<u>14</u>	<u>28</u>
A												
Lloyd's	63,866	(15,942)	-	284	28,858	117,902	147,044	153	-	130,949	-	-
AIG	14,189	(3,101)	-	-	6,651	135,972	142,623	-	-	139,522	-	-
Other	383,142	(425)	1,848	172,189	228,921	382,396	785,354	259,510	25,599	499,820	2,754	611
Total	<u>461,197</u>	<u>(19,468)</u>	<u>1,848</u>	<u>172,473</u>	<u>264,430</u>	<u>636,270</u>	<u>1,075,021</u>	<u>259,663</u>	<u>25,599</u>	<u>770,291</u>	<u>2,754</u>	<u>611</u>
BBB	<u>1,936</u>	<u>22</u>	<u>-</u>	<u>-</u>	<u>905</u>	<u>415</u>	<u>1,320</u>	<u>733</u>	<u>-</u>	<u>609</u>	<u>-</u>	<u>39</u>
Lower than BBB- or unrated	<u>2,071</u>	<u>(1,412)</u>	<u>384</u>	<u>-</u>	<u>410</u>	<u>28,657</u>	<u>29,451</u>	<u>-</u>	<u>-</u>	<u>28,039</u>	<u>44</u>	<u>122</u>
Total	<u>1,026,439</u>	<u>(94,096)</u>	<u>223,109</u>	<u>366,874</u>	<u>490,676</u>	<u>1,085,836</u>	<u>2,166,495</u>	<u>671,139</u>	<u>90,964</u>	<u>1,310,296</u>	<u>2,812</u>	<u>800</u>

Note 39 - Risk Management (Cont.)**F. Credit risks (Cont.)**8. Reinsurance (Cont.)B. Information regarding exposure to credit risks of reinsurers (Cont.)

- 1) The total exposure to reinsurers equals total reinsurance assets (share of reinsurers in liabilities with respect to insurance contracts, less deferred acquisition costs for reinsurance), less deposits and less the sum of letters of credit received from reinsurers as collateral to secure their liabilities, plus (less) current net debit (credit) balances.
- 2) Following an amortization of the provision for doubtful debts in the amount of approximately NIS 6,251 thousand (last year: NIS 14,758 thousand). The balances do not include balances of insurance companies with respect to co-insurance.
- 3) Total provisions for doubtful debts, plus (minus) the share of reinsurers in liabilities with respect to insurance contracts, amounted to a total of approximately NIS 7,548 thousand (last year: NIS 16,567 thousand), which constitutes 0.4% (last year: 1.3%) of the overall exposure.
- 4) The rating was primarily determined by the rating company S&P. In cases where a rating has not been given by S&P, the rating is determined by another rating company, and converted according to the index prescribed in the Ways of Investment Regulations.
- 5) The total exposure of reinsurers to an earthquake event in Israel (including incoming business of Israeli policyholders abroad), with an MPL of 1.5% in the apartments and mortgages branches, and MPL of 2.5% in other branches, is approximately NIS 8,292 million (last year: NIS 9,099 million), of which the share of the most material reinsurer in this exposure is approximately 16.8% (last year: 18.9%).
- 6) There are no additional reinsurers beyond those specified above, the exposure to which exceeds 10% of the total exposure of reinsurers, or where the premiums with respect to them exceeds 10% of the total premiums for reinsurance for 2017.
- 7) The unrated group includes balances with respect to outstanding claims through brokers up to and including 2003, the exposure to which amounted to approximately NIS 25 thousand (last year: NIS 93 thousand).
- 8) The data includes balances of companies in Israel which were included in accordance with the rating conversion table as specified in section 4 above, in the amount of approximately NIS (192) thousand (last year: NIS (163) thousand).

Note 39 - Risk Management (Cont.)

G. Information regarding financial investments for investment-linked contracts

1. Details regarding the composition of investments by linkage bases

As of December 31, 2017					
NIS in thousands	Unlinked	CPI-linked	In foreign currency or linked thereto *)	Non- monetary items and others	Total
Cash and cash equivalents	3,832,381	-	697,065	-	4,529,446
Marketable assets	9,173,547	13,004,775	7,242,959	16,866,447	46,287,728
Non-marketable assets	1,308,625	4,700,461	839,652	3,094,495	9,943,233
Total assets	14,314,553	17,705,236	8,779,676	19,960,942	60,760,407

As of December 31, 2016

NIS in thousands	Unlinked	CPI-linked	In foreign currency or linked thereto *)	Non- monetary items and others	Total
Cash and cash equivalents	2,549,669	-	403,566	-	2,953,235
Marketable assets	9,133,363	10,271,273	5,308,461	18,407,487	43,120,584
Non-marketable assets	399,968	4,789,086	1,422,139	2,462,717	9,073,910
Total assets	12,083,000	15,060,359	7,134,166	20,870,204	55,147,729

*) The USD is a major foreign currency.

2. Credit risk for assets in Israel

As of December 31, 2017

NIS in thousands	Local rating *)				Total (**)
	AA and higher	A to BBB	Lower than BBB	Unrated	
Debt assets in Israel:					
Government bonds	14,728,323	-	-	-	14,728,323
Other debt assets - marketable	5,141,306	1,488,224	40,898	46,073	6,716,501
Other debt assets - non- marketable	3,754,735	1,565,989	193	839,077	6,159,994
Total debt assets in Israel	23,624,364	3,054,213	41,091	885,150	27,604,818
Of which - internally rated debt assets	-	366,865	-	-	366,865

Note 39 - Risk Management (Cont.)

G. Information regarding financial investments for investment-linked contracts (Cont.)

2. Credit risk for assets in Israel (Cont.)

NIS in thousands	Local rating *)				Total (**)
	AA and higher	A to BBB	Lower than BBB	Unrated	
<u>Debt assets in Israel:</u>					
Government bonds	12,934,275	-	-	-	12,934,275
Other debt assets - marketable	5,288,738	832,095	79,840	15,234	6,215,907
Other debt assets - non-marketable	3,251,988	1,934,126	79,666	257,753	5,523,533
Total debt assets in Israel	21,475,001	2,766,221	159,506	272,987	24,673,715
Of which - internally rated debt assets	-	508,710	-	-	508,710

*) The sources for rating levels in Israel are Maalot, Midroog and internal ratings. The Midroog data was converted to rating symbols using commonly accepted conversion ratios. Each rating includes all ranges, for example, the A rating includes A- to A+.

***) The book value constitutes an approximation of the maximum credit risk. Therefore, the total column represents maximum credit risk.

3. Credit risk for foreign assets

As of December 31, 2017

NIS in thousands	International rating *)				Total (**)
	AA and higher	A to BBB	Lower than BBB	Unrated	
Total foreign debt assets	321,997	1,821,686	711,110	360,562	3,215,355

As of December 31, 2016

NIS in thousands	International rating *)				Total (**)
	AA and higher	A to BBB	Lower than BBB	Unrated	
Total foreign debt assets	504,002	1,112,086	625,498	435,287	2,676,873

*) All foreign rated debt assets were rated by recognized international rating agencies. Each rating includes all ranges, for example: an A rating includes A- to A+.

***) The book value constitutes an approximation of the maximum credit risk. Therefore, the total column represents maximum credit risk.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 39 - Risk Management (Cont.)

H. Geographical risks

As of December 31, 2017

NIS in thousands	Government bonds	Corporate bonds	Stocks	ETF's	Mutual funds	Investment property	Other investments	Total balance sheet exposure	Derivatives in delta terms	Total
Israel	19,123,491	2,689,129	1,103,931	106,398	-	870,553	7,335,284	31,228,786	116,160	31,344,946
United States	-	153,530	240,703	461,660	99,321	186,805	939,538	2,081,557	-	2,081,557
Great Britain	-	11,271	10,333	-	1,746	154,751	798,828	976,929	-	976,929
Germany	-	-	-	-	-	-	430,520	430,520	-	430,520
Switzerland	-	1,280	-	-	-	-	375,360	376,640	-	376,640
Emerging markets	-	-	-	-	-	-	66,400	66,400	-	66,400
Other	-	71,827	12,874	432,684	247,857	-	1,055,672	1,820,914	-	1,820,914
Total assets	19,123,491	2,927,037	1,367,841	1,000,742	348,924	1,212,109	11,001,602	36,981,746	116,160	37,097,906

As of December 31, 2016

NIS in thousands	Government bonds	Corporate bonds	Stocks	ETF's	Mutual funds	Investment property	Other investments	Total balance sheet exposure	Derivatives in delta terms	Total
Israel	18,749,738	2,707,883	1,085,986	93,209	-	832,922	7,029,409	30,499,147	19,407	30,518,554
United States	-	134,588	46,868	341,255	97,534	201,305	984,342	1,805,892	(430)	1,805,462
Great Britain	-	8,025	1,921	-	25,995	151,680	668,724	856,345	-	856,345
Germany	-	-	-	-	-	-	260,702	260,702	-	260,702
Switzerland	-	-	-	-	-	-	329,009	329,009	-	329,009
Emerging markets	-	-	-	3,470	-	-	41,418	44,888	-	44,888
Other	-	46,903	4,785	245,167	225,682	-	908,899	1,431,436	133	1,431,569
Total assets	18,749,738	2,897,399	1,139,560	683,101	349,211	1,185,907	10,222,503	35,227,419	19,110	35,246,529

Note 40 - Related Parties and Interested Parties

A. Parent company, controlling shareholder and subsidiaries

- (1) Further to that stated in Note 1, regarding the appointment of Mr. Terry as the trustee for the control shares of IDB Development on August 21, 2013, and the letters of the Commissioner of Insurance regarding IDB Development's inability to direct the Company's activities, Mr. Terry, and for the sake of caution also IDB Development and its controlling shareholder, are considered the controlling shareholders of the Group. For additional details regarding the parent company, IDB Development, and the person who is considered to be the Group's controlling shareholder, see Note 1 above.

Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**") is an interested party in the Group.

- (2) For details regarding investee companies, see Note 9.
- (3) In the ordinary course of business, the Group performs transactions with entities who are considered its controlling shareholders, or with entities who are considered entities in which the controlling shareholders have a personal interest (hereinafter: "**Interested Party Transactions**"), including transactions with companies in which the Company's controlling shareholders have a personal interest, as well as undertakings to perform transactions under ordinary commercial conditions, as part of the provision of the Group's services to the controlling shareholders and to companies held by them (such as insurance policies, insurance agency services, management services with respect to provident funds and/or pension funds and/or various financial services) and/or as part of the acquisition of services and products from the controlling shareholders and/or from companies which are held by them (such as telecommunication and telephony services, shopping vouchers, tourism services, etc.) and/or as part of the Group's investments (including investments in securities, credit, real estate and funds). Insofar as these transactions constitute non-extraordinary and insignificant transactions, according to the policy which was adopted by the Group as specified in regulation 41(a3)(1) of the Securities Regulations (Annual Financial Statements), 2010, they are not separately described in these reports.

For details regarding engagement in transactions with entities from the IDB Group and/or with other parties in which IDB and/or the trustee have a personal interest, and which were not listed in section 270(4) of the Companies Law, and are not insignificant, see section E below.

Note 40 - Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors)

The Company's Chairman of the Board, as well as the Group's CEO and senior executives, are also entitled, in addition to their salaries, to receive non-cash benefits (such as a vehicle, etc.). The Group also deposits, on their behalf, funds as part of a post-employment defined benefit plan and a defined deposit plan.

Executives also participate in the plan involving warrants for Company shares (see Note 41).

1. Employment benefits for key management personnel (including the Chairman of the Board) include ¹⁾:

	For the year ended December 31					
	2017		2016		2015	
	Number of people	NIS in thousands	Number of people	NIS in thousands	Number of people	NIS in thousands
Short term employee benefits	11	24,365	12	20,223	15	31,254
Post-employment benefits	11	740	12	107	15	1,166
Share-based payments ²⁾	10	1,210	11	1,911	14	5,542
		26,315		22,241		37,962
Year end balances of loans to key management personnel, primarily to secure mortgages	-	-	-*)	-*)	1	880

*) Reclassified.

- 1) The benefits include benefits for key management personnel until the conclusion of their employment, and benefits with respect to key management personnel, beginning on the date of their appointment.
- 2) This amount is determined based on the value of the warrants as of the date of their allocation, such that the fair value of each tranche is spread over its vesting period.
2. Benefits with respect to the employment of key management personnel who are directors not employed in the Company:

	For the year ended December 31					
	2017		2016		2015	
	Number of people	NIS in thousands	Number of people	NIS in thousands	Number of people	NIS in thousands
Directors compensation ¹⁾	6	1,670	5	1,065	8	1,119

- 1) The compensation provided to directors in the Company, except for the Chairman of the Board, is based on the Company's rating, and constitutes the maximum limit with regard to directors who do not have financial and accounting expertise (the compensation is not in consideration of any particular skill), in accordance with the Companies Regulations (Rules for Compensation and Expenses of an External Director), 2000. It is noted that Clal Insurance bears 80% of the compensation to common directors. The aforementioned amount is after the participation of Clal Insurance. For details regarding the compensation terms of the Chairman of the Board, see section 4 below.

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**

3. The Company acquires (on its behalf and on behalf of the Group's member companies) directors and officers liability insurance. See section 6 below. Amount paid on behalf of the Company and on behalf of the Group's member companies:

NIS in thousands	For the year ended December 31		
	2017	2016	2015
With respect to directors and officers liability insurance	1,001	889	931

4. Chairman of the Board

Mr. Danny Naveh (hereinafter: "**Mr. Naveh**") has served as the Chairman of the Board of Directors of the Company and of Clal Insurance in a 85% position since June 5, 2013.

Further to the approval of the Company's Compensation Committee and Board of Directors, on July 14, 2013, the general meeting of the Company's shareholders approved an agreement regarding the tenure of Mr. Naveh for a period of three years, until June 5, 2016 (hereinafter: the "**Old Agreement**"). The agreement was approved before the approval of the Company's previous compensation policy, and his terms of tenure were approved by the audit committee, board of directors and the general meeting.

On April 17 and 18, 2016, the Company's Compensation Committee and the Company's board of directors, respectively, approved the Company's engagement in a new agreement with Mr. Naveh, beginning on June 5, 2016, for an undefined period (hereinafter: the "**New Agreement**"), for the purpose of his continued tenure as the Acting Chairman of the Board of the Company and of Clal Insurance, in a 85% position, as specified below. The agreement was approved in the general meeting, for the sake of caution, by a special majority, on May 26, 2016.

The agreement was approved as required in accordance with the Compensation to Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Compensation), 2016 (hereinafter: the "**Executive Compensation Law**"), which was published on April 12, 2016, in accordance with the Commissioner's directives from October 2015 with respect to the compensation to the Chairman of the Board of institutional entities, within the framework of an amendment to the circular regarding compensation in institutional entities from April 2014 (hereinafter: the "**Amendment to the Compensation Circular**"), and in accordance with the compensation policy of the Company and of Clal Insurance.

During the period of the agreement, the Chairman of the Board will be entitled to hold other position/s, either as an employee or as a service provider, subject to the aforementioned scope of employment, which will be dedicated to members in the Group of companies which is owned by the Company, and to restrictions regarding avoidance of conflicts of interest and/or competition with the Company's business and/or the Commissioner's directives, as agreed upon between the parties on the date of his first appointment.

In accordance with the agreement, the monthly salary of Mr. Naveh as the Chairman of the Board amounts to a total of NIS 131,750, linked to the index for June 2016, in accordance with the definition of "linkage to the index" in the Company's compensation policy. The annual employment cost of Mr. Naveh is expected to amount to approximately NIS 2.37 million, including the provisions for the severance pay component, compensation component, study fund, loss of working capacity insurance, National Insurance and vacation days. Mr. Naveh will not be entitled to any variable component (in cash or in capital) or to a 13th salary. The aforementioned employment cost (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.

Note 40 - Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

4. Chairman of the Board(Cont.)

Within the framework of the amendment to the compensation circular, it was determined, inter alia, that the compensation paid to the Chairman of the Board will be determined as a multiplication ratio of the compensation paid to an outside director, as defined below, in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 2000 and Institutional Entities Circular 2009-9-4 (hereinafter: the “**Multiplication Ratio**”), in a manner whereby the maximum compensation paid to the Chairman of the Board will not exceed the result obtained by multiplying the compensation paid to an outside director by the multiplication ratio. The Compensation Committee and the Board of Directors of Clal Insurance determined that the aforementioned multiplication ratio, with respect to a full time position, may not exceed 12.5 times the compensation 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, as required in Clal Insurance in one year (hereinafter: “**Compensation to Outside Directors**”). The employment terms of the Chairman of the Board meet the multiplication ratio which was determined, as stated above. The actual multiplication ratio, in accordance with the salary of the Chairman of the Board, according to the employment agreement and the scope of his position, is approximately 10.4³, and the multiplication ratio according to the salary of the Chairman of the Board in accordance with the employment agreement, in terms of a full time position, is approximately 12.2.

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 agreement includes various provisions with regard to eligibility for annual holiday, convalescence pay, sick pay and social benefits as is conventionally practiced in the Company. In case of the termination of the employer - employee relationship, excluding under extraordinary circumstances, Mr. Naveh will be entitled to release and/or to transfer to his ownership all of the which were funds accumulated on his behalf in the managers’ insurance and in the study fund, including their accumulated profits. Additionally, if and inasmuch as the amount accumulated in the severance pay component of the managers’ insurance policy does not reach the severance pay amount to which Mr. Naveh would be entitled by law in the event that of dismissal, the Company will supplement the difference owed to Mr. Naveh.

In the agreement, it was determined that the cancellation of the agreement will be effected by providing written notice six months in advance, and the Company will be entitled to shorten the above period subject to the payment of all rights until the end of the advance notice period.

The agreement stipulates non-competition restrictions during the agreement period. The aforementioned restrictions will apply to Mr. Naveh during a period of six months after the end of the advance notice period.

It is noted that, upon the approval of the agreement, it was clarified that existing rights which accrued by virtue of the previous agreement would not be harmed, including options, a proportional annual bonus and a deferred variable bonus with respect to the period during which the previous agreement was in effect, the supplementation with respect to severance pay according to the last salary, and an adjustment bonus, as specified below:

Adjustment bonus - Mr. Naveh will also be entitled to receive an adjustment holiday period of six (6) months following the end of the advance notice period, during which time Mr. Naveh will be paid the full monthly linked salary, as well as the value of the full social benefits and fringe benefits under this agreement (excluding vehicle and cellphone), without Mr. Naveh being required to appear for his work.

³ The aforementioned ratio includes the cost of salary in accordance with the new employment agreement for a position at a scope of 85%, without the non-recurring components specified below, by virtue of the previous agreement: annual bonus and deferred bonus, adjustment bonus and options.

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**4. Chairman of the Board (Cont.)

Warrants - On June 5, 2013, further to the approval of the Company's Compensation Committee, the Company's board of directors approved a material private offer to Mr. Naveh of 175,000 warrants (not listed for trading) (herein, jointly: the "**Warrants**"), exercisable into ordinary shares in the Company, according to the value of the benefit embodied in the Warrants (hereinafter: the "**Private Allocation**"). The Private Allocation was performed according to the terms of the 2013 plan, as specified in Note 42(a)(2), subject to several exceptions and adjustments, of which the primary ones are specified below: Under the old agreement, warrants were allocated to Mr. Naveh without consideration. The exercise price was set on July 9, 2013 as NIS 72.5 per warrant with regard to the warrants included in the first tranche, NIS 75 per warrant per warrant included in the second tranche, and NIS 77.5 per warrant with regard to the warrants included in the third tranche. A ceiling for the share price upon exercise has also been determined as NIS 137 per Company share. The fair value of the warrants as of July 9, 2013 is NIS 13.03 on average per warrant, reflecting total fair value of approximately NIS 2.3 million, with respect to all warrants, at the time of their allocation.

Within the framework of the meeting's approval of the agreement, it was determined that the aforementioned compensation terms are in accordance with the Company's compensation policy (at the time), the Compensation Committee and board of directors are entitled to increase them at a rate of up to 5% (i.e., an addition of up to NIS 6.5 thousand to the monthly salary), provided that, in any case, the total employment cost does not exceed NIS 2.5 million or an amount exceeding 85% of the multiple of the employment cost of the employee or contract employee who receives the lowest salary in the Company, by 35, whichever of the two is lower, and insofar as it can be increased in case of an increase to the maximum payment limit, as a result of an increase in the salary of the employee who receives the lowest salary, or as a result of an interpretation which will be received with respect to the provisions of the Executive Compensation Law, in connection with the method used to calculate the employment cost (hereinafter: the "**Update Limit**").

On November 7, 2016, the Company's Compensation Committee and board of directors approved changes and adjustments to the compensation update limit of Mr. Naveh, in accordance with the Company's new compensation policy and to clarifications which were received in connection with the interpretation of the Executive Compensation Law, in a manner whereby the employment cost of the Chairman of the Board may not exceed 85% of NIS 2.5 million, plus the provisions for severance pay and compensation, in accordance with the law (hereinafter, jointly: the "**Updated Restrictions**"). The update was approved in the general meeting, for the sake of caution, by a special majority, on December 18, 2016. Following the aforementioned amendment, at this stage, no change will be applied to the salary of the Chairman of the Board; however, in accordance with the meeting's approval, the Company's Compensation Committee and board of directors will be entitled to approve an increase of up to 5% to the aforementioned salary (i.e., an addition of up to approximately NIS 6.5 thousand to the monthly salary), in accordance with the updated restrictions. As of the present date, no change has been made to his salary.

It is noted that Clal Insurance has invested in two funds in which Mr. Naveh was a partner and manager was a partner and manager before his appointment as the Company's Chairman of the Board. As part of the approval process of Mr. Naveh's appointment, inter alia, it was agreed that Mr. Naveh will not receive any compensation on account of members' funds which were invested in the R.M. Investments and Medical Technologies Fund Ltd. (hereinafter: the "**First Fund**"), and that it will sell its share in the second fund, within a defined period. As of the reporting date, Mr. Naveh's share in the general partner and managing partner of the first fund amounts to 100% (and is held through a trustee). During the reporting year, Clal Insurance paid to the first fund (with respect to the nostro share) a total of approximately USD 160 thousand in management fees.

The investment period of the first fund including extension periods, in accordance with the partnership agreement, concluded on August 26, 2017. From that date onwards, the fund did not charge management fees from the fund partners, including Clal Insurance. proximate to the conclusion of the first fund's investment period, the fund's general partner contacted the investors and allowed the investors to choose one of the following options: liquidation of the fund by the general partner, or distribution in kind of the portfolio companies. Clal Insurance decided on a distribution in kind of the portfolio companies, and is in the process of implementing this decision.

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**5. CEO employment agreement

Mr. Izzy Cohen has served as the CEO of the Company and of Clal Insurance since November 1, 2012. On March 7, 2018, the Company's CEO, Mr. Cohen, announced his intention to conclude his tenure as CEO of the Company and of Clal Insurance. His tenure is expected to conclude in June 2018. It is hereby clarified that, upon the conclusion of the CEO's tenure, he will not be entitled to additional payments beyond those specified in his employment agreement.

The Board of Directors resolved, on March 11, 2018, to appoint a committee to search and recommend a new CEO for the Company, led by the Chairman of the Board, Danny Naveh, to include directors in the Company and in Clal Insurance (the "Search Committee"). The search committee will determine the work arrangements and the criteria for the selection of CEO candidates, will interview the candidates, will evaluate their suitability, and will submit its recommendations to the Board of Directors.

Presented below are the main terms of Mr. Cohen's employment agreement:

A. Old employment agreement

In November 2012, the Company's board of directors approved the engagement in an employment agreement (hereinafter: the "**Old Agreement**") with the Company's CEO, Mr. Izzy Cohen (hereinafter: "**Mr. Cohen**"), in an agreement which is in effect for a period of five years from November 1, 2012 to October 2017.

On October 9, 2016, following the entry into effect of the Executive Compensation Law, the Company notified the Company's CEO (and additional corporate officers therein who are subordinate to the CEO) that beginning from the application date of the Executive Compensation Law, on October 12, 2016, the compensation to which he is entitled will be reduced in a manner which corresponds to the provisions of the Executive Compensation Law, and that until the end of the agreement period with him, his compensation terms will be adjusted according to the provisions of the Executive Compensation Law, in a manner whereby, beginning on October 12, 2016, he will receive payment of fixed compensation only, which will be restricted in a manner whereby he will not be entitled to compensation regarding which the annual expected expense, in accordance with generally accepted accounting principles, exceeds NIS 2.5 million, plus the provision for severance pay and compensation, in accordance with the law. For the avoidance of doubt, the change to the aforementioned conditions will not adversely affect any rights which accrued prior to that date. On November 7, 2016, the Company's CEO notified the Chairman of the Board that he accepted the Company's letter, while reserving his rights in accordance with the law and the agreement.

B. Main terms of the new employment agreement

On July 29, 2017, the CEO notified the Chairman of the Board, Mr. Danny Naveh, regarding his decision with respect to his willingness to extend the tenure of the Company's CEO for an additional two years. On August 29, 2017 and September 10, 2017, the Company's Compensation Committee and Board of Directors approved, respectively, the extension of the tenure of the Company's CEO, and the engagement in a new employment agreement with him, beginning on November 1, 2017, for a set period of two years, i.e., until October 31, 2019, including the possibility of extension by the Company (and subject to the CEO's consent), under the same conditions, by one additional year, subject to the provision of notice 3 months in advance, as specified below (the "**Old Agreement Terms**", the "**Agreement Period**" and the "**Extension Period**", respectively). The extension of the CEO's tenure was approved on October 23, 2017 by the general shareholders' meeting of the Company and of Clal Insurance. As stated above, Mr. Cohen's term is expected to conclude in June 2018.

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**5. CEO Employment Agreement (Cont.)B. Main terms of the new employment agreement (Cont.)

The terms of the new agreement were approved, as required in accordance with the Executive Compensation Law, in accordance with the Commissioner's directives regarding compensation in institutional entities, and in accordance with the compensation policy of the Company and of Clal Insurance, as specified below.

The CEO's total compensation is two million and a half Shekels (NIS 2.5 million) per year⁴, in accordance with the following terms.

The salary and the total compensation will be adjusted at the start of each calendar year⁵ to the provisions of the Executive Compensation Law, in a manner whereby the projected expense with respect to the CEO's compensation, according to the total cost of the compensation components, per year, in accordance with generally accepted accounting principles, will be in accordance with section 2 of the Executive Compensation Law⁶, whichever is higher (hereinafter: the "**Compensation Limit**")⁷:

- (1) Two million and a half Shekels (NIS 2.5 million) per year⁸ (hereinafter: the "**Amount Limit**"); or:
- (2) A multiple of the expense with respect to the lowest compensation, according to a full time 100% position, which was paid by the Company to an employee, directly or indirectly (including to a contract employee who is employed directly by the Company, or to an employee who is employed by a service provider who is employed by the Company), times 35⁹ (hereinafter, respectively: the "**Minimum Salary**" and the "**Minimum Salary Limit**").

Additionally, the salary and the total compensation may change in accordance with and subject to the decision of the Compensation Committee and the Board of Directors, in case it is found that additional components (beyond the provision for compensation¹⁰ and the provision for severance pay as required by law), are not included in the compensation limit.

The total compensation, as specified above, will constitute the basis for provisions for deductions and social benefits.

The CEO will be entitled to convert components of fringe benefits beyond the legal requirement (such as the Company vehicle benefit, or the grossing up thereof) into a salary bonus, provided that such conversion will not increase the CEO's annual employment cost beyond the compensation limit.

Notwithstanding all of the foregoing, it is hereby clarified that the CEO's total compensation, as defined in the Executive Compensation Law, will not exceed, in any case, three and half million Shekels (NIS 3.5 million) per year.

The CEO will not be entitled to a 13th salary.

During his term, the CEO may be requested by the Company to serve as a director in various members of the Company's Group, without payment of any additional consideration beyond the consideration that it paid to him by virtue of and in accordance with the provisions of the new agreement.

Social benefits - The CEO will be entitled to monthly provisions of the Company at the rate of 7.5% of the salary for compensation and for loss of working capacity, 8.3% for severance pay and 7.5% for study fund.

⁴ Linked to the index, beginning from the publication date of the Executive Compensation Law (April 12, 2016). The calculation of the compensation limit, as stated above, will not include taking into account the provision for compensation, including loss of working capacity, and the provision for severance pay pursuant to the law, which can be provided on account of the compensation components (base salary), subject to and in accordance with the Company's compensation policy.

⁵ And will be reported each year, as stated above, to the Compensation Committee and Board of Directors.

⁶ It is hereby clarified that the calculation of the compensation limit, as stated above, will not include taking into account compensation regarding which the expense is not expected in accordance with generally accepted accounting principles.

⁷ The expense will be calculated in accordance with generally accepted accounting principles, as specified in the Executive Compensation Law, as these will be in effect from time to time.

⁸ See footnote 3.

⁹ During the year preceding the date of the engagement.

¹⁰ Including loss of working capacity.

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**5. CEO Employment Agreement (Cont.)B. Main terms of the new employment agreement (Cont.)

In case of termination of the employer - employee relationship, for any reason whatsoever (excluding extraordinary circumstances in which the CEO will not be entitled to severance pay in accordance with the provisions of the law, with respect to his period of employment in the Company), the CEO will be entitled to release and/or transfer to his ownership all of the funds which have accrued in his favor in directors' insurance and in the study fund, including the profits thereof. Additionally, if and insofar as the amount accumulated in the severance pay component of the managers' insurance policy does not reach the full severance pay amount to which the CEO would be entitled by law in case of dismissal, the Company will supplement the difference owed to the CEO, in case of either dismissal or resignation.

Notwithstanding all of the foregoing, in case the CEO's employment concludes in circumstances where he is not entitled to severance pay and/or advance notice by law, the Company will be entitled to terminate the agreement immediately. Additionally, in the event that the working relationship has been terminated in such circumstances, the Company will be entitled to revoke the CEO's entitlement to severance pay which accrued during the period of his engagement with the Company and/or to adjustment pay and/or to an advance notice period and/or to payments and/or terms during the advance notice period.

Reimbursement of expenses - The CEO will be entitled to receive reimbursement of expenses in connection with the fulfillment of his responsibilities, and will be entitled receive a cellphone, newspaper subscription, etc., including grossing up the value of crediting the benefit for tax purposes, as well as additional fringe benefits, as specified in the Company's compensation policy, subject to the compensation limit.

If the CEO chooses to receive a vehicle, the Company will provide to the CEO an appropriate vehicle, which will be used by the CEO during the agreement period (subject to periodic replacement of the vehicle, in accordance with the Company's conventional practice), and will receive reimbursement of the payments which are associated with maintenance of the vehicle, within the framework of and subject to the compensation limit.

Vacation, sick days and convalescence days - The CEO will be entitled to an annual vacation quota of 25 days, as well as 12 sick days and convalescence days, in accordance with the Company's policies. It is hereby clarified that insofar as, by the end of the agreement period, the redeemable vacation days have not been redeemed, they will be redeemable, subject to the compensation limit. Insofar as, due to the application of the compensation limit, the accrual of vacation days is not possible, any vacation days which are accrued beyond the compensation limit will be erased.

Advance notice - In case of termination of the employer - employee relationship by the CEO, for any reason whatsoever, during the employment period, the CEO will give notice to the Company 90 days in advance.

In case of termination of the employer - employee relationship by the Company, for any reason whatsoever¹¹, during the employment period, or in case of termination of the agreement at the end of the agreement period, without an extension thereof, or at the end of the extension period, without an extension thereof, the Company will give notice to the CEO 180 days in advance.

During the advance notice period, the CEO will receive the full monthly salary, as well as all social benefits and fringe benefits. The Company will be entitled to waive the CEO's actual work during this period, without derogating from his rights to the aforementioned benefits.

¹¹ Except in case the CEO's employment has been terminated in circumstances where he is not entitled to severance pay.

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**5. CEO Employment Agreement (Cont.)B. Main terms of the new employment agreement (Cont.)

In case the Company was the party that notified the CEO regarding the termination of the working relationship, during the last six months of the agreement period or during the extension period, the CEO will be entitled to advance notice, according to the longer period of either: (1) 180 days, as stated above, or (2) an advance notice period which will conclude three months after the conclusion of the agreement period or the conclusion of the extension period, i.e., on January 31, 2020 or January 31, 2021, as applicable.

Dismissal during the agreement period or departure within 12 months after the date of transfer of control (as defined in the Company's compensation policy)¹², before conclusion of the agreement - In the foregoing case, the CEO will be entitled to a monthly salary until the end of the period, subject to the compensation limit in accordance with the Executive Compensation Law. Notwithstanding the foregoing, in case the employer - employee relationship has been terminated in such circumstances, and the CEO begins working before the end of the employment period in a corporation engaged in the insurance, pension or provident fund sectors, or to provide services to such a corporation, he will not be entitled to receive, and if he has received - he will repay to the Company, the proportional part with respect to the period from the commencement date of his employment until the end date of his of employment period. In case of an extension of the agreement, the foregoing will apply with respect to the extension period, except in case of an additional transfer of control, if the transfer of control already occurred during the agreement period.

Non-competition - The agreement also determined that so long as the working relationship between the CEO and the Company continues, including during the advance notice period and including during the period during which, or with respect to which, he receives severance pay, as stated above, the CEO undertakes not to compete against the Company, and/or against any ventures according to operations whatsoever in which the Company is involved, whether directly or indirectly, whether independently or through any other party on his behalf, whether as an employee, consultant, partner, contractor, distributor or shareholder, whether at his own initiative or at the initiative of any other person, or by any other means whatsoever, without receiving the Company's advance written consent for the foregoing.

Capital compensation - Insofar as the CEO requests, in the future, to convert a part of his future salary into capital compensation of equivalent value, the general meeting has authorized the Compensation Committee and the Board of Directors to approve the allocation and its terms, subject to the provisions of the law and the provisions of the Company's compensation policy at the time.

Exemption, insurance and indemnification - The CEO will continue being subject to the arrangements regarding insurance, exemption and indemnification which apply to the Company's directors and corporate officers¹³.

Adjustment bonus - It is noted that, in accordance with the current agreement, the CEO is entitled to 6 months' salary plus social benefits and fringe benefits, the payment for which, in the amount of approximately NIS 1.43 million, was provided, in its entirety, in the Company's books in the past. The bonus will be paid to the CEO in accordance with the current agreement, at the end of his tenure in the Company.

Payment of accrued vacation days during the period of the current agreement - In accordance with the decision of the Compensation Committee and the Board of Directors from October 2016, the CEO was given an extension to use vacation hours which he accrued beyond the vacation hours which could have been accrued according to the possible quota in accordance with the Company's policies, until the end of the period of the current agreement. With respect to the value of all of the vacation hours, an accounting provision was made in the amount of approximately NIS 800 thousand. in accordance with the aforementioned decision, the CEO redeemed his remaining vacation hours at the end of the period of the current agreement.

¹² Transfer of control - A transaction in which the trustee and/or any other party which holds the Company's control shares transfers the control of the Company, and/or the Company transfers the control of Clal Insurance, to a third party.

The foregoing will include any transfer of control, as defined below, including a transfer by a trustee and an action which causes the status of the Company to change from a company without a controlling shareholder to a company with a controlling shareholder, excluding a transfer of control which leads to a situation wherein the Company is a company without a controlling shareholder. "Control", for this purpose, is as defined in the Securities Law, 1968.

¹³ The CEO has received from the Company a letter of exemption and letter of indemnity, similarly to the Company's corporate officers and directors.

Note 40 - Related Parties and Interested Parties (Cont.)

B. Benefits to key management personnel (including directors) (Cont.)

5. CEO Employment Agreement (Cont.)

C. Warrants

On June 6, 2012, further to the approval of the Company's audit committee, the Company's board of directors approved a material private offer to Mr. Cohen of 600,000 warrants (not listed for trading) (herein, jointly: the "**Warrants**"), exercisable into ordinary shares in the Company, according to the value of the benefit embodied in the warrants (hereinafter: the "**Private Allocation**"). The private allocation is being implemented according to the terms of the 2013 plan, as specified in Note 41(a)(2), subject to several exceptions, of which the primary ones are specified below.

The warrants were offered without consideration. The exercise price was determined as a total of NIS 55 per warrant, with respect to the warrants which are included in the first tranche; NIS 57.5 per warrant, with respect to the warrants which are included in the second tranche; and NIS 60 per warrant, with respect to the warrants which are included in the third tranche. A ceiling limit for the share price upon exercise has also been determined (as specified in Note 41(a)(2)) in the amount of NIS 135 per Company share.

The warrants' vesting periods are as follows:

- 200,000 warrants (hereinafter: the "**First Tranche**") were exercisable beginning after the end of one year after the date of their allocation to the trustee on February 26, 2013 (hereinafter: the "**Allocation Date**").
- 200,000 warrants (hereinafter: the "**Second Tranche**") will be exercisable beginning after the end of two years after the allocation date.
- The 200,000 warrants (hereinafter: the "**Third Tranche**") were exercisable beginning after the end of three years after the allocation date.

All of the warrants were exercisable by the offeree beginning on their vesting dates and until the end of five years after the allocation date to the trustee (excluding exceptions regarding the transfer of control in the Company, as specified below, and excluding additional exceptions regarding the termination of the employer - employee relationship), i.e., until February 26, 2018.

In accordance with the terms of the allocation, in case of a transfer of the control of the Company, Mr. Cohen's eligibility to exercise all of the warrants which are included in the following tranches, which have not vested until that date, will be accelerated, and Mr. Cohen will be entitled to exercise all of the warrants which were allocated to the trustee on his behalf, from the date of the transfer of control, until the end of five years after the allocation date of the warrants to the trustee (hereinafter: the "**Option Period**"), or in case of termination of the employer - employee relationship between the Company and Mr. Cohen, after the transfer of control, until the end of 24 months after the termination date of the aforementioned working relationship, whichever is earlier. For this purpose, "transfer of control" means a transaction in which IDB Holding Ltd. transfers the control of IDB Development Ltd. and/or IDB Development Ltd. transfers the control of the Company, and/or the Company transfers the control of Clal Insurance to a third party. For the avoidance of doubt, it is hereby clarified that the transfer of control of any of the aforementioned companies to a company under the control of IDB Holding Corporation Ltd., directly and/or indirectly, will not be considered a "transfer of control". "Control", for this purpose, is as defined in the Securities Law, 1968. It is hereby clarified that the appointment of a functionary on behalf of the Court for any of the aforementioned companies and/or the appointment of a trustee in accordance with the amendment to the permit for control of Clal Insurance, which entered into effect on August 31, 2012, will not constitute a change in control.

Further to that stated in note 1(a) above, and as approved by the Company's board of directors in August 2014, following the recommendation of the Compensation Committee, on May 8, 2014, upon the entry into effect of the creditors' settlement in IDB Development, the "transfer of control" condition was fulfilled, as a result of which Mr. Cohen was entitled to exercise of all warrants until the end of five years after the allocation date of the warrants to the trustee. The foregoing had no significant influence on the Company's financial statements.

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**5. CEO Employment Agreement (Cont.)C. Warrants (Cont.)

The fair value of the warrants as of December 6, 2012 is NIS 18.29 per warrant, reflecting total fair value of approximately NIS 11 million with respect to all of the warrants on that date. For additional details, see Note 41(c).

On October 23, 2017 and December 13, 2017, Mr. Cohen exercised all of the warrants, and as of the present date, he does not hold securities of the Company.

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting periodA. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the Company:

- (1) Beginning on December 1, 2014, the Company buys corporate officers' liability insurance policies for a period of one year. Each of the aforementioned policies is shared by the Company and member companies of the Group, including Clal Finance. Clal Insurance is not the insurer in the aforementioned policies.
- (2) It is noted that over the years 2005–2014, member companies of the IDB Group, including the Company (hereinafter: "**Member Companies of the IDB Group**") acquired basic insurance policies for each division in the Group, separately (hereinafter: the "**Basic Policy**"). The liability limits of the basic policy in those years was between USD 20 and 50 million for the insurance period, according to the relevant policy. Additionally, member companies of the IDB Group in those years acquired collective insurance which were shared by the Group's member companies (hereinafter: the "**Collective Policy**"). The collective policy applies (subject to its terms) only beyond the liability limits by virtue of the basic policy of each division in the Group. The maximum total of the insurer's liability limits within the framework of each collective policy, as stated above, was USD 90 million (hereinafter: the "**Original Liability Limit**") for the insurance period, in accordance with the relevant policy. Additionally, beginning in August 2010, the insurance coverage of the Group's member companies included an additional layer of insurance layer, in which insurance coverage was provided to supplement the liability limit amount according to the collective policy, up to the original liability limit, in cases where the liability limit according to the collective policy has decreased or has been exhausted due to a claim or claims, insofar as these have been submitted according to the collective policy by any of the Group's member companies which participated in it, provided that the aforementioned supplementation amount did not cumulatively exceed an amount equal to the original liability limit of the collective policy (hereinafter: "**Additional Insurance Layer**"). It is hereby clarified that the additional insurance layer applies to new claims, which are not related to a claim or claims which caused a reduction or exhaustion of the original liability limit amount. Despite the above, beginning in August 2012, the additional insurance layer does not apply to the IDB division (which includes IDB Holding, IDB Development and private companies under their control).

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period (Cont.)A. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the Company:(Cont.)

- (3) It is further noted that in recent years, various claims were filed against member companies of the IDB Group and against corporate officers in member companies of the IDB Group, as well as alerts regarding additional claims against them, in the total sum amounting to billions of NIS. The aforementioned claims and alerts refer to different underwriting years, each of which was covered by the separate policies, as stated above. Some of the claim and demand amounts are beyond the liability limits in the policies. As of the reporting date, claims are being conducted in the Courts with respect to various underwriting years (some of which exceed the liability limit amount in the policy) in a claimed total of approximately NIS 3.9 billion.¹⁴

The Company is covered, through these policies, in 100% reinsurance, whereby the reinsurers in the policies are international reinsurers with an international rating of at least A-. For details regarding the exposure to reinsurers, see Note 39(f).

It is hereby clarified that non-fulfillment of the reinsurers' undertakings towards the Company will not release the Company from its liabilities towards the policyholder according to the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the Company to incur losses.

- (4) On December 18, 2016, the general meeting of the Company's shareholders approved the compensation policy, which includes a clause regarding exemption, indemnification and insurance for corporate officers. In the compensation policy, it was determined that the Company will be entitled to acquire, for the corporate officers in the Group, corporate officers' liability insurance, in insurance amounts which will not exceed USD 400 million, and in consideration of an annual premium which will not exceed USD 1 million, and that the Company will be entitled to acquire runoff insurance for corporate officers, in case of the transfer of the control of the Company and/or of a subsidiary.

In accordance with the aforementioned resolution, the Company engaged in an insurance policy which was issued by an insurer which is a non-related party, for the period from December 1, 2016 to November 30, 2017, and later from December 1, 2017 to November 30, 2018 (the "**Policies for 2017 and 2018**"), in which the Company acquired insurance coverage for the Company and its investee companies, including Clal Finance Ltd. and its investee companies. The overall liability limit of each of the insurance policies for 2017 and 2018 is up to USD 200 million with respect to a single claim or cumulatively. The total annual premium is within the framework of the amount which was approved in the general meeting's decision.

B. The following is a description of the arrangement which applies to the indemnification of directors and senior officers in the Company:

- (1) On October 10, 2002, the general meeting of the Company's shareholders approved an undertaking to indemnify directors and corporate officers in the Company and in additional member companies of the Group, up to a rate of 25% of the Company's equity on the indemnification date. Accordingly, the Company issues letters of indemnity to officers in the Company and in certain subsidiaries.
- (2) On April 16, 2008, the Company's audit committee and board of directors approved the provision of updated letters of indemnity to corporate officers in certain member companies of the Group, including the Company, which are materially similar to the letters of indemnity which were approved, as stated above.

¹⁴ The aforementioned amount includes a motion to approve a class action with respect to which legal proceedings are being conducted in connection with the filing of an amended claim, the amount of which may change in the future.

Note 40 - Related Parties and Interested Parties (Cont.)**B. Benefits to key management personnel (including directors) (Cont.)**

6. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period (Cont.)

B. The following is a description of the arrangement which applies to the indemnification of directors and senior officers in the Company: (Cont.)

- (3) On May 3, 2012, the general meeting of the Company's shareholders approved the provision of new letters of indemnity by the Company to directors and corporate officers in the Company and/or in additional member companies of the Group (hereinafter: the "**New Letter Of Indemnity**"), up to a rate of 25% of the capital attributed to the Company's shareholders on the date of indemnification. Accordingly, the Company issues letters of indemnity to officers in the Company and in certain subsidiaries.

The provisions of the new letter of indemnity take precedence over any previous obligation or agreement (prior to the signing of the new letter of indemnity), whether verbal or in writing, between the Company and a corporate officer on the subjects specified in the new letter of indemnity, including with regard to events which took place prior to the signing of the new letter of indemnity. The above is subject to the condition that a previous letter of indemnity which has been provided to a corporate officer, if any, will continue to apply and will continue to be valid with regard to any events which occurred prior to the signing of the new letter of indemnity (including in the event that legal proceedings with respect to the above have been filed against a corporate officer after the signing of the new letter of indemnity), in the event that the terms of the new letter of indemnity worsen the reimbursement terms for the corporate officer with respect to the above event, subject to all laws.

On July 28, 2013, the general meeting of the Company's shareholders approved a correction of omissions in the definitions of "administrative procedure" and "payment to injured party" in the new letter of indemnity, which is not in accordance with the definitions which appear in the Company's bylaws. Accordingly, the definitions of "administrative procedure" and "payment to injured party" in the new letter of indemnity were adjusted in accordance with the definitions which appear in the Company's bylaws.

- (4) On December 18, 2016, the Company's general meeting of shareholders approved the compensation policy, which includes, as stated above, a clause regarding exemption, indemnification and corporate officer's insurance.

Within the framework of the Company's compensation policy for 2016, it was determined that the Company will be entitled to grant letters of indemnity, according to a wording which will be decided by the Company, and which has been approved and/or will be approved by the general meeting of the Company's shareholders. Insofar as the Company wishes to make changes to the letters of indemnity, for any reason whatsoever, the Company will present the amended letters of indemnity to the competent organs for approval, in accordance with the provisions of the law.

- C. Presented below is a description of the arrangement which applies with respect to the exemption for directors and senior officers in the Company:

On October 9, 2016, the Company's Compensation Committee and board of directors approved the provision of an exemption from liability to the Company's corporate officers, subject to the receipt of the authorizations which are required by law in order to grant the exemption. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the Company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.

The compensation policy which was approved in December 2016 includes a determination according to which the Company will be entitled to grant an exemption from liability to the Company's corporate officers. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the Company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest. Accordingly, the Company granted letters of exemption to directors and corporate officers in the Company.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 40 - Related Parties and Interested Parties (Cont.)

C. Balances of related parties and interested parties

NIS in thousands	As of December 31, 2017			As of December 31, 2016		
	Related party / interested party					
	Other related parties ²⁾	Bank Hapoalim group ³⁾	Investee Companies	Other related parties ²⁾	Bank Hapoalim group ³⁾	Investee companies
Financial investments for investment-linked contracts	750,274	1,760,052	47,653	746,220	2,093,511	75,415
Other financial investments:						
Marketable debt assets	75,239	231,962	-	116,659	422,453	-
Non-marketable debt assets	-	295,515	77,778	-	302,548	-
Stocks	117,438	57,841	-	77,656	60,752	-
Loans to investee companies accounted by the equity method ¹⁾	-	-	34,126	-	-	54,100
Other accounts receivable	1,340	1,720	-	438	9,659	-
Outstanding premiums	11,088	1,321	-	27,081	1,334	-
Cash and cash equivalents for investment-linked contracts	-	514,955	-	-	236,188	-
Other cash and cash equivalents	15,649	595,363	-	-	762,745	-
Other accounts payable	78	160	15,701	61	682	15,432
Financial liabilities *)	-	127,749	-	-	188,839	-

*) See Note 25(a).

1) Included under the item for investments in investee companies.

2) The highest balance of debt assets of the IDB Group in 2017 amounted to a total of NIS 121,407 thousand (2016: NIS 135,557 thousand).

3) The highest balance of debt assets of Bank Hapoalim in 2017 amounted to a total of NIS 2,443,867 thousand (2016: NIS 2,636,197 thousand).

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 40 - Related Parties and Interested Parties (Cont.)

D. Amounts included in the statement of income with respect to transactions with related parties and interested parties, and descriptions of these transactions

NIS in thousands	As of December 31, 2017				As of December 31, 2016				As of December 31, 2015				
	Related party / interested party												
	I DB Development Corporation Ltd. and I DB Holding Corporation Ltd.	Other related parties	Bank Hapoalim group	Associate Companies	I DB Development Corporation Ltd. and I DB Holding Corporation Ltd.	Other related parties	Bank Hapoalim group	Associate companies	Trustee	I DB Development Corporation Ltd. and I DB Holding Corporation Ltd.	Other related parties	Bank Hapoalim group	Associate companies
Gross premiums	4,033	52,737	21,406	-	1,351	78,892	33,695	-	6,756	4,351	73,793	59,177	-
Income (loss) from investments, net, and financing income	-	66,866	265,418	5,039	-	75,438	139,506	(14,049)	15,501	-	8,756	64,616	7,798
Income from management fees and portfolio management	-	-	20,246	-	-	-	145,483	-	-	-	-	102,305	-
Other income	-	170	850	-	-	28	850	-	-	-	28	850	-
Payments with respect to insurance contracts	1,706	41,240	10,330	-	7,189	40,213	17,712	-	6,094	25,848	26,803	7,800	-
Insurance fees	-	813	1	-	-	2,673	2	-	21	-	1,181	(44)	-
General and administrative expenses	-	5,482	4,909	-	-	5,587	7,490	-	154	-	5,383	6,515	-
Financing expenses	-	-	4,361	469	-	-	4,742	459	-	-	-	7,861	539

Note 40 - Related Parties and Interested Parties (Cont.)**E. Other transactions**

(1) On August 21, 2006, prior to the change of control in IDB Development, as specified in Note 1 to the financial statements, the general meeting of the Company's shareholders approved, after approval was received for this purpose from the audit committee and board of directors, a fixed framework for the Company's donations, directly and/or through its subsidiaries, to the IDB Community Fund (RA) (hereinafter: the "**Fund**"). The fund is a registered association which collects donations for large, ongoing projects in the fields of welfare, education, culture, lifesaving efforts and community support. In the aforementioned general meeting, it was determined that the Company's donation to the fund in each calendar year will amount to a total of up to 75% of the Company's overall donations budget for that year, and no more than 0.75% of the Company's annual net profit, according to its consolidated audited financial statements for the preceding year. Following Amendment No. 16 to the Companies Law, 1999, on March 18, 2012, the audit committee decided to set the duration of the general meeting's resolutions from August 21, 2006 for a period from the date of the aforementioned general meeting until May 15, 2018, i.e., an additional six years after the date of the audit committee's decision. In the years 2012 and thereafter, the Company did not give any donations to the fund.

(2) In 2010, an agreement was signed between Clal Insurance Group and Koor Industries Ltd., a member company of the IDB Group (hereinafter: "**Koor**"), which formalized their mutual rights and obligations (hereinafter: the "**Agreement**") in Credit Suisse Emerging Markets Opportunity Fund L.P. (hereinafter: "**EMCO**"). EMCO is a private investment fund which is managed by corporations from the Swiss banking group Credit Suisse (hereinafter: "**Credit Suisse**"), and which is intended to invest in emerging markets, primarily through debt products. By virtue of the agreement, Clal Insurance has significant influence in EMCO, due to the fact that it has the power to take part in certain material decision of EMCO, such as investment, through the joint representative of Clal Insurance Group and Koor. As part of the investment agreements in EMCO, Clal Insurance Group and Koor undertook to invest in EMCO a total of USD 250 million (where the share of the Clal Insurance Group is USD 125 million, of which, a total of approximately USD 33 million is out of funds held against non-investment-linked liabilities, and the remainder is from members' funds, i.e., funds held against investment-linked liabilities, provident funds and pension funds), out of a total scope of investment in EMCO, in the amount of approximately USD 1 billion. On May 8, 2013, the manager of EMCO announced that it had reduced the balance of the investors liability in EMCO to 2.5% of the original liability amount to EMCO, which will be continued only with respect to the management fees, investments and continued undertaking to indemnify.

In accordance with the agreement with the fund manager from February 2016, as of the reporting date, there is no balance of liabilities of the investors in the fund, except for the possibility to offset management fees, in negligible amounts, from future distributions. The cumulative scope of the investments of Clal Insurance Group in EMCO amounts to a total of approximately USD 45 million.

The balance of the Clal Insurance Group's investment as of the reporting date, after deducting repayments in the amount of approximately USD 35.5 million which were received, amounts to approximately USD 8.9 million.

It is noted that, in accordance with a legal opinion which the Company received and which was approved in the Company's audit committee and board of directors on January 27, 2016, IDB Development is not considered a controlling shareholder in the Company with respect to the chapter regarding interested party transactions in the Companies Law. However, for the sake of caution only, the Company decided to continue regarding transactions with IDB Development as transactions with a controlling shareholder, and will also regard transactions with third parties in which IDB Development has a personal interest as transactions in which the controlling shareholder has a personal interest, except with respect to engagement in transactions with entities which may be considered material creditors of IDB Development or its controlling shareholders, including banking corporations, in which case it will not regard them as transactions in which the Company's controlling shareholders have a personal interest, which require approvals in accordance with sections 270(4) and 275 of the Companies Law.

Note 41 - Share-Based Payment**A. Details regarding plans for the allocation of warrants exercisable into Company shares**1. 2007 plan

On March 11, 2007, the Company's board of directors adopted a compensation plan for employees and corporate officers for 2007 (hereinafter: the "**2007 Plan**"), according to which the Company will be entitled to allocate to employees and corporate officers of the Group up to 2,000,000 warrants. The warrants are each exercisable into ordinary shares with a par value of NIS 1, in accordance with the monetary benefit value embodied in the warrants on the exercise date, and subject to adjustments and conditions which were determined.

During the years 2014, 2015 and 2016, allocation of warrants from the 2007 plan were not approved. In 2015, the Company's board of directors resolved not to allocate to employees, in accordance with the aforementioned plan, the entire balance of unregistered warrants which were held in the register of warrants (470,000 warrants), and to erase them from the Company's register of securities.

At the end of 2017, the balance of warrants from the 2007 Plan which had been allocated to company officers expired, and as of the present date, there are no more warrants from that plan.

For additional details, see sections B and C below.

2. 2013 plan

On December 6, 2012, the Company's board of directors adopted a warrants plan for employees and corporate officers (hereinafter: the "**2013 Plan**"), according to which the Company will be entitled to allocate to employees and corporate officers in the Group up to 2,400,000 warrants. The warrants are each exercisable into ordinary shares with a par value of NIS 1 each, in accordance with the monetary benefit value which is embodied in the warrants as of the exercise date, in three equal annual tranches, and subject to adjustments and conditions, of which the primary ones are specified below. In 2015, the Company's board of directors resolved not to allocate, in accordance with the aforementioned plan, 35,000 unregistered warrants out of those which are held in the register of warrants, and to erase them from the Company's register of securities.

The warrants' exercise price will be subject to adjustments with respect to the following events: distribution of bonus shares; cash dividend payment; a share exchange arrangement (such as a merger transaction or re-organization); issuance of interests; cash dividend payment; and separation or consolidation of the Company's share capital, or any corporate capital events of a significantly similar nature. The adjustments will be performed according to the manner set forth in the 2013 plan. The 2013 plan was approved in a capital taxation track in accordance with section 102 of the Income Tax Ordinance.

The vesting dates of the warrants are as follows:

- First tranche - after the end of two years following the allocation date.
- Second tranche - after the end of three years following the allocation date.
- Third tranche - after the end of four years following the allocation date.

Each tranche will expire two years after its vesting date (excluding exceptions in case of termination of employer - employee relationships after a transfer of control in the Company, as specified below, and also excluding additional exceptions regarding the termination of employer - employee relationships, as specified in the outline of the 2013 plan).

It is noted that, in February 2017, the Company's board of directors approved an extension, by several days, of the exercise period with respect to the options in the first tranche, which were provided to several offerees who had not yet exercised them, and regarding which the deadline for exercise occurred during a period which was determined by the Company as a lock-up period, due to the existence of potential existence or inside information. The additional cost with respect to the extension of the period was negligible. The Board of Directors may approve an extension, as stated above, from time to time. It is noted that the options plan for 2015 established a similar provision, as specified below.

Note 41 - Share-Based Payment (Cont.)**A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)**2. 2013 plan (Cont.)

The plan manager is entitled to determine, upon the allocation of the warrants, that if after the vesting of a certain tranche of warrants, and before its expiration, the stock exchange price at the closing of any trading day reaches a certain price which will be determined by him (with this price being subject to the adjustments specified above, *mutatis mutandis*), all of the warrants from that tranche will be automatically exercised (hereinafter: the “**Maximum Price**”). It is noted, with respect to all of the warrants which were allocated in accordance with the 2013 plan, that a maximum price was determined, as stated above.

In case of termination of the employer - employee relationship between the offeree and the Company and/or another member company of the Group (as applicable), as a result of resignation or dismissal (except in case of termination of employment under certain circumstances, as specified in the 2013 plan) during the 12 months after the transfer of control of the Company, the offeree’s eligibility to exercise only the next tranche of warrants which will be formulated (if any) after the termination of the aforementioned employer - employee relationship will be accelerated, and the offeree will be entitled to exercise the warrants which are included in that aforementioned tranche, during a period of 90 days after the termination date of the working relationship, until the end of the warrants period, whichever is earlier. The offeree’s entitlement to the remaining warrants which were allocated in favor of the offeree will expire on the termination date of the employment relationship.

On this matter, it was determined in the plan that a “transfer of control” means a transaction in which IDB Holding transfers the control of IDB Development and/or IDB Development transfers the control of the Company and/or the Company transfers the control of Clal Insurance Company Ltd. to a third party. For the avoidance of doubt, it is hereby clarified that the transfer of control of any of the aforementioned companies to a company under the control of IDB Holding Corporation Ltd., directly and/or indirectly, will not be considered a “transfer of control”. “Control”, for this purpose, is as defined in the Securities Law, 1968. It is hereby clarified that the appointment of a functionary on behalf of the Court for any of the aforementioned companies and/or the appointment of a trustee in accordance with the amendment to the permit for control of Clal Insurance, which entered into effect on August 31, 2012, will not constitute a change in control.

In 2015, the board of directors of Clal Insurance approved an extension of the outline according to which warrants were allocated in accordance with the 2013 plan, and the publication thereof, without any change to its conditions, in order to allow the Company to perform future allocations to employees who are not senior position holders, of warrants by virtue of the 2013 plan, which have been returned, and will be returned in the future (if any) to the register of warrants.

For additional details, see sections B and C below.

3. 2015 plan

Further to the compensation policy of Clal Insurance from June 2014, on March 24, 2015 the Company’s board of directors approved a capital compensation plan conditional upon performance for 2015 (hereinafter: the “**2015 Plan**”), according to which the Company will be entitled to allocate warrants to employees who are not senior position holders¹⁵ (as this term is defined in the compensation circular).

The warrants are each exercisable into ordinary shares with a par value of NIS 1, in accordance with the monetary benefit value embodied in the warrants on the exercise date, and subject to adjustments and conditions, of which the primary ones are specified below, in three equal annual tranches.

¹⁵ “Senior position holders” include any of the following: (i) corporate officers; (ii) any person who is not a corporate officer, and regarding whom one of the following conditions are fulfilled: (a) the total compensation which he received with respect to each of the last two years exceeds NIS 1.5 million, or (b) he is engaged in management of the Company’s investments and of the funds of those saving through it; (iii) any person who is employed by the Company, either directly or indirectly, and whose activities may have a significant impact on the Company’s risk profile or on the funds of those saving through it, regardless of whether or not there is an employer - employee relationship between him and the Company, as well as any person who is included in a group of employees which is subject to the same compensation arrangements according to the Company’s compensation policy, and where the if not of their compensation may cumulatively expose the Company or the funds of those saving through it, to significant risk. Subject to the provisions of the compensation circular, the evaluation of the scope of application of the compensation policy may change from time to time. As of the present date, it was found that the managers of the Company’s distribution channels will be included under this definition.

Note 41 - Share-Based Payment (Cont.)**A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)**3. 2015 plan (Cont.)

The warrants' exercise price will be subject to adjustments with respect to the following events: distribution of bonus shares; cash dividend payment; a share exchange arrangement (such as a merger transaction or re-organization); issuance of interests; cash dividend payment; and separation or consolidation of the Company's share capital, or any corporate capital events of a significantly similar nature. The adjustments will be performed according to the manner set forth in the 2015 plan. The 2015 plan was approved in a capital taxation track, in accordance with section 102 of the Income Tax Ordinance.

The eligibility of an offeree to the warrants and to the exercise thereof will be subject to the fulfillment of the preconditions for the formulation of eligibility, the fulfillment of target profit, as defined below, and the vesting conditions which constitute measurable quantitative targets.

The eligibility materialization conditions are preconditions involving (a) Clal Insurances fulfillment of the minimum solvency ratio with respect to that bonus year, as defined in the compensation policy of Clal Insurance, or another metric to be determined in case of a regulatory changes to the capital governance ("**Minimum Solvency Ratio**"); (b) The Company's fulfillment of a return on equity target rate of at least 5%, with respect to that year. Additionally, as a condition for materialization of the eligibility, the Company is entitled to fulfill a target of at least 70% of the target which will be determined for the purpose of the profit target, and which will be determined in the range between NIS 250 million and NIS 600 million, with respect to each bonus year (the "**Profit Target**"). A condition for eligibility for warrants with respect to an eligibility year is the fulfillment of the preconditions and fulfillment of the profit target (hereinafter: the "**Conditions for Eligibility**"). In the event that any of the conditions for eligibility have not been fulfilled in a particular bonus year, the offeree will not be entitled to all of the warrants which were allocated to him with respect to that bonus year, and those warrants will be returned to the register of warrants, and may be re-allocated to any offeree.

The materialization of the conditions for eligibility for a certain year will be evaluated proximate to the publication date of the period report for the evaluated year (the "**Materialization of Eligibility Date**"). The warrants will vest in three tranches. The first warrant vesting date will be April 1 after the passage of one year, two years and three years after the materialization date. The vesting will be conditional upon the fulfillment of a minimum solvency ratio at the end of the year before the vesting date. Each tranche will vest two years following after its vesting date (the "**Expiration Date**").

Notwithstanding the foregoing, if the option period of a certain tranche concludes during a period which was determined by the Company as a lock-up period with respect to the existence or potential existence of insider information, then subject to the plan terms, the option period will be extended automatically, for an additional period, in a number of days equal to the number of days in the lock-up period.

The plan manager will be entitled to determine, upon the allocation of the warrants, a maximum price, as defined above. It is noted, with respect to all warrants which were allocated in accordance with the 2015 plan, that a maximum price was determined, as stated above.

In case of termination of the employer - employee relationship between the offeree and the Company and/or another member company in the Group (as applicable), before the date of formulation of eligibility with respect to a certain eligibility year, although except in case of termination of employment during the 6 months after the transfer of the control of the Company, the offeree's eligibility to all warrants which were allocated to him according to the plan will expire, upon the conclusion of the working relationship, as stated above. Notwithstanding the foregoing, the plan manager will be entitled to decide that the offeree will be entitled to a proportional part (in accordance with the offeree's period of employment in the relevant bonus year) of the warrants which were allocated to the offeree with respect to the relevant bonus year, subject to the fulfillment of the conditions for materialization of eligibility, and the fulfillment of the vesting terms. In case of the termination of the working relationship between the offeree and the Company and/or another company in the Group, after the eligibility materialization date, with respect to a certain eligibility year, the warrants will expire at the end of the exercise period, or, if exercised before (in other words, if they have not expired as a result of the termination of the working relationship).

Note 41 - Share-Based Payment (Cont.)**A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)**3. 2015 plan (Cont.)

On this matter, it was determined in the plan that a “transfer of control” means a transaction in which the controlling shareholders in IDB Development transfer the control of IDB Development and/or IDB Development transfers the control of the Company, and/or the Company transfers the control of Clal Insurance, to a third party. For the avoidance of doubt, it is hereby clarified that the transfer of control in any of the aforementioned companies to a company under the control of the controlling shareholder of IDB Development, directly and/or indirectly, will not be considered a “transfer of control”. “Control”, for this purpose, is as defined in the Securities Law, 1968. It is hereby clarified that the appointment of a senior position holder on behalf of the Court for any of the aforementioned companies and/or a transfer of the control shares in the Company from the trustee (Mr. Moshe Terry or any trustee who may be appointed in his place) to IDB Development will not constitute a change in control.

In 2015, the Company’s board of directors resolved to publish outlines pertaining to the allocation of up to 470,000 warrants, which will be offered by virtue thereof, in accordance with the plan, to employees and corporate officers of the Company and/or of companies under its control. All of the warrants according to the aforementioned outline were allocated.

For additional details, see sections B and C below.

For details regarding the allocation of warrants to the Chairman of the Board and to Company’s CEO, see Note 40(b)(4) and (5), respectively.

Note 41 - Share-Based Payment (Cont.)**B. Movement in warrants and additional details**

	Average lifetime) in years	Weighted average of the exercise addition in NIS 1)	Number of options
Balance as of January 1, 2015	3.24	61.43	2,959,667
Allocated during the year		63.45	672,000
Forfeited during the year		63.33	(218,000)
Expired during the year		65.98	(65,667)
Exercised during the year 2)		54.73	(361,665)
Total outstanding warrants as of December 31, 2015	2.99	62.46	2,986,335
Forfeited during the year		67.82	(245,001)
Expired during the year		63.95	(85,667)
Total outstanding warrants as of December 31, 2016	1.88	63.19	2,655,667
Forfeited during the year		68.91	(8,667)
Expired during the year		66.22	(294,997)
Exercised during the year 2)		55.46	(1,101,667)
Total outstanding warrants as of December 31, 2017	1.78	69.24	1,250,336
Of which, total outstanding warrants as of December 31, 2017			
2013 plan	1.32	68.44	820,336
2015 plan	3.25	68.73	313,333
In the Chairman's plan	1.08	76.25	116,667
Total exercisable warrants:			
At the end of 2017		68.83	819,561
At the end of 2016		60.10	1,561,666
At the end of 2015		58.66	1,035,333

*) Weighted average of the remaining contractual duration to expiration.

- 1) The weighted average of the exercise addition with respect to forfeitures and expirations was calculated based on the value of the exercise addition at the end of each year.
The exercise price of the outstanding warrants as of December 31, 2017, 2016 and 2015 was NIS 52.83-77.50.
- 2) The weighted average of the share price on the exercise date of the warrants, with respect to warrants which were exercised in 2017, was NIS 55.46 (in 2015: NIS 64.29; in 2016: no exercises).

Based on a maximum theoretical assumption of the exercise of all of the warrants from the 2013 plan and the 2015 plan, when the price of the Company's shares on the stock exchange reaches a price where, according to the terms of the warrants plan, an automatic exercise is implemented, and subject to the adjustments specified in the 2013 plan and the 2015 plan, the outstanding warrants will confer upon the recipients, as of December 31, 2017, 2016 and 2015, approximately 1.16%, 2.59% and 2.92%, respectively, of the Company's issued and paid-up share capital after the allocation.

Note 41 - Share-Based Payment (Cont.)**B. Movement in warrants and additional details (Cont.)**

This assumption, regarding the full exercise of the warrants, is theoretical only. Offerees who exercise the warrants will not be allocated all shares arising therefrom, but rather, only shares in a quantity which reflects the amount of the monetary benefit which is embodied in the warrants, in accordance with the actual benefit amount on the exercise date, i.e., the difference between the price of an ordinary company share on the exercise date, and the exercise price of the warrant.

C. Details regarding the fair value measurement of the warrant plans

The fair value of the warrants is estimated by applying the Black-Scholes model, with reference to the warrants which were allocated to offerees within the framework of the 2007 plan, and using the binomial model with respect to the warrants which were allocated to the Company's CEO, to Chairman of the Board and to the offerees as part of the 2013 plan and the 2015 plan.

The main assumptions in the models includes the share's closing price on the measuring date, the instrument's exercise price, the expected volatility (based on the average historical volatility of the Company's stock, over the expected lifetime of the warrants), the expected lifetime of the instruments (based on the past experience and the general behavior of warrant holders), and the risk-free interest rate in accordance with the lifetime of the warrants (based on an interest rate yield curve). Terms of service and performance conditions which are not market conditions are not taken into account when determining fair value.

Presented below are the parameters which were used in the application of the models and the fair value on the allocation date:

	<u>2007 plan</u> ¹⁾	<u>Chairman of the Board</u>	<u>Company CEO</u>	<u>2013 plan</u> ¹⁾	<u>2015 plan</u> ¹⁾
Number of warrants allocated, less forfeitures, until the balance sheet date	1,720,668	175,000	600,000	2,056,333	313,333
Weighted average share price (in NIS)	91.56	59.31	54.00	59.49	61.70
Weighted average of the exercise addition on the allocation date (in NIS)	100.41	75.00	57.50	62.97	68.73
Weighted average of expected volatility ²⁾	31.71%	42.26%	46.41%	42.33%	34.06%
Average warrant lifetime (in years) ³⁾	4.04	6.00	5.00	4.90	5.75
Weighted average of risk free interest rate ⁴⁾	2.83%	2.54%	2.80%	2.45%	1.49%
Maximum price	-	137	135	135-151	139-146
Fair value as of the allocation date of all warrants issued by the Company (NIS in thousands) ⁵⁾	40,013	2,281	10,972	34,792	4,550

- 1) The data presented below constitute a weighted average of the allocations on the various dates, by tranches, after deducting forfeitures and replacements of offerees.
- 2) The expected volatility of the share price over the expected lifetime of the warrants was determined based on the historical volatility of the Company's share price, and is based on the assumption that the historical volatility of the share price constitutes a good indication of future trends.
- 3) The projected average lifetime of the warrants was determined based on past experience and general behavior of warrant holders, which does not necessarily represent the future pattern of exercising the warrants into shares. Accordingly, it was assumed that the warrants will be exercised on the expiration date, except with respect to the 2007 plan, regarding which it was assumed that the warrants will be exercised in the middle of the period between the vesting date and the expiration date.
- 4) The risk-free interest rates were determined by a company providing interest rate quotes for interest rates (for additional details, see Note 14(f)(4)), where the interest rate periods corresponded to the expected lifetime of the warrants (based on the interest rate yield curve).
- 5) The cumulative fair value of all of the allocation, in each of the warrants plans.

D. Payroll expenses with respect to share-based payments

NIS in thousands	<u>2007 plan</u>	<u>Chairman of the Board</u>	<u>The Company's CEO</u> ¹⁾	<u>2013 plan</u>	<u>2015 plan</u>	<u>Total</u>
In 2017	-	107	-	1,498	954	2,559
In 2016	-	333	-	3,363	224	3,920
In 2015	124	631	-	6,659	3,388	10,802

- 1) Due to changes in control, as specified in section A(2) above, the expense recording period was accelerated.

Note 42 - Contingent Liabilities and Claims¹⁶

Presented below are details regarding claims which are not in the ordinary course of business, as follows: material claims¹⁷ whose filing as class actions was approved; Pending motions to approve class action status for material claims; material and immaterial class actions which concluded during the reporting period, until its signing date, other material claim and derivative claims against the Group's member companies.

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

A. Class action claims

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

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

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

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

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 winning the claim in court; (3) That the cause of action gives rise to significant questions of fact or law which are shared by a certain group; (4) That there is a reasonable possibility that the common questions in the claim will be determined in favor of the Group; (5) That the class action is the most efficient and fair method of resolving the dispute which is the subject of the claim, in light of the circumstances; (6) The suitability of the plaintiff to serve as the class action plaintiff, and of his attorney to representative him in the claim.

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

¹⁶ 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.

¹⁷ It is noted that, in general, in this note, a claim will be considered material, and will be described in accordance with the estimate which is performed by the Company on the date when the claim is received, insofar as the actual exposure amount, net of tax, assuming the claim is found to be justified, and without addressing the claim's chances, or the amount specified therein, per se, exceeds the Group's significance threshold with respect to income, according to the calculation of forecasted comprehensive loss, divided by the average annual comprehensive income or comprehensive loss in the last three years, calculated based on the last 12 quarters for which audited or reviewed financial statements were published; It is hereby clarified that the income/loss which is attributed to the event, and the income/loss in each quarter, are calculated according to absolute values.

Note 42 - 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; some have been approved, while others are in appeal proceedings.

Note 42 - 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 the defendants determined, in the 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, the defendants collected and continue 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 plaintiff, in 2001, or proximate thereto, the defendants amended the policies; however, this amendment applied to new policies only.	To order that: A. The discrimination practiced by the defendant is in contravention of the law, and any provision in the policy and/or any action taken by virtue of such discrimination is hereby null and void. B. Allowing the class members to choose between: (1) Comparing the annuity factors for a female policyholder to a male policyholder, and, in case of a one-time payment instead of a pension, increasing it. (2) Reducing, retrospectively and prospectively, the risk premium amounts which were charged, where the amounts which will be reduced will be added to the accrual and savings amounts.	All women who acquired managers insurance policies from the defendant, in which a distinction was made between men and women regarding the pension payment, although a distinction was not made between the genders regarding the risk premium.	In August 2014, the Regional Labor Court of Jerusalem accepted the motion to approve class action status, while determining that the elements required to accept the motion at this preliminary stage of the hearing had been fulfilled. The Court emphasized that, at this stage, it is not hearing the claim on its own merits, and that from its perspective, it was not an "unfounded claim" for the purpose of approving the motion. In April 2015, the National Labor Court granted leave to appeal the decision to approve the claim as a class action, and a hearing on the case before a board was scheduled. In February 2016, a hearing was held in the National Labour Court, in which the Court stated that, in light of the circumstances of the matter, questions arise which have not been evaluated in depth by the Court, and which may have an impact regarding the cause of action and the approval thereof, regarding the reasonable chances of winning the claim, and regarding the most efficient and fair method of conducting the class action. In December 2016, the position of the Attorney General of Israel was submitted (which he also repeated in the Court hearing which was held in April 2017) which, in general, supported the position of the defendants, and determined, inter alia, that a class action is not the most efficient and fair way of resolving the dispute, in light of the circumstances, and that the chances of the process are such that there is no reasonable possibility that the relevant question will be determined in favor of the class, since no unlawful discrimination was involved. The parties are awaiting the ruling.	The plaintiff did not specify the damage amount which was caused to her, and in the absence of the data required to estimate the exact scope of damages, she estimated the total amount of damages caused to the class members as hundreds of millions of NIS.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A1. Material claims for which class action status was approved (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	3/2010 District - Center	Clal Insurance	The plaintiff contends that Clal Insurance unlawfully and wrongfully took advantage of the Control of Financial Services (Provident Funds) Law, 2008 ("Amendment No. 3"), which determined that funds which are deposited in provident funds beginning from 2008, will be withdrawable as an annuity only, and not as a capital withdrawal (withdrawal in a one-time amount). The plaintiff contends that at the time of conversion of the capital policies which were owned by a policyholder, prior to Amendment No. 3, for non-annuity paying policies, Clal Insurance was required to attach to the policy the annuity factor which was guaranteed to the policyholder under the fixed-payment policy owned by him, while in practice, Clal Insurance chose to attach to the converted capital policy a new annuity factor, in accordance with the life expectancy as of 2009.	To order Clal Insurance to attach to the capital policies of its policyholders the same annuity factor which they had in the fixed-payment policy prior to Amendment No. 3. Alternatively, to order Clal Insurance and the other class members to provide the entire amount of the pension savings funds, retroactively beginning after the date of the entry into effect of Amendment No. 3 (January 2008), and from now on, to the fixed-payment policy with the preferential annuity factor. Alternatively, to order Clal Insurance to compensate the plaintiff and the other class members in the amount of damage which was incurred.	Any person who owned, prior to the entry into effect of Amendment No. 3, both a capital policy and a fixed-payment policy of Clal Insurance (whether of Clal Insurance or of another insurance company), and to whom, following the aforementioned amendment to the law, a annuity factor ¹⁸ was not guaranteed in the capital policy, or to whom a annuity factor was guaranteed in the capital policy which was worse than the annuity factor specified in his fixed-payment policy.	In June 2011, the Commissioner's position was submitted, through the Attorney General of Israel, according to which an insurance company is not required to provide annuity factors which were determined in the past, or to transfer policyholders' funds to the fixed-payment policy which they had in the past. It was further noted, with respect to the question of whether it is possible to change the amount used to calculate deposits up to the amount of the salary, it was determined that the matter depends on the particular terms of each policy, and that the plaintiff's policy does not include any provision which requires Clal Insurance to change the deposit amounts or the deposit rates. In September 2015, the District Court decided to accept the motion to approve against Clal Insurance, in which it was determined that the entitled class members include any policyholder who owned, prior to Amendment No. 3, both a capital policy and a fixed-payment policy (whether of Clal Insurance or of another insurance company), and who, following the aforementioned amendment, did not receive an annuity factor in the capital policy, or who received an annuity factor which was worse than the factor in his fixed-payment policy, provided that the capital policy was managed by Clal Insurance. The parties filed pleadings regarding the claim, and an examiner was appointed regarding the case, who filed his opinion in July 2017. The proceedings are currently in the claim handling stage.	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.

¹⁸The 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 42 - 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 the defendants in advance, the defendants do not reimburse to policyholders the surplus relative share of the insurance premium with respect to that month, or alternatively, reimburse the insurance premium at nominal values only.	The reimbursement of the surplus premium amounts which were unlawfully collected from the class members and/or the reimbursement of unlawful revaluation differences, with the addition of duly calculated linkage differentials, as well as a mandamus order instructing the defendants to change their conduct.	Anyone who is and/or was a policyholder of one or more of the defendants, under any insurance policy, excluding a property insurance policy, or the inheritor of such a policyholder, where the insurance policy was discontinued for any reason, whether due to its cancellation by the policyholder, or due to the occurrence of the insurance event.	In June 2015, the Court issued a decision to dismiss the motion to approve against all of the defendants with respect to the primary claims, including: (A) proportional reimbursement of premiums should be performed in case of the occurrence of the insurance event; (B) proportional reimbursement of premiums should be performed in case of cancellation of the policy, where the wording of the policy does not stipulate section 10 of the Insurance Contract Law, 1981, as phrased, during the period relevant to the claim; (C) the reimbursed premiums should be linked only to a positive index, and not to a negative index; (D) the premiums should be reimbursed with the addition of special interest. Additionally, a dismissal was issued with respect to the motion to approve against Clal Insurance only, regarding a claim of non-payment of relative premiums in insurance policies which include a stipulation of section 10 of the Insurance Contract Law, in which it was determined that the cancellation of the policy will enter into effect immediately, in the absence of an evidential infrastructure (hereinafter: the "Proportional Reimbursement Claim"). The motion to approve the claim as a class action was accepted against all of the defendants, with respect to anyone who is or who was the holder of an insurance policy, except for a property insurance policy, who canceled an insurance contract, or whose insurance policy was canceled due to the occurrence of the insurance event, from April 2003 until March 14, 2012, and from whom premiums were collected with respect to the months following the cancellation month, which were reimbursed to him according to their nominal value, without linkage differentials and interest in accordance with the Insurance Contract Law (hereinafter: the "Nominal Return Claim"). In September 2016, a settlement arrangement was filed with the District Court (the "Settlement Arrangement"), according to which the defendants undertook to donate to public causes amounts which were overcollected, by virtue of the proportional reimbursement claim, and additional amounts by virtue of the nominal reimbursement claim, according to partial rates which were determined in the settlement agreement, and according to the determination of an examiner who will be appointed by the Court within the framework of the settlement agreement. In February 2017 and March 2017, the positions of the Israel Consumer Council and the Attorney General of Israel, respectively, were received, who did not object to the settlement arrangement in its entirety, but rather proposed amendments to the settlement arrangement, inter alia, with respect to the method used to reimburse funds to the class, and with respect to the types of policies to which the settlement will apply. In June 2017, the Court appointed an examiner for the case to examine the settlement arrangement. The settlement agreement is subject to the approval of the Court, the provision of which is uncertain.	The amount claimed by all of the plaintiffs against all of the defendants in the claim is NIS 225 million, with respect to a period of ten years. The plaintiffs have not specified the amount claimed from Clal Insurance only, if the claim is approved as a class action.

Note 42 - 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, the defendants' practice is to pay the policyholders the insurance benefits at their nominal values, and without conducting any revaluation whatsoever, or, in certain cases, with the addition of linkage differentials only. The plaintiffs further claim that the defendants allegedly withhold, in some cases, payment due to an incorrect belief that a restriction applies to their payment.	To order the defendants to repay to the class members all of the interest which they earned by virtue of their holding of the withheld insurance benefits (or other funds) or the interest and linkage differences with respect to the holding of such funds throughout the entire withholding period of the funds, according to the higher rate of the two, with the addition of linkage differentials and interest; To order the defendants to pay other special compensation, in the Court's discretion; To declare that the defendants are required to pay insurance benefits or damages to the injured parties, duly revaluated as of the date of actual payment, where such compensation was paid after the required date, regardless of whether or not the delay was implemented lawfully or unlawfully; To order the defendants to establish internal policies on all matters associated with liens or approval of "notices to holders", in order to ensure that funds of policyholders or other payables are not unlawfully withheld by insurers.	The policyholders of the defendants and injured parties who sued them by virtue of section 68 of the Insurance Contract Law, 1981, who were entitled to receive insurance benefits or other sums from the defendants, and where those amounts were paid at their nominal value only or with the addition of linkage differentials only without interest, after being withheld due to foreclosures or receivership orders or other third party rights, or due to an incorrect belief on part of the defendants that such restrictions on the execution of the payment had existed.	In December 2012, the Court approved the handling of the claim as a class action. In May 2013, the parties filed an agreed-upon application according to which all motions for leave to appeal, insofar as any have been filed, will be filed regarding the ruling on the claim. The Supreme Court accepted the motion. In June 2013, the Court approved, within the framework of a preliminary hearing, the amendment to the statement of claim, in a manner whereby the claim may also refer to the allegation that, in profit sharing policies, all of the benefit generated from the delay of funds are not transferred in their entirety to the class members. In October 2016, the parties filed with the Court a motion to approve a settlement arrangement which specified a total compensation amount for each defendant, reflecting full reimbursement on an estimated basis, which will be paid with the addition of linkage differentials and interest, to plaintiffs who make contact and to whom the payment of insurance benefits was delayed, due to a legal restriction preventing such payment. Any amounts which remain unclaimed will be transferred for donation. The settlement arrangement included the definition of future mechanisms for the revaluation of insurance benefits the transfer of which was delayed due to liens. In April 2017, the Attorney General of Israel filed an objection to the settlement arrangement. In July 2017, the Court gave its decision, according to which it tends towards the opinion that it would be appropriate to appoint an examiner to evaluate the possibility of individual compensation, and in September 2017, the aforementioned examiner was appointed, who submitted the opinion in December 2017, stating that the matter requires a manual evaluation. In February 2018, the Attorney General of Israel filed his position with respect to the examiner's report, and announced that he was leaving the examiner's recommendations to the judgment of the Court. The settlement arrangement's entry into effect is conditional upon the receipt of court approval, the provision of which is uncertain.	The total amount of damage claimed against Clal Insurance was estimated by an expert representing the plaintiffs at approximately NIS 69 million, while the amount claimed against Clal Health was estimated at approximately NIS 7 million.

Note 42 - 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 the defendants breach their obligation to attach linked interest and duly calculated linkage differentials, with respect to the insurance benefits which they pay. 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 the defendants 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 the defendants, to which duly calculated interest (the " First Class ") and duly calculated linkage differentials (the " Second Class ") were not added.	In August 2015, the District Court decided to dismiss the motion to approve against the defendants, regarding the claim of non-payment of linkage differentials, and to accept the motion to approve against the defendants with respect to the claim regarding the underpayment of interest on insurance benefits, and it was determined that the entitled class members include any policyholder, beneficiary or third party who, during the period from three years prior to the filing of the claim, until the date of the claim's approval as a class action, received from the defendants, and not through any ruling which was given between them, insurance benefits to which duly calculated interest was not added, within 30 days after the date of submission of the claim to the insurer (and not from the date of submission of the last document required by the insurer to evaluate the liability), until the actual payment date. In October 2016, the defendants withdrew, with the approval of the Supreme Court, a motion for leave to appeal which was filed by them in October 2015, which primarily involved an objection to the determination of the District Court, according to which a previous settlement arrangement into which the Company entered regarding a similar question does not constitute final judgment which blocks the filing of the motion to approve, and does not afford protection to the defendants, and the parties reserved all of their claims with respect to the main proceedings. The proceedings are currently in the claim handling stage.	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 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A1. Material claims for which class action status was approved (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
6.	1/2008 District - Tel Aviv	Clal Insurance and additional insurance companies	According to the plaintiff, the defendants charge 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 defendants, 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.	<p>The Commissioner filed his position on the case, in which he accepted the position of the insurance companies.</p> <p>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.</p> <p>In July 2016, the Court approved the claim as a class action. The Group which was approved includes anyone who engaged with the defendants, or with any one of them, in an insurance contract, and from whom sub-annual installments were collected with respect to the following components: with respect to the savings component in life insurance of the "hybrid" type, which were sold by Clal Insurance in the past, with respect to the "policy factor", which is a fixed monthly amount that is added to the premium, and which is intended to cover expenses, and with respect to health, disability, critical illness, loss of working capacity and long-term care policies (the "Collection Components").</p> <p>The Court's decision was given despite the position of the Commissioner of Insurance which was submitted at the request of the Court, as stated above. The cause of action for which the claim was approved as a class action is unlawful collection of sub-annual installments with respect to the collection components. The requested remedy is the reimbursement of the amounts which were unlawfully collected during the seven years preceding the filing of the claim and thereafter, i.e., from January 2001, and a mandamus order ordering the defendants to rectify their conduct.</p> <p>In December 2016, the defendants filed a motion for leave to appeal with respect to the decision to approve the claim as a class action (the "Motion for Leave to Appeal"). The discussion regarding the case was stayed until a determination has been given regarding the Motion for Leave to Appeal, which has not yet been given.</p>	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 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A1. Material claims for which class action status was approved (Cont.)**

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

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A1. Material claims for which class action status was approved (Cont.)**

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

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A1. Material claims for which class action status was approved (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
9.	11/2014	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 ¹⁹ .	The plaintiff contends that Clal Batucha, which merged with and into Bank of Jerusalem, in its function as portfolio manager, performed, on behalf of its customers, transactions with securities of member companies in the IDB Group, in a manner which gave preference to its interests and to the interests of various member companies of the IDB Group over the interests of its customers, in violation of the law. The plaintiff contends that Clal Batucha breached its obligation to inform its customers regarding any conflict of interests which it has in the performance of the aforementioned actions, and to receive their consent. The plaintiff further contends that the 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 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 Holding and IDB Development.	In January 2017, the Court approved the handling of the claim as a class action against Clal Batucha, and dismissed the motion with respect to the directors. The class members, as determined in the decision, include "anyone who received investment management services from Clal Finance Batucha Investment Management Ltd. (liquidated due to merger) ("Batucha"), on whose behalf, within the framework of the portfolio management activity, Batucha (or any other party on its behalf) acquired securities, as defined in the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995, (hereinafter: the "Advice Law"), which were issued by any of the corporations which were included, at the time of the acquisition, in the IDB Conglomerate (as defined below), from whom advance approval was not received regarding each aforementioned transaction, and who incurred damages due to the aforementioned acquisition." In this regard, the IDB Conglomerate was defined as including "all corporations which were held or controlled, directly or indirectly (including through concatenation) by the companies or IDB Holding Corporation Ltd. (hereinafter: "IDB Holding") and IDB Development Corporation Ltd. (hereinafter: "IDB Development"), including IDB Holding and IDB Development. For the avoidance of doubt, this definition includes all of the subsidiaries, second tier subsidiaries, and third tier subsidiaries (and so on) of IDB Holding, as well as any other corporation held by them, directly or indirectly." It was further determined in the decision that the class will include anyone in whose account acquisitions of securities were performed, during a period of up to 7 years before the filing of the motion to approve, until the date of completion of the merger transaction of Clal Batucha into Bank of Jerusalem. The cause of action which was approved in the decision is breach of statutory duty by virtue of section 63 of the Civil Wrongs Ordinance, together with section 15(a) of the Advice Law. The Court also ordered the payment of professional fees to the plaintiff's representative, in a negligible amount. The Company is not party to the claim; however it received notice regarding the filing of the claim, and the demand for indemnification by Bank of Jerusalem, in accordance with the agreement for the sale of Clal Batucha to Bank of Jerusalem, according to which the Company has an undertaking to indemnify ¹⁹ . The aforementioned undertaking to indemnify may be activated if and insofar as Bank of Jerusalem will be obligated, by law, in connection with the aforementioned claim, and subject to the terms of the agreement between the parties. ²⁰ The proceedings are currently in the claim handling stage.	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.

¹⁹For additional details, see Note 42(f)(1)(b) to the annual financial statements.

²⁰The Company reported the claim to the insurers of the professional liability insurance policies under which it is covered. The Company is unable, at this stage, to estimate the amount of damages and the scope of insurance coverage.

Notes to the Consolidated Financial Statements as of December 31, 2017

Note 42 - 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
10.	6/2013 District - Tel Aviv	Clal Insurance	The plaintiff, who is a holder of collective long term care insurance through a comprehensive pension fund, and who was recognized as requiring long term care, contends that Clal Insurance pays to its policyholders reduced and insufficient insurance benefits, in a manner which does not include the addition of linkage differentials and interest.	Motion to issue a declaratory ruling and a reimbursement order, for the payment of duly calculated linkage differentials and interest, from the date of the occurrence of the insurance event until the date of actual payment, in accordance with section 28 of the Insurance Contract Law, 1981; and the prospective correction of the omission.	Anyone who received, during the 7 years prior to the filing of this claim and/or who will receive, until a ruling has been given on the claim, insurance benefits from Clal Insurance, where duly calculated interest and linkage differentials were not added to the insurance benefits.	In October 2015, the State Attorney filed its position with the Court, according to which it supports the position of Clal Insurance on the aforementioned matter. In February 2017, the Court approved the claim as a class action. The Group which was approved includes all beneficiaries in the original and renewed collective insurance policy of Makefet policyholders, who received from the respondent, during the 7 years prior to the filing of the motion to approve, insurance benefits with no additional linkage differentials. The requested remedy is payment of the entire linkage differentials to which the class members are entitled. The Court's decision was given despite the position of the Commissioner of Insurance which was submitted regarding the case, at the request of the Court, which supports the position of Clal Insurance on the aforementioned subject. The proceedings are currently in the claim handling stage. The parties are conducting mediation proceedings between them.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 473.8 million.
11.	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.	In December 2017, the Court approved the claim as a class action. The class which was approved includes anyone who engaged in, and/or who was covered by, a life insurance policy which includes a savings component and a risk component, and who did not pay one of the policy components in full, from the policy preparation date until the date of eligibility for a monthly stipend under the policy, or until the settlement or expiration of the policy, whose insurance start date was "moved forward" by the respondent. The claim was approved with the causes of action of breach of contract, deception and unjust enrichment. The claimed remedies include reimbursement of the excess premium amounts which were collected by Clal Insurance, as alleged by the plaintiffs, beyond the amounts specified in the policy, and an order prohibiting Clal Insurance from continuing its collection of premiums at rates higher than the rate specified in the policy. Clal Insurance is studying the Court's decision.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 20 million.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims**

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

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

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

Note 42 - 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.	7/2014	Clal Pension and Provident Funds Ltd. and against four additional managing companies of pension funds	According to the plaintiffs, two associations which claim that their purpose is to assist the senior population, the defendants increased the management fees which are charged from retirees of the pension funds which are managed by them, during the annuity receipt stage, to the maximum management fees permitted for collection by law (0.5% of the accrued balance), while abusing the fact that the retirees are a "hostage population", although active members pay, on average, significantly lower management fees. It was further claimed that the defendants do not disclose to their members that immediately when they become pensioners, the management fees which they pay to the defendants will be increased to the maximum management fees.	Reimbursement of the excess management fees which were unlawfully collected from the class members, with the addition of interest and linkage; To order the defendants to reduce the management fees which are charged from the pensioners, in a manner whereby the management fees which were collected prior to the commencement of the retirement of each one of them, will not increase; To prohibit the defendants from increasing the management fees for members proximate to their retirement.	Any person who is a member of a new comprehensive pension fund which is managed by one of the defendants, and who is entitled to receive an old age pension and/or who will be entitled to receive an old age pension in the future.	In September 2015, the plaintiffs filed a reply to the defendants' response to the motion to approve (the "Plaintiffs' Reply"), in which, inter alia, a new claim was raised, according to which the defendants did not send to their members advance notice regarding the increased management fees, as required in accordance with the provisions of the law. In January 2017, the Court gave its decision, in which it stated that the Commissioner will provide answers to the questions which were phrased by the Court, and in September 2017, the Commissioner's answers were given, as requested, which determine, inter alia, that it was possible to collect, during the annuity receipt period, management fees at a rate of less than 0.5%, and that the defendants were not obligated to give notice regarding changes in management fees once the members reached retirement age, by virtue of the circular regarding management fees in pension savings instruments.	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 42 - 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.	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 proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action, and at the plaintiffs' request, a disclosure of documents order was issued. The parties are conducting mediation proceedings between them.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 70 million.
5.	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 parties are conducting negotiations towards a settlement.	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.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
6.	5/2015 District - Jerusalem	Clal Insurance and an additional insurance company	According to the plaintiff, after years during which his deceased mother was insured under a collective life insurance policy, which Clal Insurance sold to the association of pensioners under the "Netiv - Southern and Central Region" pension fund (hereinafter: the " Association " and the " Policy ", respectively), and who paid premiums as required, Clal Insurance unilaterally and unlawfully canceled the policy, because the policy was a losing policy, and did not reimburse the premiums which it had charged. The plaintiff also contends that Clal Insurance illegally collected premiums from policyholders with respect to June 2014, after the date when the policy was canceled.	To order Clal Insurance to pay to each of the class members who did not receive the benefits of the policy, the entire premiums which were collected from them with respect to the policy over the years when they were insured, with the addition of duly calculated interest and linkage.	Anyone who was insured by Clal Insurance in a policy which was canceled on March 2, 2014, as well as all policyholders under the policy from whom Clal Insurance collected premiums in June 2014.	In October 2016, an amended claim and an amended motion to approve the claim (the "Amended Motion") were filed, in which Liron Insurance Company Ltd. was added to the claim as an additional defendant. The amended motion includes allegations against Harel in connection with its obligation to collect the premiums for the policy. The plaintiff's claims regarding the collection of premiums with respect to dates after the cancellation of the policy, which were included in the original motion to approve the claim as a class action, are not included in the amended motion. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 90 million.
7.	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 42 - 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.	7/2015 District - Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance calculates the rights for payment of stipends and/or for the discounting of stipends which are owed to policyholders who freeze the payment of premiums (in full or in part) temporarily for a certain period and/or who do not pay the premiums for a number of months, in breach of the provisions of the law, in breach of the provisions of the policy and the required formula for the calculation of the stipend, as included in the policy (hereinafter: the "Required Formula"), and also asserted that Clal Insurance refuses to deliver information to its policyholders.	To order Clal Insurance to reimburse the monthly stipend and/or the discounting of the stipend, in accordance with the provisions of the required formula, and to order Clal Insurance to pay to the class members who already incurred damages, the stipend differences or the stipend discounting differences which are owed to them, with the addition of duly calculated linkage differentials and interest. Alternatively, the plaintiff is petitioning for the issuance of a declaratory order stating that Clal Insurance is in breach of the policy provisions.	Regarding the non-monetary remedies - all policyholders of Clal Insurance who hold policies which are similar to the plaintiff's policies (the "Policyholders"), who, during a certain period or periods, did not pay, temporarily, the premiums under the policy. Regarding the monetary remedies: all of the policyholders who began receiving from Clal Insurance a monthly stipend which is lower than the monthly stipend which would have been paid in accordance with the required formula, as well as policyholders who chose discounting of the stipend, and where the calculation used to discount their stipend was lower than the discounting of their stipend which would have been paid in accordance with the required formula.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action. In June 2016, the motion of the parties to transfer the hearing to a board which is hearing an additional claim by the plaintiff, on the subject of the calculation of the rights in life insurance policies, where the policyholder does not pay the full premiums, as specified in section 3 above, was approved.	The total damage claimed for all of the class members, in the plaintiff's estimate, to a total of no less than NIS 25 million.
9.	8/2015 District - Tel Aviv	Clal Insurance	According to the plaintiff, for the purpose of determining the existence of a long term care insurance event, Clal Insurance applies a method of evaluation which separates the daily activities, which are also known by the acronym ADL, which are included under the definition of the insurance event in long term care insurance under the policy, and where the quality of their performance is used to evaluate a person's functional situation, into sub-actions, in a manner which almost entirely voids the content of the instructions issued by the Commissioner on this matter, and in contravention of the Commissioner's position on the subject of the definition of the insurance event in long term care insurance, which was published in January 2015.	To order Clal Insurance to cease separating the evaluation of ADL actions, to order Clal Insurance to pay financial compensation and remedies, at a rate which will be determined, to each one of the class members whose entitlement to the aforementioned compensation or remedy was proven, and to order the provision of any other remedy in favor of the class (in whole or in part), or in favor of the public, in its discretion, in light of the applicable circumstances.	The Group of holders of Clal Insurance long term care insurance policies.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action, and at the plaintiff's request, a disclosure of documents order was issued. The parties agreed to conduct mediation proceedings.	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 42 - 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.	9/2015 District - Center	Clal Insurance and four other insurance companies	The plaintiffs contend that the defendants, 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 breaches 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 42 - 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.	9/2015 District - Tel Aviv	Clal Pension and Provident Funds Ltd. and four additional managing companies of pension funds	The plaintiffs, members of pension funds managed by the defendants, contend that the mechanism for the compensation, by commission, of agents and brokers, as a percentage of the management fees which are charged from members, as practiced by the defendants, constitutes a breach of fiduciary duty towards the members of provident funds managed by the defendants, and results in the defendants' collection of management fees in amounts which are higher than appropriate.	To order the defendants to change the mechanism for compensation of agents, and to repay to the members the management fees which were overcollected from them.	Members of provident funds managed by the defendants, from whom management fees were collected while providing a commission to agents which was derived from the amount of management fees.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate the total damage incurred by all of the class members as approximately NIS 2 billion, reflecting damage at a rate of approximately NIS 300 million per year since 2008.
12.	10/2015 District - Center	Clal Insurance	The plaintiff brings claims against the definition of "disability" in accidental disability policies, which allegedly create uncertainty, and against the policy terms, which require the receipt of reasonable proof within one year after the date of the accident. In this regard, it was claimed that despite the fact that the Company received "reasonable proof" regarding the permanent disability of policyholders as a result accidents which occurred since June 2009, it paid to them reduced insurance benefits, or rejected their claims for insurance benefits due to disability. The claim also includes assertions regarding the calculation of disability rates in the payment of insurance benefits in the event that the policyholder has more than one disability, as well as assertions regarding the revaluation of insurance benefits with respect to linkage differentials and interest.	To order Clal Insurance to pay to the class members insurance benefits with respect to permanent disability as a result of an accident, in accordance with the terms of the policy, and to order it to cease its unlawful conduct.	Any person who was insured by Clal Insurance in accidental disability policies, where, despite the fact that Clal Insurance received "reasonable proof" of the permanent disability due to an accident which occurred beginning in June 2009, paid reduced insurance benefits with respect to his disability, or rejected his claim for insurance benefits due to his disability, for the reasons specified in the claim (in whole or in part).	In July 2016, following the announcement of the class action plaintiff, who agreed to the summary dismissal of the claim, and withdrew his claim, the Court summarily dismissed the claim. In September 2016, an appeal was filed with the Supreme Court on behalf of the class action plaintiff against the ruling, in which the claim was summarily dismissed. In November 2017, the Supreme Court reversed the ruling, insofar as the foregoing relates to the summary striking of the claim, and ordered the plaintiff to file with the District Court a notice containing clarification regarding the question of the causes of action for which the claim is requested to be conducted; and which of the plaintiff's assertions fulfill the requirement for a personal cause of action.	The petitioner estimates the damage incurred by the class at a total of NIS 90 million.

Note 42 - 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.	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.
14.	12/2015 District - Tel Aviv	Clal Insurance and an additional insurance company	The plaintiffs contend that the defendants charged, from holders of life insurance policies which were issued beginning on August 1, 1982, in which the sub-annual installments component was reduced, where the premium is paid in installments during the year (hereinafter: " Sub-Annual Installments "), an effective interest rate which is higher than the maximum interest rate which the Insurance Commissioner allowed insurance companies to charge with respect to the sub-annual installments component. According to the plaintiffs, this collection is in breach of the law, policy and common practice in the finance segment, and ignores the monthly premium payment date, and the fact that the annual premiums gradually decrease during the year.	To order the defendants to change the method used to calculate the sub-annual installments component, in a manner whereby it will be calculated in consideration of the actual premium payment dates, and in consideration of the reduction of the annual premiums for each payment. To reimburse to the class members the amounts of the sub-annual installments component which were overcollected from them, beginning on the date when the sub-annual installments component was charged to the policyholders, until a ruling has been given on the claim, or alternatively, in the seven years prior to the plaintiff's claim, until a ruling has been given on the claim. Alternatively, the plaintiff is petitioning for the issuance of a declaratory ruling, according to which the method used by Clal Insurance to calculate the sub-annual installments component is illegal, or for the issuance of another declaratory ruling considered appropriate by the Court, in light of the circumstances.	Holders of life insurance policies which were issued beginning on August 1, 1982, and in which a sub-annual installments component was collected, where the premium is paid in installments throughout the year.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members, in the plaintiffs' estimate, amounts to a total of no less than NIS 50 million.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
15.	1/2016 Regional Court of Tel Aviv	Clal Pension and Provident Funds, and three additional managing companies of pension and provident funds	According to the plaintiffs, the defendants invested in low rated bonds, in a manner which deviated from the investment rate which was permitted, at the time, in accordance with Regulation 41(d)(2) of the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964, and that despite these deviations, the defendants collected management fees from the plaintiffs, in breach of the provisions of the law.	The remedies requested by the plaintiffs include, inter alia, reimbursement of the management fees which were collected by the defendants in case of deviation from the investment restrictions, compensation of the class members with respect to the deviation from the investment restrictions, as well as any other remedy in favor of the class, in whole or in part, or in favor of the public, as considered appropriate and just in the Court's discretion, in light of the circumstances.	All 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 ²¹ .
16.	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 is 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.

²¹The claim also alleges that the plaintiff incurred additional damage, in an unspecified amount, due to the exception from the investment, with reference to bonds of companies which faced insolvency situations.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
17.	2/2016 District - Tel Aviv	Clal Insurance	The claim involves the manner by which Clal Insurance gives points with respect to the ADL activity “contenance” 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 “contenance” 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 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
18.	6/2016	Clal Insurance, the Ministry of Finance - Division of Capital Markets, and three other insurance companies	The claim pertains to the sale of collective long-term care insurance policies by the defendant insurance companies, in a manner which, according to the plaintiffs, caused the policyholders to believe that this insurance would remain available to them also in old age. The plaintiffs contend that the fact that the defendant insurance companies determined, in the aforementioned policies, a condition which allows them to unilaterally terminate the policy without renewing it, after a limited period, without expressly and appropriately giving advance warning to the policyholder, indicates a significant deviation from the basic consumer standard, and should be viewed as deception of consumers. The plaintiffs contend that if the former policyholders had all of the relevant information available to them, they would not have chosen to engage in the policies which are the subject of the claim.	To order the defendant insurance companies to reimburse the funds which were unlawfully collected through deception of consumers, to reimburse funds which the class members were forced to spend with respect to alternative insurance policies, to identify an insurance-based and/or financial emergency solution for former policyholders who began to require long-term care after their insurance policy was discontinued, to order that the former policyholders are permitted to acquire insurance through the health funds, in accordance with the conditions to which they would have been entitled had they joined on the date when they joined the insurance policies, including the amounts of the monthly premiums and the insurance coverage, to issue an order to the State Treasury regarding the issuance of appropriate compensation and protecting the rights of the former policyholders, to order the defendants to finance the difference between the premium amounts which the plaintiffs paid upon the fulfillment of the insurance arrangement and the premium amounts which they are required to pay today for the same insurance product.	Any customer of the defendant insurance companies who held a collective long-term care insurance policy which was canceled and/or whose terms were changed in an extreme manner, and who was deceived and/or was not warned and/or was not informed that this policy does not accrue any amount in his favor, and that it will not be available to him in old age, for the period of 7 years prior to the filing of the claim, as a minimum, and/or from the date of the customer's first deposit.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate the total damage claimed for all class members, through a gross estimate, as a total of NIS 7,000 million.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
19	8/2016 Regional Court - Tel Aviv (1)	Clal Pension and Provident Funds	The four claims involve the assertion that the defendants collect from members in the pension funds, in the Tamar provident funds, and in the study funds which are managed by it, and in managers' insurance policies, in addition to the management fees, also "investment management expenses" (hereinafter: " Direct Expenses "), although there is no contractual provision which allows them to collect those expenses, and in breach of the fund regulations.	The plaintiffs in the four claims request to order the defendants to reimburse the investment management amounts which were overcollected from them.	Members of the pension funds, the study fund, and the provident fund "Clal Tamar" which are managed by the defendant, and holders of managers' insurance policies, from whom investment management expenses were collected during the seven years preceding the filing of the relevant claim.	The proceedings are currently in the stage of hearing the motions to approve the claims as class actions, and a request for the receipt of the Commissioner's position was sent as part of one of the proceedings.	In claim 1, which refers to the pension funds, the amount of the class action was set as NIS 341 million, with respect to the years 2009-2015, plus the investment management expenses which were collected by the defendant from the Group members in 2016, and plus the returns which would have been earned by the funds which were deducted as investment management expenses. In claim 2, which refers to the study fund, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 53 million. In claim 3, which refers to the Tamar provident fund, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 181 million. In claim 4, which refers to managers' insurance policies, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 404 million, plus the investment management expenses which the defendant charged to the class members in 2016, as well as interest and linkage.
10/2016 Regional Labor Court of Jerusalem (2)	Clal Insurance	Additionally, some of the plaintiffs request to order the defendants to pay the additional difference of returns which would have been generated by the amounts which were overcollected had they been invested in the pension fund, while some request to order the defendant to pay the duly calculated NIS interest difference, from the date of overcollection until the date of actual payment.					
11/2016 Regional Court of Jerusalem (3)							
12/2016 Regional Court - Tel Aviv (4)							

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
20	9/2016 District - Tel Aviv	Clal Insurance and three other insurance companies	The claim involves the assertion that the defendants allegedly collected and continues to collect from the holders of health insurance policies premiums with respect to unnecessary coverages which the policyholders do not need, and that the respondents allegedly sold to the policyholders, knowingly and deliberately, health insurance policies which include coverages for which the policyholders had no need, since they have supplementary health insurance from the health fund to which they belong, and that they also made one service conditional upon another, with no possibility to acquire a limited policy, which includes only coverages which are not included in the supplementary health insurance policies of the health funds, thereby creating "double insurance".	Reimbursement of the excess premium amounts which were allegedly unlawfully overcollected, issuance of a mandamus order instructing the defendants to change their method of action, as described in the claim, as well as any other additional remedy which may be considered appropriate by the Court, in light of the circumstances.	Anyone who is insured, or was insured, by any or all of the defendants in any of the health insurance policies which include coverages which overlap, either fully or partially, with the coverages which are included in the supplementary health insurance policies of the health funds.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of the class action against the defendants was set as a total nominal amount of NIS 4.45 billion, where the share of Clal Insurance out of that total, as calculated by the plaintiffs, was set as NIS 995 million.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
21.	9/2016 Regional Labor Court of Tel Aviv	Clal Insurance and the Commissioner of Capital Markets, Insurance and Savings at the Ministry of Finance	The claim involves the assertion that Clal Insurance makes the release of the severance pay component which has accrued in managers insurance policies (hereinafter: the "Policies"), by virtue of the Extension to Compulsory Pension Ordinance (hereinafter: the "Extension Order") conditional upon the employer's consent. Clal Insurance thereby collaborates with the employer, allows the employer, over years, to argue against the transfer to the accrued severance pay to the employees, and during that time, continues collecting management fees out of the funds which remain accrued in the policies.	Declaratory relief, primarily determining that the class members are entitled to receive the accrued severance pay for which the employer made deposits in their name to the pension arrangement by virtue of the extension order, without any condition or restriction whatsoever. The plaintiff is also petitioning to order Clal Insurance to notify the class members regarding their right to withdraw the severance pay component unconditionally, and to determine the manner by which the notice will be given to the Group members.	All those covered by pension insurance in Clal Insurance, in whose favor severance pay accumulated in the pension arrangement beginning on January 1, 2008, the application date of the extension order, who concluded their employment, and to whom the employer's approval was not given to release the accrued severance pay funds which are recorded under their names. The plaintiff estimates the number of class members as 70,500 policyholders.	In February 2017, the Commissioner was removed as a respondent from the class action, following a joint motion of the petitioner and the Commissioner on this matter. In May 2017, following the Court's decision, the Commissioner submitted her position on the case, according to which, due to the fact that this issue involves labor relations, she has no position on the issues in question. In December 2017, the Court gave its decision, according to which the Attorney General of Israel, the Histadrut and the Coordinating Bureau of Economic Organizations, as well as the Commissioner of Capital Markets, will file with the Court their positions on the case.	The amount of the class action against the defendant amounts to a total of approximately NIS 479 million.
22.	9/2016 District - Center Lod	Clal Insurance	The claim involves the assertion that Clal Insurance allegedly has an unlawful commercial practice with respect to the collection of premiums for insurance policies which were created without the customers' knowledge, express or implied, by creating an offer form for engagement in an insurance policy which allows, on the one hand, conducting the sale call via telephone, while on the other hand, does not require, allegedly and as defined therein, recording and/or saving the recording of the call.	To order Clal Insurance to compensate the class members and to issue any other or additional order, in the Court's discretion.	Anyone in whose name an insurance policy was registered, either directly from Clal Insurance and/or through others authorized on its behalf, including through insurance agents, during the seven years preceding the filing date of the claim, without the plaintiff's express consent - either written or through a duly recorded telephone call - and in any case, without their knowledge and/or from whom premiums were collected with respect to such policies, during the aforementioned period.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The personal monetary damages claimed by the plaintiff amount to NIS 2,192.53. The scope of monetary damages for all class members is estimated, at this stage, by the plaintiff, as a total of several million NIS to tens of millions of NIS. The plaintiff also claims non-monetary damages, to her and to the class members, for prejudice against the right of autonomy of will, and for emotional distress.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

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

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
24.	4/2017 District - Center	Clal Insurance	The claim involves an allegation according to which Clal Insurance conducts an allegedly incorrect calculation of premiums on all matters associated with the charging / crediting of the policyholder of insurance premiums when exchanging a vehicle during the policy period. According to the plaintiff, when performing the replacement, the premiums should be calculated with respect to the substitute vehicle, including subtracting therefrom the premiums as proportional to the remainder of the insurance period of the replaced vehicle, in accordance with the tariffs which apply as of the date of the replacement.	To order Clal Insurance to correctly calculate the premiums and to pay the difference between the premiums which were credited with respect to the vehicle and the premiums which should have been credited when replacing the vehicle in the policy, and to determine that the prescription period is from the publication date of the Standard Policy on September 21, 1986.	All policyholders and/or insureds who were covered by Clal Insurance in motor property insurance policies, who replaced the vehicle in the policy during the insurance period, and were credited with lesser premiums than those which should have been credited to them with respect to the replaced vehicle, such that, effectively, with respect to the replacement of the vehicle, they overpaid, or were under-reimbursed.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The personal claim amount of the class action plaintiff is NIS 178.67. The class action plaintiff did not specify, in the statement of claim, the estimated amount of the class action.

Note 42 - 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.	4/2017 District - Tel Aviv	Tmura Insurance Agency (1987) Ltd. (hereinafter: “ Tmura ”), a second-tier subsidiary of the Company, which is an insurance agency which manages pension arrangements, and against three additional insurance agencies.	According to the plaintiffs, the defendants provided services with respect to the regulation of social / pension provisions, for both employers and employees; however, they charged the consideration from the employees only, without their knowledge or consent, and in breach of the duties which apply to them by law.	To order the defendants to compensate the class members for the damages which they incurred (each defendant with respect to its relevant class members), or alternatively, to order any other remedy in favor of the Group.	Any person who is included among the Group of customers of the defendants while the defendants provided, to their employers, pension arrangement management services, during a period beginning defendants before the filing date of the new motion, until the date when the employer began bearing, out of its own resources, the costs of operating the employee’s pension arrangement.	In November 2016, the Court approved a motion to withdraw a similar claim which had been filed by the Financial Justice Association in February 2016, inter alia, in light of its non-fulfillment of the conditions prescribed in the Class Action Law. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount claimed with respect to the damages incurred by all of the class members amounts to a total of approximately NIS 357 million against all of the defendants, of which, approximately NIS 88 million was attributed to Tmura.
26.	7/2017 District - Tel Aviv	Clal Insurance	The plaintiffs contend that Clal Insurance unilaterally implemented changes to managers insurance policies of the “Adif” type (hereinafter: the “ Policies ”) by reducing the savings component and increasing the risk component, while transferring the ownership of the policy to a new employer, at the end of the “temporary risk” period, and thereby caused the policyholders in the class to incur damages.	To order Clal Insurance to supplement the savings up to the amount which would have been accumulated in the policies if not for the aforementioned unilateral change, and to prohibited it from unilaterally changing the policy terms in the future. Alternatively, to pay compensation to the class members for the damage which they incurred, according to the difference between the savings amounts which would have accumulated in the policies if not for the unilateral changes, and the savings amounts which actually accrued in the policies, or to order Clal Insurance to pay an adequate and appropriate amount to the public interest.	All of “Adif” policyholders for whom Clal Insurance unilaterally reduced the savings component and increased the risk component while transferring the ownership of the policy to a new employer at the end of the “temporary risk” period.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate, based on various assumptions which they performed, that the damage incurred by the class members amounts to approximately NIS 343 million.

Note 42 - 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.	9/2017 District - Jerusalem	Clal Insurance and additional insurance companies	The plaintiffs contend that the defendants do not duly apply section 5(b) of the Adjudication of Interest and Linkage Law, 1961 (hereinafter: the " Adjudication of Interest and Linkage Law "), and do not pay, as a matter of policy, the required interest and linkage pursuant to that law, with respect to any debt which was ruled against them by a judicial authority, and which was not paid by them on the date set for its payment.	Declaratory relief with respect to the breach of the provisions of the law, compensation to the class members with respect to the alleged damages which they incurred, and ordering the defendants to correct the policy from this point forward.	Anyone to whom amounts were paid by the defendants which were ruled in their favor by a judicial authority, without the addition of linkage differentials and/or interest and/or linked interest to the ruled amount.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The amount of personal damages alleged by the plaintiff against Clal Insurance amounted to NIS 56.47. The plaintiffs, in the absence of accurate data regarding the aggregate damage incurred by the class, estimate the damage as a minimum of tens of millions of NIS, if not more.
28.	10/2017 District - Tel Aviv	Clal Insurance	According to the plaintiffs, Clal Insurance operates unlawfully by continuing to collect premiums from policyholders even after they announced the cancellation of the policy, and cancels the policy only on the 1st of the calendar month subsequent to the date of receipt of the cancellation notice, and by misleading policyholders by not informing them of the methods for cancellation before entering into the engagement.	To order Clal Insurance to compensate the class members in the amount of the monetary damages which they incurred, with respect to non-monetary damages which were incurred due to inconvenience and harm to autonomy, and to order it to reimburse the additional enrichment which was accrued by Clal Insurance due to its actions and/or omissions as referenced in the claim.	All policyholders who were charged payment with respect to the policies, even after they gave notice of their request to cancel the policies, during the 7 years preceding the filing of the claim, until a ruling has been issued on the matter.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate, conservatively, the total damage incurred by the class members as a total of NIS 30 million.

Note 42 - 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.	1/2018 District - Jerusalem	Clal Insurance, two additional insurance companies, Clalit Health Services and Maccabi Health Services.	The plaintiffs contend that the defendants refuse, allegedly, to cover with long-term care insurance people who are on the autistic spectrum, or set impossible and unreasonable conditions for them, without providing any explanation or justification for their actions.	Issuance of a declarative order stating that the defendants have breached, by their conduct, Part H of the Equal Rights for Persons with Disabilities Law, 1998, the Equal Rights for Persons with Disabilities Regulations (Notice of Insurer Regarding Provision of Different Treatment for a Person or Regarding Refusal to Insure a Person), 2016 (the "Equality Law"), and additional legislation; the issuance of a mandamus order requiring the defendants to stop discriminating against the class members, and to establish clear work policies regarding individual and equal treatment, without prejudice, of persons with disabilities; the issuance of a mandamus order requiring the defendants to retroactively insure the class members, who will be found qualified to receive long-term care insurance, following an egalitarian underwriting process, in accordance with the aforementioned policies.	People with disabilities on the autistic spectrum who request to be covered under long-term care insurance at any of the defendants, and who unlawfully received from the defendants different and discriminatory treatment, due to the fact that they are people with disabilities, whereby the decision was not based on reliable and relevant statistical, actuarial and medical data regarding the specific insurance risk, and/or for which no reason was given, as required in accordance with the Equal Rights Law and other provisions of the law, during the seven years preceding the filing of 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.	The plaintiffs have not quantified the damage for all of the class members, and have estimated the personal damage incurred by the plaintiffs as tens of thousands of NIS per plaintiff.
30.	1/2018 District - Center	Clal Insurance and five additional insurance companies.	The plaintiff, Public Trust, a Public Benefit Company, contends that the defendants unlawfully avoid paying to their 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 defendants to pay the VAT component, according to the rate which applies to the damage amount, to the class members; to determine and declare that the defendants' avoidance of payment of insurance benefits and/or indemnification with respect to the VAT component which applies to the amendment, in cases where the damage was not actually repaired, is done in violation of the law; to issue a mandamus order requiring the defendants, from this point forward, to include in the insurance benefits which they pay also the VAT which applies to the cost of the repair, including if the damage has not been actually repaired, and as a result, also in case the policyholder or a third party receives insurance benefits at "reimbursement value", and not at "reinstatement value", and to order the defendants to pay to them insurance benefits with respect to the full amount of damage, including VAT.	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. It is noted that a claim and a motion to approve it as a class action, with the same cause of action, were filed against the Company and the other defendants, and were struck out for procedural reasons.	The plaintiff estimates the compensation which is owed to the class members by Clal Insurance, with respect to each year, at NIS 17,732,580. The plaintiff is petitioning for the receipt of the compensation during the period from June 4, 2001, or alternatively, for a period of 7 years after the date of filing the previous claim, or alternatively, for a period of 7 years after the filing date of the claim in question.

Note 42 - 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 signing²²²³**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	7/2011 District - Center	Clal Insurance	The claim involves the alleged unlawful overcollection of credit fees by the respondent from its policyholders, and a breach of the provisions of the law, while misleading the policyholders.	To order the respondent to respond to the plaintiff, and to any plaintiff included in the represented class, the funds which were allegedly unlawfully overcollected from them, plus CPI linkage differentials and plus duly calculated interest, and plus special interest, as defined in the Insurance Contract Law, from the date of each payment until the date of the actual repayment of the amounts, to order compensation to the class or to the public, with respect to the interest which has accrued on the funds which were allegedly overcollected, and to order the respondent to discontinue overcharging its policyholders.	All policyholders and/or beneficiaries who were covered by the respondent in insurance policies in the non-life insurance branches, and who overpaid credit fees and/or collection fees and/or payment arrangement fees, in a manner which deviates from the provisions of the law and/or which deviates from the interest rates which were presented to the policyholders in the policies, beginning on May 1, 1984.	In July 2014, the Court gave a ruling which approved the settlement agreement and established guidelines for its implementation. The settlement agreement determines, inter alia, that Clal Insurance will provide to the Group of entitled individuals, as defined in the settlement agreement (the "Entitled Group"), a discount at an agreed-upon rate on the credit fees which will be charged to them, with respect to the non-life insurance policy which they acquire from Clal Insurance. As part of the findings of the evaluation regarding the implementation of the settlement arrangement, the parties filed, in July 2017, an amended motion, according to which the benefit amount given to the entitled policyholders, as defined in the settlement agreement, will be increased, in amounts which are immaterial to the Company. In August 2017, the Court determined that no restriction exists which would prevent the approval of the motion subject to the determined conditions, including conditions pertaining to the definition of the class. In November 2017, the Court gave its decision according to which it accepts the motion to amend the settlement arrangement, and ordered Clal Insurance to update the Court regarding the completion of the implementation of the settlement arrangement by January 1, 2018.	The total claim amount in the class action was estimated by the plaintiff in the amount of approximately NIS 882.2 million.

²²The foregoing refers to claims in which a decision was made to strike out the claim, or in which a ruling was given, including a ruling to approve the settlement arrangement. The foregoing does not refer to followup with respect to the implementation of arrangements (including changes made thereunder) which were determined in the aforementioned decisions, and which may continue over time.

²³Excluding with respect to claim no. 1, regarding which a ruling was given in July 2014, and in July 2017, as part of the findings of the evaluation regarding the agreement's implementation, an amended motion was filed to increase the benefit amount for the class.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
2.	1/2015 District - Economic Department in Tel Aviv	Harel Pia Mutual Funds Ltd. (hereinafter: " Harel Pia ") and against additional defendants which are managing companies of mutual funds (hereinafter: the " Fund Management Companies ") and a trust company which served as trustees for the mutual funds (hereinafter: the " Trust Companies ") ²⁴	The claim pertains to the plaintiff's allegation that the fund management companies performed transactions for mutual funds managed by them, without taking measures to reduce the brokerage fee (including purchase and sale fees with respect to securities and financial instruments, as well as foreign currency differences between the bid price and the ask price of currencies), which were paid by the holders of the participation units of those funds. The plaintiffs contend that some of the fund management companies performed the aforementioned actions through stock exchange member companies which are associated with them, while loading high and unjustified costs onto the holders of participation units in the mutual funds. With respect to the trust companies, the plaintiffs contend that they breached their duty to act in favor of the investors in the mutual funds, and to supervise the actions performed therein. The claim refers to the period before the entry into effect of amendment 14 to the Joint Investment Trust Law, 1994 (hereinafter: the " Joint Investment Law "), at the end of December 2011.	To order Harel Pia and the other fund management companies to submit material data and information which they have for the purpose of hearing the claim, determining the class size, calculating the compensation amount, or any other details or information, and also to order the defendants to compensate the class members for the damage which they incurred, or alternatively, to determine another remedy in favor of all or some of the class members.	Any person who held participation units of any mutual fund which was under the management of one or more of the fund management companies, during the period ended December 27, 2011, or during any part thereof, from whom a brokerage fee was directly or indirectly charged with respect to operating services.	In August 2017, the Court approved the petitioners' motion for withdrawal from the motion to approve, and the dismissal of their personal claim against Harel Pia and against 4 additional defendants, without ordering expenses.	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.

²⁴The Company is not party to the claim; however, it received notice regarding the filing of the claim from Harel Finance Holdings Ltd., in accordance with the 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 42(f)(1)(a) to the financial statements, the Company accepted upon itself the undertaking to indemnify Harel within the framework of the capital reduction in Clal Finance - see Note 42(f)(1)(a).

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
3.	9/2015 Regional Labour Court of Tel Aviv	Clal Insurance	The plaintiff contends, in the motion to approve the claim as a class action and in the response to the defendants reply, that Clal Insurance performed an incorrect, faulty and deficient calculation of the interest and linkage applicable to amounts available to him and to the class members in guaranteed-return life insurance policies, in a manner which is in breach of the policy terms, while breaching the duties of disclosure, and non-specification of the specific interest which applies to the amounts in the policy.	To order Clal Insurance to recalculate the interest and linkage with respect to the amounts in the policies, in accordance with the interest rate which were determined in the policies, and to credit to the class members, including any person who withdrew amounts from the policies in the past, the aforementioned differences, with the addition of linkage differentials and interest, including special interest, and to act in this manner also with respect to future payments.	All current or past holders of Clal Insurance guaranteed-return insurance policies regarding which Clal Insurance performed incorrect and deficient cancellation of the interest and linkage which apply to such policies.	In April 2017, the parties filed with the court a settlement arrangement and a motion to approve it (hereinafter: the "Settlement Arrangement"), in which Clal Insurance undertook to reimburse, to policyholders who are members of the Group which was defined in the settlement arrangement, amounts according to the rates which were determined in the settlement arrangement. The aforementioned reimbursement will be performed under the supervision of an examiner, who will be appointed by a court within the framework of the settlement arrangement. The settlement arrangement may also include provisions regarding the Group members whose insurance policies are still being conducted in Clal Insurance. In September 2017, in light of the fact that the position of the Attorney General of Israel was not filed, the Regional Labor Court of Tel Aviv approved the settlement arrangement between the parties.	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 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
4.	6/2014 District - Jerusalem	Clal Insurance and additional insurance companies ²⁵	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 terms, supported the defendants’ position. In September 2017, the Court approved the plaintiff’s motion to withdraw the class action, according to which the plaintiff will withdraw the claim, against an undertaking by defendants that during the interim period, until the publication of relevant directives by the Commissioner, the defendants will work to inform policyholders, before engaging in insurance policies through housing loans, regarding the interest rates, and regarding the possibility that a difference may exist between the insurance amount in the policy, and the balance of the loan amount.	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.

²⁵ In November 2014, a motion to approve an additional class action was filed against Clal Mortgage Financing Ltd. (a nonexistent company), on the same matter, in an immaterial sum, which is still pending. The claim was filed with respect to life insurance for mortgage takers, given by Clal Insurance. In June 2016, the additional claim was transferred to the Court which is hearing the aforementioned claim.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
5.	2/2016 District - Tel Aviv	The Company and the Company's directors ²⁶ .	<p>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.</p> <p>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.</p> <p>In parallel to the filing of the claim and the motion to approve the claim as a class action, the plaintiff filed with the District Court of Tel Aviv-Yafo, against the Company and its Board of Directors, and against additional defendants, including IDB Development, its board members, the trustee for the shares of IDB Development in the Company, and the Insurance Commissioner, a motion for issuance of an injunction and an urgent motion for a temporary injunction (hereinafter: the "Injunction"), in which the plaintiff requests to order a stay of the proceedings involving the sale of the Company's shares which are held by IDB Development through the trustee, as specified in Note 1(b)(3) above.</p>	To order the defendants to compensate the class members for the damages which they incurred due to the omissions of the defendants to work towards realizing value for the Company's shareholders by way of the sale of its operations, or alternatively, to order the Company to work to sell the aforementioned assets, with the aim of reducing, at the present, the damage caused to the class members.	All shareholders who hold the Company's shares which are listed for trading on the Tel Aviv Stock Exchange.	In June 2016, the District Court ordered the striking of the motion for an injunction. In October 2017, following the parties' announcement, the Court accepted the plaintiff's request to strike out the motion without ordering expenses, on the condition that the plaintiff and his representative will furnish to the Court an affidavit declaring that they have not received, against their withdrawal of the motion, any benefit whatsoever from the defendants, and in accordance with the foregoing, the affidavit was filed.	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.

²⁶It is noted that directors in the Company have letters of indemnity from the Company.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
6.	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 future mandamus order on the matter.	Any policyholder and/or beneficiary and/or third party, in any insurance type whatsoever, who, as of the filing date of the insurance claim, has not repaired the damage which he claimed, and who received from the insurance company insurance benefits and/or reimbursement with respect to the damage, and where the insurance benefits did not include the VAT component which applies to the repair.	In February 2017, a ruling was given by the Court, in which the Court ordered the striking of the claim against Clal Insurance and against four additional insurance companies. An appeal which was filed by the plaintiff on this matter was dismissed by the Supreme Court in January 2018, after, with the recommendation of the Court, the appellants withdrew their appeal, while reserving their right to file a new class action. ²⁷	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.

²⁷ For details regarding the new class action which was filed on the matter, see Note 42(a)(a2)(30).

Note 42 - 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 42(a)(a1), the pending motions for the approval of class action status for material claims, as described in Note 42(a)(a2), and the motions to approve class action status for material claims which were withdrawn during the reporting period, as described in Note 42(a)(a3), there are pending against the Company and/or its subsidiaries motions to approve class actions which, according to the Company's estimate, are immaterial, and regarding which a detailed description was therefore not included in the financial statements. As of the reporting date, 17 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 482 million²⁸.
2. In addition to the aforementioned legal proceedings, from time to time, potential exposures exist which, at this stage, cannot be estimated or quantified, with respect to alerts regarding the intention to file class actions on certain matters, or legal proceedings and specific petitions which may in the future develop into class actions or third party notices against the Group's member companies, and potential exposure also exists, which at this stage cannot be estimated or quantified, to the possibility that additional class actions will be filed against the Group's member companies due to the complexity of the companies' insurance products, along with the complexity of the regulations that apply to the member companies' activities, which may result in disputes regarding the interpretation of the provisions of the law or of an agreement, or regarding the manner of implementation of the provisions of the law or an agreement, or the method by which claims are settled in accordance with an agreement, as these apply to the relationship between the Group's member companies and the customer.

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

²⁸Includes one claim in which Clal Insurance is a formal defendant, and no remedies are requested against it, and two claims in which the amount was not attributed to the Company only. For additional information regarding all class actions, see section 42(c) below.

Note 42 - 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.)

The 2015 amendment to the Control of Financial Services (Insurance) Law, 1981, which reflects a significant reform in the field of approval of insurance plans and supplementary arrangements which were published, set forth various provisions and restrictions with respect to provisions which should or should not be included in insurance plans, and address a reduction of the exceptions which may be included in the policies (hereinafter, jointly: “**Insurance Plan Reform**”). The insurance plan reform allows the sale of insurance products after they have been submitted in advance to the Commissioner, with no need for explicit approval, and also allows the Commissioner, under certain conditions, to order an insurer to discontinue its provision of insurance plans or to order an insurer to implement a change in an insurance plan, including with respect to policies which have already been marketed by the insurer. It is not possible to predict in advance and to what degree the insurers are exposed to claims with respect to the policy’s provisions, to the manner of application of the Commissioner’s authorities in accordance with the insurance plan reform, nor its implications, which may be raised, inter alia, through the procedural mechanism set forth in the Class Action Law.

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

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

The above complexity and changes affect, inter alia, the volume and amounts of deposits, the various components of the product, the manner in which funds are associated with employees (including due to inconsistencies between the employer’s reports and the policy data), 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, and affects the information which is given to them. 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, inter alia, distributing entities, employers, customers and reinsurers, including as regards the ongoing interface with them, and contradictory instructions which may be received from them, or from their representatives. The member institutional entities in the Group routinely investigate, identify and handle issues which may arise due to the aforementioned complexities, both with respect to individual cases, and with respect to customer types and/or product types.

The entry into effect of the Control of Financial Services Regulations (Provident Funds) (Payments to Provident Funds), 2014, which were replaced by the circular regarding the method for depositing of payments in provident funds (the “Payment Regulations”), intensify and increase, in the short term, the aforementioned complexity, and even resulted in delays in the fund intake process, although in the long term, they are expected to reduce it.

Note 42 - Contingent Liabilities and Claims (Cont.)**A. Class action claims (Cont.)****A4. Presented below are additional details regarding exposure to immaterial class actions which have not yet been filed and to additional expenses (Cont.)**

2. (Cont.)

Additionally, further to the provisions of the Commissioner's circular from November 2012, regarding data with respect to members' rights (institutional entities circular 2014-9-13) (the "**Circular**"), which obligated the institutional entity to cleanse the data which confer rights upon members, in order to ensure that the recording of members' rights in the information systems is as reliable, complete, accessible and retrievable as possible, until the middle of 2016. The Group's institutional entities implemented, after the publication of the circular, in 2013, a gap survey with respect to the members and policyholders who manage policies and/or accounts in the Group's institutional entities ("**Cleansing Tasks**"), and also worked during the reporting period on the implementation of a comprehensive process of data cleansing with respect to the systems in the long-term savings segment. In general, as of the publication date of the report, tasks involving the cleansing of data regarding accrued balances of policyholders have been completed. The institutional entities in the Group are continuing to perform data cleansing tasks with respect to members and policyholders, including with respect to additional gaps which are discovered from time to time, including as a result of initiated investigation activities; however, at this stage, they are unable to estimate the full scope, cost and implications of the aforementioned activities, inter alia, due to the complexity of the products, their status as long term products, and due to the multiplicity of automation systems in the segment, and the limitations thereof. The institutional entities in the Group updated the members' rights as required, and as a result, the insurance liabilities increased during the reporting period by approximately NIS 53 million.

There is also exposure, which at this stage cannot be estimated or quantified, to changes and to significant regulatory intervention in the various insurance and savings segments, including, inter alia, those which are intended for the direct or indirect reduction of premiums and management fees, the intervention in sale processes, including different use of various regulatory tools, which may affect the process of engagement, the structure of engagement and the reciprocal relationships between institutional entities, agents, employers and customers, in a manner which could affect loads, operating expenses and profitability, including with respect to the business model of the branch and the current portfolio of products.

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

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

Note 42 - 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.)

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

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

B. Material claims and derivative claims**B1. Current or concluded material claims which are not in the ordinary course of business or exposure to such claims**

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

B. Material claims and derivative claims (Cont.)**B1. Current or concluded material claims which are not in the ordinary course of business or exposure to such claims (Cont.)**

2. In May 2016, a claim was filed with the District Court of Tel Aviv-Yafo for the cancellation of a ruling against Clal Finance Batucha Investment Management Ltd. and Clal Finance Management Ltd. (companies which were previously under the control of Clal Insurance Enterprises Holdings Ltd., hereinafter, jointly: the **“Clal Finance Companies”**). The claim pertains to the cancellation of a ruling which was given in February 2009 (the **“Cancellation Ruling”**), in which an arbitration award was canceled, which was given with respect to a dispute between the plaintiff and his mother, and the Clal Finance companies, in which the Clal Finance companies were ordered to pay to the plaintiffs, through arbitration, a total amount of approximately NIS 95 million, plus linkage differentials and interest, from the date of the arbitrator’s decision until the date of actual payment (the **“Arbitration Award”**). The arbitration which is the subject of the arbitration award involved actions which were performed by the Clal Finance companies during the period in which the plaintiff and his mother managed their investment portfolios through Clal Finance companies. A ruling which gave force of law to the settlement agreement in which the parties to the arbitration engaged, which primarily includes the cancellation of the arbitration award, the dismissal of the motion to approve the arbitration award, and payment in the total amount of NIS 9.2 million to the plaintiff and his attorneys, in consideration of a final and absolute waiver and dismissal of all of the plaintiffs’ claims, demands and lawsuits in the arbitration vis-à-vis the Clal Finance companies. According to the plaintiff, the Court is requested to order the cancellation of the cancellation ruling, due to extreme injustice, since it was given based on the plaintiff’s consent during a time when he was suffering from a severe emotional state, lack of judgment and inability to agree to the settlement agreement. The plaintiff further demands the cancellation of the ruling due to error, extortion and obstruction. The plaintiff is petitioning the Court to order the cancellation of the arbitration judgment, and to require the Clal Finance companies to pay the arbitration award to him, less the amounts which were paid to him, and with the addition of linkage differentials and interest from the date of provision of the arbitration award until the actual payment date. In November 2016, the plaintiff’s mother joined the claim as a plaintiff. In November 2016, the Clal Finance companies filed a motion to order the plaintiffs to deposit the settlement amount in the Court fund, as a condition for the continued investigation of the claim, as well as a motion to order the plaintiffs to provide a guarantee for the payment of expenses. In June 2017, the Court approved a consensus motion which was filed on the same date to dismiss the claim without ordering expenses.

The Company is not party to the claim; however, it received notice regarding the filing of the claim from Bank of Jerusalem Ltd., in accordance with the agreement for the sale of Clal Finance Batucha Investment Management Ltd. to Bank of Jerusalem, according to which the Company has an undertaking to indemnify, as specified in Note 42(f)(1)(b) to the Company’s consolidated financial statements as of December 31, 2016.

Note 42 - Contingent Liabilities and Claims (Cont.)**B. Material claims and derivative claims (Cont.)****B2. Material derivative claims**

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

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Status / additional details	Claim amount
1.	2/2014 District - Economic Department, Tel Aviv	Clal Insurance, four additional insurance companies, and Clalit Health Services (hereinafter: “ Clalit ”) ²⁹	According to the plaintiffs, health funds which do not exhaust and exercise the participation right which is available to them, in principle, by virtue of the law, towards the insurance companies, with respect to expenses which they spent within the framework of additional health services programs (hereinafter: “ Additional Health Services ”), with respect to those cases in which there is, in principle, an overlap between the additional health services and the commercial health insurance policies which are sold by the insurance companies. It was further claimed that the insurance companies allegedly encourage their policyholders to activate the Additional Health Services Plans in the health funds, and to refrain from activating the commercial insurance policy, by providing monetary compensation to policyholders, with the aim of avoiding the need to themselves absorb the materialization of the risk with respect to the insurance event, while passing on the risk to the health funds, and thereby allegedly performing unjust enrichment.	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.	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 (hereinafter: the “ Motion For Leave To Appeal ”), 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.	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%.
2.	3/2014 District - Economic Department, Tel Aviv	Clal Insurance, four additional insurance companies, and Maccabi Health Services (hereinafter: “ Maccabi ”) ³⁰				

²⁹ In April and October 2014, decisions were given by the Court ordering the consolidation of the Clalit and Maccabi cases, and the filing of a consolidation letter of claim regarding the motions and the claims.

³⁰ See note 28 above.

Note 42 - 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.		In July 2017, leave to appeal was granted, and in October 2017, the Supreme Court gave its ruling, according to which the health funds' appeals should be accepted, and therefore, it accepted the health funds' motion to summarily withdraw the motions to approve a derivative claim.	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 42 - Contingent Liabilities and Claims (Cont.)**B. Material claims and derivative claims (Cont.)****B3. Immaterial derivative claims**

Serial number	Date and instance	Defendants	Main claims and causes of action	Status / additional details	Claim amount
1.	2/2017 District - Tel Aviv	DIC, directors and corporate officers of DIC, and certain other shareholders of DIC who are associated with IDB Development or with the controlling shareholders in DIC at that time, including Clal Holdings and Clal Finance (all, jointly: the “Respondents”) ¹⁶³¹	Claim regarding an unlawful dividend distribution by DIC. It is noted that the amounts attributed to the Company and to Clal Finance, who held DIC shares, and who therefore received dividends, are primarily amounts which were received for customers of the Group’s member companies.	This derivative claim was filed further to the decision of the Court from September 2016, according to which a previous motion to approve a derivative claim was struck out, which had been filed by the plaintiffs, after it was determined that it would be appropriate to file a new derivative claim on the matter, while removing IDB Development Corporation Ltd. as a respondent from the proceeding, in light of the anti-suit injunction which was given regarding it. In the claim, assertions were raised which were similar to those raised in the previous motion to approve, which was struck out, as stated above, which pertained to assertions against dividend distributions which were announced by DIC, during the period from May 2010 up to and including March 2011. After the claim was struck out for procedural reasons, In July 2017, the plaintiffs filed with the arrangement court a motion to issue orders, to approve the filing of a derivative claim which is mostly identical to the claim which was struck out, as stated above. The proceedings are currently in the stage of hearing the motion to approve the claim as a derivative claim.	The claim amount attributed to the Company, to Clal Finance and to two additional shareholders who are associated with IDB Development or with the controlling shareholders of DIC, amounts to approximately NIS 44 million, including the amounts which were distributed as dividends, as stated above, and interest on the aforementioned amounts until the filing date of the motion (the aforementioned amount was not divided among the shareholders of the defendants).

³¹The Company and Clal Finance are defendants, due to their status as shareholders of DIC during the relevant period.

Note 42 - 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 higher³²¹⁷.

Type of claim	Number of claims	Amount claimed, NIS in millions
A. <u>Claims approved as class actions</u>		
1. Amount pertaining to the Company specified	7	2,664
2. The claim was filed against a number of entities, with no specific amount attributed to the Company	1	225
3. Claim amount not specified ³³	2	-
4. An annual amount has been specified (and accordingly, the total amount is period-dependent)	1	107 ³⁴
B. <u>Pending motions to approve claims as class actions</u>		
1. Amount pertaining to the Company specified	35	4,495
2. The claim was filed against a number of entities, with no specific amount attributed to the Company ³⁵	9	11,526
3. Claim amount not specified ³⁶	7	-
C. <u>Derivative claims</u>		
1. Amount pertaining to the Company specified	-	-
2. The claim was filed against a number of entities, with no specific amount attributed to the Company	1	44
3. Claim amount not specified	-	-

In addition to the details provided in Notes 42(a) and 42(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 59 million. The causes of action against the Company and/or the consolidated companies within the framework of the aforementioned proceedings are varied and multiple.

³² It is further noted that the specified amounts do not include amounts demanded by the plaintiffs with respect to compensation to the class action plaintiff, and legal fees for his representative.

³³ In one of the motions, the plaintiff did not specify a claim amount, although an estimate was given of hundreds of millions of NIS.

³⁴ The specified amount refers to an estimation of the claim with respect to one year only. It is noted that the claim was filed in March 2010, with respect to a legislative amendment from 2008.

³⁵ Includes one claim in which Clal Insurance is a formal defendant, and no remedies are requested against it.

³⁶ These motions include three motions: one motion in which the plaintiff did not specify the claim amount, but estimated it as many millions of NIS, a second motion which was estimated at hundreds of millions of NIS, and two motions which were estimated as tens of millions of NIS.

Note 42 - 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 42(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 proceedings, based on the opinion of their legal counsel and/or are currently evaluating the significance of the aforementioned proceedings, as required and as appropriate.

Presented below are details regarding the Commissioner's positions or draft positions, or determinations in principle which have or may have an impact on the class, as follows:

1. In April 2016, an industry-wide determination in principle was published regarding the method for marketing of personal accidents policies (hereinafter: "**Determination**"). The determination referred to the holders of individual personal accident policies for periods exceeding one year, who acquired personal accident insurance from the insurers, after they had a previous health insurance policy at that insurer, beginning in January 2014, and in accordance with the terms which were determined in the determination (hereinafter, respectively: the "**Insurance**" and the "**Policyholders**" or the "**Policyholder**"). According to the determination, the insurance company was required to conduct, an evaluation which will include evaluating the method by which the insurance is marketed, and according to its results, to contact policyholders by telephone, and to receive their express consent for the continuation of their coverage under the aforementioned insurance, and to cancel the insurance coverage and to reimburse the premiums which were paid, with the addition of duly calculated linkage differentials and interest, if the policyholder has not approved (the "**Obligation to Verify Consent**"). The Company performed the aforementioned evaluation, and submitted its results to the Commissioner, who also requested data. In November 2017, the Company received a final determination on the matter (hereinafter: the "**Determination**"), according to which the Company was obligated to verify consent, with respect to some of the policyholders to whom personal accident insurance was sold (even if they did not previously have a health product). According to the determination, and subject to the exceptions specified therein, the Company is required to contact policyholders who were added to personal accidents insurance from January 1, 2014 until the publication date of the determination, through certain marketing centers which were specified therein, and to verify that those policyholders are aware of the existence of the personal accidents insurance. Insofar as a policyholder has announced that he is not aware of the aforementioned insurance, the Company is required to give him an option to cancel the insurance, and to receive reimbursement for the premiums which he paid, from the date of their addition, plus duly calculated linkage differentials and interest. The implementation of the determination is subject to the Commissioner's approval regarding the outline of action which the Company intends to implement, including as regards the possibility which it was given, as part of the above, to exclude additional groups, and to make contact by digital means. **At this stage, the Company is preparing for the implementation of the outline, and is unable to estimate its full implications.**
2. The Company held discussions with the Commissioner, in connection with the draft determination regarding it, with respect to one-time deposits of policyholders in guaranteed return policies (hereinafter: the "**Policies**"). In accordance with the draft, the Company is obligated to take certain actions with respect to policyholders whose actual rate of deposits, which bore the returns of the profit sharing portfolio, was equal to or greater than the returns guaranteed in the policies, and certain actions with respect to policyholders whose actual one-time deposit returns were lower than the guaranteed returns. Therefore, at this stage, in light of the fact that the final wording of the draft is not known, if and insofar as it will be received, the Company is unable to assess its implications and the degree of its impact on the Company, if and insofar as it will be published.

Note 42 - Contingent Liabilities and Claims (Cont.)**D. Exposure due to regulatory provisions and position papers (Cont.)**

3. In February 2017, a position of the Commissioner was published regarding certain provisions with respect to the re-evaluation of eligibility, which were determined in the claim settlement circular (the “**Position Paper**”). In the position paper it was determined, inter alia, that in case an insurance company has approved a claim for periodic insurance benefits for a period which is shorter than the maximum entitlement period, subject to the provisions of the policy (the “**Approved Payment Period**”), it must initiate, before the end of the approved payment period, a re-evaluation of entitlement, in which it will determine whether the claimant is still entitled to insurance benefits. It was further clarified in the position paper that, that in its notice to the claimant, the insurance company must clarify that the continued payment of insurance benefits after the conclusion of the approved payment period is conditional upon the re-evaluation of their entitlement.
4. In December 2017, the Ministry of Finance published a **Draft Amendment to the Control of Financial Services Regulations (Provident Funds) (Direct Expenses Due to Performance of Transactions), 2017** (hereinafter: the “**Regulations**”). The regulations formalize the types of direct expenses which the institutional entity will be entitled to collect from the accounts of members, in addition to the management fees which are collected from them, and under which restrictions. The draft amendment includes the following main amendments: (A) Converting the transitional provision which was determined in the regulations, which expired at the end of 2017, into a permanent provision (hereinafter: the “**Transitional Provision**”). The transitional provision, which is expected to become a permanent provision, with retroactive application, beginning on January 1, 2018, included the stipulation that expenses may be collected from the accounts of members at a rate of up to 0.25% of the total revalued value of the assets in the relevant fund, primarily with respect to external management commissions (commissions which are paid to external managers, such as managers of investment funds and mutual funds); (B) The amendment also includes cancellation of the possibility of charging management fees from members at a rate of 0.1%, with respect to investment in a number of ETF's on indices in Israel; and (C) The possibility was canceled of charging members for expenses with respect to the provision of mortgages which are paid to a related party. As of the publication date of the report, the regulations have not yet been published, and are in legislative process. Non-approval of the aforementioned regulations, or approval thereof in a framework other than the proposed framework, could have a significant impact, beginning with the financial statements for 2018, on all matters associated with the expired transitional provision.

Note 42 - Contingent Liabilities and Claims (Cont.)

- E. With respect to the costs that may arise due to the claims and exposures described in Note 42(a), (b), (c) and (d) above, provisions are made in the financial statements of the relevant consolidated companies, only if it is more likely than not (i.e., probability of over 50%) that a payment liability due to past events will materialize, and that the liability amount will be quantifiable or estimable within a reasonable range. The executed provision amounts are based on an estimate of the risk level in each of the claims as of a date proximate to the publication date of this report (excluding the claims which were filed during the last two quarters, regarding which, due to their preliminary stages, it is not possible to estimate their chances of success). On this matter, it is noted that events which take place during the litigation process may require a re-evaluation of this risk. Insofar as the Company has a right of indemnification from a third party, the Company recognizes such right if it is virtually certain that the indemnification will be received in the event that the Company settles the obligation.

The assessments of the Company and of the consolidated companies concerning the estimated risk in the claims which are being conducted are based on the opinions of their legal counsel and/or on the estimates of the relevant companies, including concerning the amounts of the settlement arrangements, which the managements of the Company and of the consolidated companies expect are more likely than not to be paid by them.

It is hereby emphasized that, in the attorneys' opinion, concerning the majority of motions to approve class action status with respect to which no provision was made, the attorney's evaluation refers to the chances of the motion to approve class action status, and does not refer to the chances of the claim on the merits, in the event that it is approved as a class action. This is due, inter alia, to the fact that the scope and content of hearing of the actual claim, once granted class action status, would be affected by the Court's decision with respect to the granting of class action status, which usually refers to the causes of action that were approved or not approved, to reliefs that were approved or not approved, etc.

It is not possible, at this preliminary stage, to estimate the chances of the motions to approve class actions which are specified in Notes 42(a)(a2)(26), 42(a)(a2)(27), 42(a)(a2)(28), 42(a)(a2)(29) and 42(a)(a2)(30) above, and therefore, a provision with respect to these motions was not included in the financial statements.

The provision which is included in the financial statements as of December 31, 2017, with respect to all of the legal claims and exposures mentioned in Note 42(a), 42(b), 42(c) and 42(d) above, amounted to a total of approximately NIS 116 million.

F. Guarantees and pledges which were provided**1. The Company**

Presented below are details regarding the undertakings to indemnify which the Company and Clal Finance accepted, following the disposal of Clal Finance's significant operations in 2013, and the capital reduction in Clal Finance:

A. Sale of mutual fund and portfolio management operation

On April 4, 2013, a transaction was completed in which Clal Finance and Clal Finance Batucha Investment Management Ltd. (hereinafter: "Clal Finance Batucha") sold to Harel Finance Investment Management Ltd. and Harel Finance Holdings Ltd., both member companies of the Harel Group (hereinafter, jointly: "**Harel**"), the entire holdings of Clal Finance Batucha in Clal Mutual Funds, and the portfolio management operation of Clal Finance Batucha (except for the management of financial savings policies), in consideration of a total amount of NIS 207.5 million, in cash.

The agreement includes representations regarding the transferred operation and the sold shares, as well as an undertaking to indemnify on the part of Clal Finance Batucha and Clal Finance, due to a breach of representations or obligations with respect to the period prior to the agreement completion date. This liability is restricted to a period of 36 months or 60 months, in accordance with the grounds for indemnification, or in case of a breach of a representation regarding the sold share capital - with no time restriction. It was further determined that the cumulative indemnification amount would not exceed a total of half of the consideration, except with respect to indemnification which given with respect to tax liability, fines or financial sanctions with respect to causes of action which were created prior to the completion date of the transaction, and breach of a representation regarding the sold share capital. In these cases, the total indemnification amount was limited to the consideration amount, CPI-linked. The Company guarantees Clal Finance's undertaking to indemnify. For details regarding a class action against Harel, to which the aforementioned undertaking to indemnify applies, see Note 42(a)(a3)(2) below.

Note 42 - Contingent Liabilities and Claims (Cont.)

F. Guarantees and pledges which were provided (Cont.)

1. The Company (Cont.)

B. Sale of Clal Finance Batucha to Bank of Jerusalem

On December 15, 2013, Clal Finance sold to Bank of Jerusalem Ltd. (hereinafter: the “**Bank**”) the entire holdings of Clal Finance. As part of the agreement, the Company and Clal Finance undertook, jointly and severally, to indemnify the Bank due to the series of events specified in the agreement in connection with any damage or liability with respect to the period prior to the completion date of the agreement, including due to a breach of representations. The aforementioned undertaking to indemnify was restricted to a period of 36 months, or 84 months (or the end of the obsolescence period, whichever is earlier), according to the grounds for indemnification. It was further determined that the cumulative indemnification amount will not exceed a total of NIS 190 million, except as regards damage which was incurred with respect to tax liability, liabilities due to working relationships, payments to any authority, expenses in connection with the initiation of criminal investigations, damage in connection with the Harel transaction (see section A above), or the Mabat transaction (the sale of designated companies which issue index products to the Meitav investment house in 2011), or in connection with specific events which were specified in the agreement - in which case, the cumulative indemnification amount will not exceed NIS 250 million. For details regarding the class actions against Bank of Jerusalem, to which the aforementioned undertaking to indemnify applies, see Note 42(a)(a1)(9) below.

C. Capital reduction in Clal Finance

On December 17, 2014, the District Court approved a motion which was filed by Clal Finance for the performance of a capital reduction by way of a distribution (as this term is defined in the Companies Law, 1999) to the Company, and approved the performance of a distribution in the amount of NIS 250 million to the Company. It is noted that the Company accepted upon itself, in connection with the aforementioned distribution, an undertaking to bear certain contingent liabilities of Clal Finance, including in connection with the transactions specified in subsections (a) and (b) above.

2. Clal Insurance

- A. As part of the acquisition of the provident fund Bar Keren Gmulim Ltd., which includes a guaranteed-return track (hereinafter: “**Bar A**”), Clal Insurance accepted an obligation to minimum guaranteed annual returns for all assets invested in Bar A (real net returns of 5.5%, in accordance with the terms specified in the fund regulations). This undertaking is backed by an undertaking of the Accountant General to CPI-linked guaranteed returns, plus interest at a rate of 5.95% per year, on 89% of the assets, while the other assets are invested in free investments. For additional details, see Note 3(a)(5).
- B. Clal Insurance has guaranteed towards some members of certain provident funds managed in the Group, subject to certain terms, that the payments to which they will be entitled upon withdrawal of the funds will be no less than the nominal deposits made by them to the same fund.
- C. In connection with Clal Insurance’s activities in derivatives, Clal Insurance received credit facilities from various banking corporations, for the purpose of its activities. Against the credit facilities which were received, Clal Insurance provided to the banking corporations securities by way of letters of offsetting and/or withholding rights with respect assets in the relevant investment portfolios.

G. Undertakings to invest

- 1. The balance of liabilities for additional investments of Clal Insurance in investment funds, in equity assets, and in other debt assets, amounted, as of the end of the reporting period, to approximately NIS 3,332 million, of which approximately NIS 1,966 million was from profit-sharing policies (December 31, 2016: NIS 3,446 million, of which a total of NIS 2,156 million from the funds of profit-sharing policies).
- 2. For details regarding undertakings to invest in investment property, see Note 10(f) above.

Note 43 - Additional Events During and After the Reporting Period

A. Changes to actuarial estimates

1. Strengthening of insurance reserves in the low interest rate environment, and its effect on discount rates in life insurance

During the reporting period, the risk-free interest rate curve decreased further, as did the estimated rate of return in the portfolio of assets held against insurance liabilities. For additional details, see Notes 39(e)(e1)(d)(1).

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

See Note 39(e)(e2)(4)(f) for details regarding an update to the mortality tables and the discount rates used to calculate National Insurance annuities, according to which the interest rate for the purpose of discounting the annuity will be 2% instead of 3%, as specified in the Discounting Regulations prior to the amendment. According to the estimate, the Company increased the insurance liabilities in 2017 in the compulsory motor and liabilities branches by approximately NIS 78 million, further to a total of approximately NIS 141 million on retention before tax (a total of approximately NIS 90 million after tax) in 2016.

B. Engagements for the receipt of routine provident fund operation services

All of the assets in the provident funds which are managed by Clal Pension and Provident Funds are operated by external entities, as specified below. The replacement of an operating services supplier without a preliminary preparatory period may temporarily adversely affect the provision of services for the funds under its management, until an alternative supplier has been found. As of January 1, 2018, the assets are operated by Bank Leumi.

(1) Engagement with Malam Provident Fund Operation Ltd.

Under the engagement, Malam operated, on behalf of Clal Pension and Provident Funds, during the year preceding the reporting year, seven provident funds, in consideration of operating fees in a fixed monthly amount. In January 2017, the provident funds which were operated by Malam were transferred to the operation of Bank Leumi, as specified below. Malam continues to provide additional operating services to Clal Pension and Provident Funds.

(2) Engagement with Bank Hapoalim Ltd.

In accordance with the operating agreements from July 2007 and March 2015, between Clal Pension and Provident Funds and Bank Hapoalim Ltd., Bank Hapoalim provided to Clal Pension and Provident Funds operating services with respect to the provident funds which it manages, including provident funds which were previously operated by Bank Discount and by Dov Sinai. In January 2017, the provident funds which were operated by Bank Hapoalim were transferred to the operation of Bank Leumi, excluding the provident fund "Bar Keren Gemulim", which was transferred to the operation of Bank Leumi in January 2018. From that date onwards, Bank Hapoalim no longer provides provident fund operating services to Clal Pension and Provident Funds.

(3) Engagement with Bank Leumi Le-Israel Ltd.

In June 2016, Clal Pension and Provident Funds engaged in an operating agreement with Bank Leumi Le-Israel Ltd. and Leumi Capital Market Services Ltd. (hereinafter, jointly: "**Bank Leumi**"), according to which Bank Leumi will provide to Clal Pension and Provident Funds operating services with respect to the provident funds which are managed by it. In accordance with the agreement, with respect to the operation of the provident funds, a consideration will be paid to Bank Leumi according to an annual rate out of the fund assets, and with respect to the operation of the study fund, a consideration will be paid to Bank Leumi in a fixed monthly amount. The commencement date of operation by Bank Leumi was set as January 1, 2017, excluding the provident fund "Bar", whose operation commencement date was set as January 1, 2018. The agreement period will be 5 years, and Clal Pension and Provident Funds will be entitled to terminate the agreement by providing notice 6 months in advance, and Bank Leumi will be entitled to terminate the agreement by providing notice 12 months in advance. Accordingly, in January 2017, the provident funds which were previously operated by Bank Hapoalim and by Malam (excluding the "Bar" provident fund, which was transferred to the operation of Bank Leumi in January 2018), were transferred to the operation of Bank Leumi. Since January 2018, Bank Leumi has operated all of the provident funds which are managed by the Company.

Note 43 - Additional Events During and After the Reporting Period (Cont.)

C. Regulatory provisions with respect to pension and provident operations

1. Circular regarding “provisions with respect to the selection of provident funds” and the process of establishing chosen default funds

In July 2016, a circular was published on the subject of “Provisions regarding the selection of provident funds - amendment”, 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 “Circular”). In the circular, it was determined that managing companies of provident funds may not allow the depositing of an employer’s payments with respect to an employee who has not filled out a joining form, and will not allow the addition of such employees to a provident fund, unless one of the following two conditions has been fulfilled:

(1) The provident fund is one of two pension funds, each of which will constitute a chosen default fund as chosen by the Commissioner in a competitive process (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. **In the selection of the default pension funds, preference will be given to pension funds whose market share is less than 5%.**

(2) A provident fund is a default annuity paying provident fund or a study fund which will be chosen through a competitive process conducted by the employer (hereinafter: “Employer’s Default Fund”), according to criteria which were determined in the circular. In the default fund circular, it was determined that the default agreement which is in effect as of the publication date of the circular will remain in effect until the end of the agreement period, or until March 31, 2019, whichever is earlier. In December 2017, an amendment to the circular regarding default funds was published, in which it was determined that the default agreement which was in effect until the publication date of the circular, where the rate of management fees which were determined therein is not the maximum rate of management fees prescribed in law, will remain in effect until the end of the agreement period or until March 31, 2018, whichever is earlier, (instead of March 2019) (hereinafter: the “Circular Regarding Default Funds”). During the reporting year, the Company stopped accepting new members from whom management fees are collected at the maximum rate, in cases where it does not have the default agreements.

In August 2016, two pension funds were chosen to serve as chosen default funds, and the management fees which will be collected by them at a rate of 1.31% of the deposits and 0.01% of the accrual in one fund, and at a rate of 1.49% of the deposits and 0.001% of the accrual in the other fund.

The provisions of the circular, including in connection with the determination of management fees as a central criterion, led to a decrease in the average management fees collected in the pension funds, in the provident 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 to the market shares of the current competitors.

2. Amendment to the circular regarding “withdrawal of funds from small accounts in provident funds”

In March 2018, an amendment was published to the circular regarding “withdrawal of funds from small accounts in provident funds”, in which it was determined that managing companies will be obligated to send to members with small accounts, which have an accrued balance of more than NIS 50 and less than NIS 1,350, a check by mail, and to establish provisions regarding the issuance of notice to members on the matter, in accordance with the amendment, in light of the low response by the public to withdraw its funds from small accounts, and in light of the fact that the significance of the collection of management fees is zeroing the balances in the small accounts over time. The aforementioned amendment is expected to result in a decrease of the Company’s income from management fees.

For details regarding the impairment of the goodwill of the provident funds activity which the Company recorded during the reporting period, see Note 6.

Note 43 - Additional Events During and After the Reporting Period (Cont.)

D. Automation system in the long term savings segment

1. Engagement for the acquisition of automation systems to manage pension activities

Beginning in January 2015, Clal Pension and Provident Funds began operating the pension operations through the Nissan system, and also launched a commission payment system module which was purchased from Sapiens. Clal Pension and Provident Funds, through Sapiens and Clalbit Systems, is currently in a gradual process of implementing and improving the Nissan system. Sapiens also provides maintenance services for the system.

2. Agreement for the featurization, adjustment and development of components in the core systems

In January 2015, Clal Insurance engaged with A.R.M.L. Klein Technologies 2012 Ltd. (hereinafter: "ARML") in an agreement for the featurization, adjustment and development of components in the life insurance, MSS and ALIS systems, for the purpose of adjusting them to the requirements of the project involving the strengthening of the core systems, which is also required for the fulfillment of the project involving the optimization of members' rights. During the project period, the actual costs incurred by ARML will be paid to it, without profit. ARML's profit in the transaction will be paid by means of an additional payment, in the maximum amount of NIS 10 million, depending on the fulfillment of the defined targets and timetables. With respect to 2017, Clal Insurance paid to ARML, in accordance with this agreement, a total of approximately NIS 35 million (with respect to 2016 - a total of approximately NIS 35 million).

3. Upgrade of the automation system in the life insurance segment

During the reporting period, and as part of the Company's strategy in recent years to upgrade its long-term savings systems, the Boards of Directors of the Company and of Clal Insurance approved a resolution in principle to continue expanding the process of upgrading the automation systems, in the life insurance segment in Clal Insurance, further to the significant adjustments and improvements which were implemented in recent years, for the purpose of upgrading and handling the core systems in life insurance, as part of the "road map" project. As part of the above, a decision was reached to conduct an evaluation regarding the feasibility of converting the ALIS system into the BariNet system, which is used in the health insurance segment, while making the required adjustments. The aforementioned systems upgrade process involves a significant investment, which is distributed over several years, further to the significant investments which the Company has already made in the automation of the long-term savings systems in recent years.

E. Structural changes

1. Long term savings division

Beginning on January 1, 2017, the Company split the long-term savings division into two separate divisions: the life insurance division, led by Mr. Yaron Shamay, and the pension, provident and financial products division, led by Mr. Avi Rosenbaum, for the purpose of providing a separate business focus for each of the segments, in light of the significant regulatory changes which have taken place in recent years.

2. Customers division

In January 2018 the customers unit was created under the leadership of Daniel Cohen, who continues, in parallel, to manage the health division. The unit was created with the aim of increasing the direct sales activity, inter alia, in light of regulatory directives.

The unit will concentrate, under one roof, the Group's direct activities vis-à-vis customers on behalf of the business, non-life insurance, health, life insurance and pension and provident divisions, beginning in January 2018.

F. General and administrative costs

Beginning in January 2017, the Company is implementing updates to the model for allocation of general and administrative expenses. The impact of the implementation of the aforementioned updates on the reports is immaterial.

Note 43 - Additional Events During and After the Reporting Period (Cont.)

G. Data cleansing

See Note 42(a)(a4)(2) for details regarding the comprehensive data cleansing process in systems of the long-term savings segment, for which the institutional entities in the Group implemented provisions in their financial statements, as required, and in accordance with their estimates as of the present date, and during the reporting period, in the amount of NIS 53 million and in the amount of approximately NIS 103 million in 2016.

H. Agreement between IDB and the employee committee regarding a bonus to the Group's employees

Further to that stated in Note 1(b)(3) and (4), in connection with the outline for the sale of control of, and for the sale of IDB Development's holdings in, the Company, and regarding the process involving the sale of control of the Company, and further to that stated in Note 24(d) regarding the signing of the collective agreement in Clal Group, on February 26, 2018, IDB Development, the Histadrut, and the Group's employee committee signed an agreement (the "**Agreement**"), according to which a bonus will be paid to the employees of the Company's group, upon the fulfillment of one of the following cases: (A) An agreement for the sale of the control of the Company will be signed and effectively (and irrevocably) completed, by way of the sale of IDB Development's entire holdings (approximately 39.8% of issued capital) in the Company, as a single unit; or (B) A permanent and unconditional permit for control is given by the Commissioner to Mr. Eduardo Elsztain, the controlling shareholder of IDB Development, with respect to all of IDB Development's current holdings in the Company, whereby IDB Development holds all of its current holdings in the Company (the "Control Permit"). The agreement will expire on the date when IDB Development's holding rate in the Company falls below its current holding rate in the Company, as stated above.

In accordance with the agreement, the bonus will be paid by IDB Development or by the Company (insofar as the payment of the bonus is approved by the competent organs and institutions in the Company). According to the terms of the agreement, the total amount paid by IDB Development in connection with the payment of the bonus will not exceed, in any case, NIS 80 million (plus employer's taxes, insofar as any apply to this amount), and insofar as the bonus amount is paid by the Company, the payment amount will not exceed a total of NIS 120 million, plus employer's taxes which apply to this amount.

On February 28, 2018, IDB Development reported that the Board of Directors of IDB Development had approved the agreement. There is no certainty regarding the fulfillment of any of the conditions for the payment of the bonus, as specified in the agreement, and as noted above.

The Company is not a party to the aforementioned agreement, and was not involved in the drafting thereof, and at this stage, is unable to estimate its effects on it, which depend, inter alia, on the fulfillment of the suspensory conditions for the implementation of the agreement, and on the implications which it may have on the Group and on the labor relations therein.

For details regarding the new collective agreement in Clal Group, see Note 24 above.

I. Developments in the capital market subsequent to the reporting date

Subsequent to the reporting date, the risk-free interest rate curve decreased. Further to that stated in Note 40(e)(e1) and (e2) 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, to an increase in liabilities in life and long-term care insurance with respect to the supplementation of annuity reserves, and in paid pension liabilities in life insurance, and also as part of the liability adequacy test (LAT) and changes to the K factor.

At this stage, it is not possible to estimate the implications of the decreased risk-free interest rate curve during this period on the results for the first quarter of 2018, 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 continuing developments in financial markets until the end of the first quarter of 2018, and the above does not any estimate regarding the Company's expected financial results for the first quarter of 2018.

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

J. On March 7, 2018, the Company's CEO, Mr. Cohen, announced his intention to conclude his tenure as CEO of the Company and of Clal Insurance. For additional details, see Note 40(b)(5).

Annex A - Details of Other Financial Investments of Consolidated Insurance Companies Registered in Israel

The following data were included in the consolidated financial statements:

NIS in thousands	As of December 31, 2017			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets ¹⁾	108,231	5,396,511	-	5,504,742
Non-marketable debt assets	5,291	-	21,827,400	21,832,691
Stocks ²⁾	-	1,367,797	-	1,367,797
Others ³⁾	224,447	2,499,157	-	2,723,604
Total	337,969	9,263,465	21,827,400	31,428,834

NIS in thousands	As of December 31, 2016			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets ¹⁾	49,640	5,479,395	-	5,529,035
Non-marketable debt assets	8,290	-	21,266,950	21,275,240
Stocks ²⁾	-	1,139,029	-	1,139,029
Others ³⁾	204,423	2,139,058	-	2,343,481
Total	262,353	8,757,482	21,266,950	30,286,785

1. Marketable debt assets

NIS in thousands	As of December 31 2017		As of December 31 2016	
	Book value	Amortized cost	Book value	Amortized cost
Government bonds				
Available for sale	3,329,044	3,239,066	3,374,599	3,373,925
Total government bonds	3,329,044	3,239,066	3,374,599	3,373,925
Other debt assets				
<u>Non-convertible</u>				
Presented at fair value through profit and loss:				
Designated upon initial recognition	108,231	100,529	49,503	48,855
Available for sale	2,067,467	2,011,295	2,104,796	2,097,745
Total other non-convertible debt assets	2,175,698	2,111,824	2,154,299	2,146,600
<u>Convertible</u>				
Presented at fair value through profit and loss:				
Designated upon initial recognition	-	-	137	564
Total marketable debt assets	5,504,742	5,350,890	5,529,035	5,521,089
Fixed impairments charged to income statement (cumulative)	-	-	2,916	-

Annex A - Details Regarding Other Financial Investments of Consolidated Insurance Companies Registered in Israel (Cont.)

2. Stocks

NIS in thousands	As of December 31 2017		As of December 31 2016	
	Book value	Cost	Book value	Cost
Marketable				
Available for sale	1,114,256	992,993	1,062,027	1,058,551
Total marketable stocks	1,114,256	992,993	1,062,027	1,058,551
Non-marketable				
Available for sale	253,541	286,668	77,002	107,493
Total non-marketable stocks	253,541	286,668	77,002	107,493
Total stocks	1,367,797	1,279,661	1,139,029	1,166,044
Fixed impairments charged to income statement (cumulative)	144,854		171,000	

3. Other financial investments

NIS in thousands	As of December 31			
	2017		2016	
	Book value	Cost	Book value	Cost
Marketable				
Presented at fair value through profit or loss:				
Designated upon initial recognition	139,636	140,781	148,713	150,708
Available for sale	1,210,031	1,122,361	883,599	859,345
Derivative instruments	6,165	5,274	1,673	2,681
Total marketable financial investments	1,355,832	1,268,416	1,033,985	1,012,734
Non-marketable				
Presented at fair value through profit or loss:				
Designated upon initial recognition	18,859	26,684	16,566	28,033
Available for sale	1,289,126	1,040,768	1,255,459	1,002,201
Derivative instruments	59,787	1,560	37,471	-
Total non-marketable financial investments	1,367,772	1,069,012	1,309,496	1,030,234
Total other financial investments	2,723,604	2,337,428	2,343,481	2,042,968
Fixed impairments charged to income statement (cumulative)	72,627	-	69,699	-

**Actuarial Certification Regarding Life Insurance Business Operations
as of December 2017
Clal Insurance Company Ltd.**

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This certification, including all its parts, should be read as a single unit. Particular attention is hereby called to Part D of the certification, regarding notes and clarifications.

Chapter A – Identity of Actuary

I have been requested by Clal Insurance Company Ltd. to evaluate the provisions specified in Chapter B below regarding life insurance (hereinafter: the "Provisions"), for the financial statements of the insurer Clal Insurance Company Ltd. as of December 31, 2017, as specified below.

I am a salaried employee of Clal Insurance Company Ltd. I was appointed to the position, in the specified life insurance branches, in November 2000. I am not an interested party or a relative of another interested party in the insurer.

Chapter B – Scope of the Actuarial Opinion

1. The Actuarial Opinion

- A. For the purpose of calculating the insurer's provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements. I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.
- B. Where necessary, I relied in my evaluation on data received from other reliable sources. I evaluated the degree of suitability and relevance of the data.
- C. The actuarial assumptions that were used by me in my work, as well as the methods for evaluating the provisions were determined by me, to the best of my professional judgment, subject to the instructions, guidelines and rules specified in Section 1 in Chapter C below.
- D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer's reinsurance arrangements, the ability of collection of claims, and problems in the payment policy of the re-insurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.

E. The following matters were also taken into account in rendering my opinion:

The provision that was calculated for joint insurances, in which the Company is not the lead insurer, is based on the calculation made by the actuary of the lead insurers of the joint insurances, including the life insurance portfolio of the Sneh Israeli Insurance Company, which was acquired jointly by the insurer and Migdal Insurance Company, with respect to the policies managed by Migdal Insurance Company.

2. Data Attached to the Paragraph Regarding the Scope of the Actuarial Opinion

A. Details of provisions at the gross and net level

Annexes A and B below detail the provisions in NIS in thousands, both at the gross level and at the retention level, as follows:

- 1) The provision for outstanding claims (claims that have occurred but which have not been paid in full, whether approved or not, with the exception of claims paid as annuities such as: loss of working capacity and family income) and the direct and indirect costs arising from them (including a provision for unreported claims) –
Reserve for Unpaid Losses (Incurred but Unpaid Claims) and Unpaid Allocated and Unallocated Loss Adjustment Expenses (Including IBNR)
- 2) Provision (reserve) arising from the terms of the life insurance contract separately, including -
 - A) Reserve for plan with accrual;
 - B) A provision is required when a part of the premium collected for previous years of the contract is designated for providing future coverage at a later date, such as: provision with respect to a fixed premium, insurability, and continuity.
- 3) Part of the provision for claims in payment, including claims paid as annuities, such as: loss of working capacity and family income.
- 4) Provision for participation in profits.
- 5) Supplementation due to the liability adequacy test – The liability adequacy test identified the need to decrease the balance of the provision the reserve in the amount of

approximately NIS 86 million. The total provision as of the reporting date amounted to NIS 220 million.

- 6) Other – Additional provisions according to directives of the Insurance Commissioner, such as the provision with respect to a reserve for completion (DAC), completion of reserve for pension policies.
- 7) The provision for reserve with respect to unusual risks – this provision was canceled and was classified in the first quarter of 2007 as part of the Company's equity.

B. Effect of Changes/Adjustments on the Provisions

The effect of the changes detailed below on the provisions, in thousands of NIS, both at the gross level and at the retention level:

1. For policies which came into effect after the end of the period of the last annual report – The amount of the adjustment for the provisions, arising from differences between the premium basis assumptions and the provision basis assumptions – No adjustment of this type was required during the reporting period.
2. For policies that came into effect prior to the period of the last annual report – the amount of the adjustment of the provision, arising from changes in assumptions, methods, or the amount of the premium expected to be collected and other amendments – a total amount was provided in the amount of approximately NIS 324 million gross and on retention, which is primarily due to adjustments to assumptions regarding deferred annuity policies.

Chapter C – The Opinion

I hereby certify and affirm that in the life insurance branch:

1. I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, directives, and rules detailed below, effective as of the reporting date:
 - A. Provisions of the Control of Financial Services (Insurance) Law, 1981 and regulations enacted pursuant thereto;
 - B. The Insurance Commissioner's instructions and directives;
 - C. Generally accepted actuarial principles.

2. Having evaluated the data mentioned in Chapter B, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.
3. The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.
4. The provisions specified in Chapter B, constitute to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations arising from life insurance contracts in force at the reporting date.

Chapter D – Notes and Clarifications and Significant Changes

1. Notes and Clarifications

A. Types of Reserves and Assumptions

Details regarding the types of reserves, interest rates etc. are included in Note 37 to the financial statements of Clal Insurance.

B. Statistical and Actuarial Uncertainty

In some instances, the reserves calculated with respect to the insurance coverages are based on mortality rates, morbidity rates reflecting the Company's experience in practice, or based on the experience of the reinsurers. The calculations and the models, were developed according to my understanding of the Company's current business environment, and according to my estimation as to the development of the Company's business environment, and the future policyholder behavior. Therefore, it must be recognized that there is a high likelihood that the future business results will differ from those forecast according to the actuarial models for calculating reserves.

C. Exposure to Future Developments and Changes

The possibility exists for changes and developments in the future in connection with life insurance market conditions in Israel, following regulatory changes, court decisions, technological changes, and changes in social and environmental conditions. These future factors cannot be foreseen and could affect the final cost of claims; and therefore, the actuarial estimation for reserves.

D. Adjustment of data in the annexes to the financial statements

The following tables and annexes have been prepared in accordance with Insurance Commissioner instructions, and the composition of the data contained in them does not necessarily

match the composition of the data appearing in the Company's financial statements and Notes.

2. Material Adjustments and Changes

A. Liability adequacy test (LAT)

During the reporting year, an additional decline occurred in the risk-free interest rate curve, which resulted in an update to the discount interest rates, and an increase in the LAT provision, which was offset by the impact of the increase in asset value, and the effect of the update to the interest rate, due to the allocation of designated bonds on the provision for paid annuities (for details, see Note 39 to the financial statements). The overall impact of the liability adequacy test in life insurance resulted in a decrease in provisions in the amount of NIS 86 million. The total provision for the liability adequacy test (LAT) as of the balance sheet date was NIS 220 million (NIS 306 million last year).

B. Adjustments with respect to annuity payment reserves

The Company periodically evaluates the working assumptions for calculating the annuities payment reserve in accordance with the provisions of the circular issued by the Control of Insurance Office in March 2013, regarding the calculation of annuity payment reserves in life insurance policies.

From time to time, the Company conducts studies in which it evaluates the rate of policyholders who are expected to realize their eligibility to receive annuities, the mix of annuity tracks chosen by retiring policyholders, which were used to determine the annuity payment period and other parameters which affect the amount of the annuity reserve payment liability. The realization rates and annuity tracks are adjusted for the various insurance plans and savings types.


During the reporting period, the Company updated the estimated policyholder redemption rate, the discount rate used for annuity payment reserves, and the K factor, which, as of the reporting date, the Company set as a rate of 0.0% for guaranteed return policies (0% last

year), while for guaranteed return policies, a rate of 0.88% was applied (0.96% last year). The overall impact of these updates resulted in an increase in the provision for paid annuities and deferred annuities in the amount of approximately NIS 324 million. For additional details, see **Note 40.E.E1** to the financial statements.

With respect to deferred annuities, the amount of the provision which accrued in the books over the years until December 31, 2017, which includes the aforementioned updates, amounted to a total of approximately NIS 2,600 million (as compared with approximately NIS 2,076 million last year). The balance of provisions, according to the estimated amount as of December 31, 2017, in the amount of approximately NIS 1,913 million (as compared with approximately NIS 1,798 million last year) will be applied, throughout the remaining policy period until retirement age, in accordance with a geometric formula which takes into account, inter alia, the discount rate (K) factors specified above.

The total cost (due to the increase in life expectancy) of the annuity payments with respect to deferred annuities which are expected to be paid over the years in the future, with respect to the funds which accrued in the policies as of the end of the reporting period, amount to a total of approximately NIS 4,513 million (as compared with approximately NIS 3,874 million last year).

The total estimated cost of the increase in life expectancy may change due to several factors, including, inter alia, changes in life expectancy and in the rate of policyholders who exercise their eligibility to receive annuities, change in the reasons of policyholders for choosing the annuity tracks upon retirement, increase in the savings funds of policyholders, due to future premium payments and/or an increase in investment income, and due to changes in discount interest rate assumptions, and other assumptions.

<u>March 22, 2018</u>	<u>Executive VP and Chief Actuary</u>	<u>Ofer Brandt, F.I.A, F.I.L.A.A</u>	
Date	Position	Name of Actuary	Signature

Attachments

Form 12.a: Outstanding Claims, Reserve and Reserve for Extraordinary Risks – Gross

Form 12.b: Outstanding Claims, Reserve and Reserve for Extraordinary Risks – On Retention

Annex A – Form 12.a

Name of company: Clal Insurance Company Ltd.
Gross data

December 31, 2017, NIS in thousands

		Total	Savings and risk of death (classic, traditional)		Pure savings or savings component in policies (preferred, track)		Pure risk of death or risk of death component in the policy		Loss of working capacity 4	Long-term care		Other covers 1) 6
			Guaranteed- return 1a	Profit- sharing 1b	Guaranteed- return 2a	Profit- sharing 2b	Individual 3a	Collective 3b		Guaranteed- return 5a	Profit- sharing 5b	
1	Oustanding claims	150,852	44,126	4,746	21,085	6,342	52,238	10,611	577	0	0	11,128
2	Reserve (total lines 2a1 to 6)	78,384,489	5,150,080	1,166,159	12,534,546	57,241,332	151,747	78,982	1,943,895	0	0	117,749
2a1	Policies including a savings component (including riders) by policy issuance date:	15,472,003	4,730,800	0	10,457,549	254,695	3,071	0	19,657	0	0	6,230
2a2		37,993,003	0	1,149,775	0	36,695,701	28,045	0	92,480	0	0	27,001
2a3		19,651,929	0	0	98,553	19,468,089	5,286	0	78,807	0	0	1,193
2a4		Total (2a1 to 2a3)	73,116,934	4,730,800	1,149,775	10,556,102	56,418,485	36,403	0	190,945	0	0
2b	Policies not including a savings component	320,813	0	0	0	0	99,101	67,549	74,136	0	0	83,326
3	Share of reserve with respect to paid claims	2,092,988	83,986	1,209	307,278	23,565	0	0	1,676,950	0	0	0
4	Profit sharing	32,839	0	0	0	0	16,243	14,731	1,865	0	0	0
5	Supplementation due to liability adequacy test	219,891	46,333	0	173,558	0	0	0	0	0	0	0
6	Other	2,601,023	288,960	15,175	1,497,607	0	0	0	0	0	0	0
7	Reserve with respect to extraordinary risks	0	0	0	0	0	0	0	0	0	0	0
1) Other covers, including disabilities, double accident, etc.												
8a	Effect of adjustment to provisions with respect to new business	0										
8b1	Im pact of adjustment of provisions with respect to existing business	324,220	33,232	-10,060	125,044	176,005	0	0	0	0	0	0
8b2		Changes in assumptions	0									
8b3		Changes in methods	0									
8b4		Differences on the prmeium level	0									
	Other changes	0										

Annex B – Form 12.b

Form 12.b

Outstanding claims, reserve and reserve for extraordinary risks – **on retention**

Name of company: Clal Insurance Company Ltd.

Gross data

December 31, 2017, NIS in thousands

		Total	Savings and risk of death (classic, traditional)		Pure savings or savings component in policies (preferred, track)		Pure risk of death or risk of death component in the policy		Loss of working capacity 4	Long-term care		Other covers 1) 6	
			Guaranteed- return 1a	Profit- sharing 1b	Guaranteed- return 2a	Profit- sharing 2b	Individual 3a	Collective 3b		Guaranteed- return 5a	Profit- sharing 5b		
1	Oustanding claims	142,182	43,914	4,635	21,085	6,342	46,649	10,161	577	0	0	8,820	
2	Reserve (total lines 2a1 to 6)	78,165,991	5,150,080	1,166,159	12,534,546	57,241,332	139,388	78,760	1,737,977	0	0	117,749	
2a1	Policies including a savings component (including riders) by policy issuance date:	15,465,997	4,730,800	0	10,457,549	254,695	3,071	0	13,652	0	0	6,230	
2a2		Policies issued until 1990	37,988,999	0	1,149,775	0	36,695,701	28,045	0	88,476	0	0	27,001
2a3		Policies issued from 1991-2003	19,651,929	0	0	98,553	19,468,089	5,286	0	78,807	0	0	1,193
2a4		Policies issued after 2004	73,106,625	4,730,800	1,149,775	10,556,102	56,418,485	36,403	0	180,935	0	0	34,423
2b	Policies not including a savings component	305,675	0	0	0	0	86,742	64,029	71,577	0	0	83,326	
3	Share of reserve with respect to paid claims	1,899,637	83,986	1,209	307,278	23,565	0	0	1,483,599	0	0	0	
4	Profit sharing	32,839	0	0	0	0	16,243	14,731	1,865	0	0	0	
5	Supplementation due to liability adequacy test	219,891	46,333	0	173,558	0	0	0	0	0	0	0	
6	Other	2,601,023	288,960	15,175	1,497,607	799,282	0	0	0	0	0	0	
7	Reserve with respect to extraordinary risks	0	0	0	0	0	0	0	0	0	0	0	
1) Other covers, including disabilities, double accident, etc.													
8a	Effect of adjustment to provisions with respect to new business	0											
8b1	Im pact of adjustment of provisions with respect to existing business	Changes in assumptions	324,220	33,232	-10,060	125,044	176,005	0	0	0	0	0	
8b2		Changes in methods	0										
8b3		Differences on the premium level	0										
8b4		Other changes	0										

Actuarial Certification Regarding the Health - Life Insurance Business Operations Clal Insurance Company Ltd.

Chapter A – Identity of Actuary

I have been requested by Clal Insurance Company Ltd. to evaluate the provisions specified in Chapter B below regarding health insurance - reporting business operations in life insurance (hereinafter: the “Provisions”), for the financial statements of the insurer Clal Insurance Company Ltd. as of December 31, 2017, as specified below.

I am a salaried employee of Clal Insurance Company Ltd. I was appointed to the position in November 2000. I am not an interested party or a relative of another interested party in the insurer.

Chapter B – Scope of the Actuarial Opinion

1. The Actuarial Opinion

- A. For the purpose of calculating the insurer’s provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements. I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.
- B. Where necessary, I relied in my evaluation on data received from other reliable sources. I evaluated the degree of suitability and relevance of the data.
- C. The actuarial assumptions that were used by me in my work, as well as the methods for evaluating the provisions were determined by me, to the best of my professional judgment, subject to the instructions, guidelines and rules specified in Section 1 in Chapter C below.
- D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer’s reinsurance arrangements, the ability of collection of claims, and problems in the payment

policy of the re-insurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.

E. The following matters were also taken into account in rendering my opinion:

- 1) The provision calculated for incoming business. On this matter, with respect to “**incoming business**”, as defined in the Control of Insurance Business Regulations (Methods for Calculation of Provisions for Future Claims in Non-Life Insurance), 1984 - the Company has no business operations of this kind.
- 2) The provisions calculated for coinsurances in which the Company is not the insurer – the Company has no business of this type.

2. Valuation Data for Amount of Reserves

A. Details of Reserve Amounts

Presented below are details regarding the reported reserves in the life insurance report, at the gross level and at the retention level.

Description (NIS in thousands)	Health – Life Insurance
	Individual Business Operations
<i>Gross</i>	
Outstanding claims	3,853
IBNR	9,892
Insurance contract terms	0
Total – Gross	13,745
<i>Retention</i>	
Outstanding claims	2,324
IBNR	9,892
Insurance contract terms	0
Total – On retention	12,216

B. Effect of changes on the provisions

Presented below is the effect of changes at the gross and net level for:

1. For policies which came into effect after the end of the period of the last annual report – the amount of the adjustment for the provisions, arising from differences between the premium basis assumptions and the provision basis assumptions – no adjustment of this type was required during the reporting period.
2. For policies which came into effect prior to the period of the last annual report – the amount of adjustment of the provisions, due to changes in assumptions, methods or the amount of the premium expected to be collected and other amendments – no adjustment of this type was required in the reporting period.

Chapter C – The Opinion

I hereby certify and affirm that in the critical illnesses sub-branch of health insurance:

- 1 . I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, guidelines, and rules specified below, effective as of the date of the financial report:
 - A. Provisions of the Control of Insurance Law, 1981, and regulations enacted pursuant thereto;
 - B. The Insurance Commissioner’s instructions and directives;
 - C. Generally accepted actuarial principles.
- 2 . Having evaluated the data mentioned in Chapter B, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.
- 3 . The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.
- 4 . The provisions specified in Chapter B constitute, to the best of my knowledge and judgment, an adequate reserve for covering the insurer’s obligations arising from health insurance contracts belonging to the Health Insurance sub-branches, as detailed above, as of the reporting date.

Chapter D – Notes and Clarifications

1. Details regarding the types of reserves, interest rates etc. are included in Note 37 to the financial statements.
2. **Statistical and Actuarial Uncertainty**

The results presented in this report rely, inter alia, on a calculation of outstanding claims and a calculation of IBNR claims, based on a statistical model for payments of future claims, based on the history of claims actually paid in the past, both in terms of the rate of their payment and in terms of the amounts paid.

These models and the working assumptions were developed according to my understanding of the Company’s current business environment and according my estimation as to the future development of the Company’s business environment.


Therefore, it must be recognized that there is a high likelihood that the future business results will differ from those forecast according to the actuarial models for calculating reserves.

3. Exposure to Future Developments and Changes

The possibility exists of changes and developments in the future in connection with the insurance market conditions in Israel, following regulatory changes, court decisions, technological changes and changes in social and environmental conditions. These future factors cannot be foreseen and could affect the final cost or claims and also the actuarial estimation for reserves.

Chapter E – Material Changes

There were no material changes during the reporting period.

<u>March 22, 2018</u>	<u>Executive VP and Chief Actuary</u>	<u>Ofer Brandt, F.I.A, F.I.L.A.A</u>	
Date	Position	Name of Actuary	Signature

Chapter A - Actuarial Certification Regarding Non-Life Insurance

Branches

Identity of Actuary

I have been requested by Clal Insurance Company Ltd. to evaluate the provisions specified in Chapter B below regarding the non-life insurance branches (hereinafter: the Provisions) in the financial statements of the insurer Clal Insurance Company Ltd. as of December 31, 2017, as specified below.

I am a salaried employee of Clal Insurance Company Ltd. (hereinafter: the "**Insurer**").

I was appointed to the position on September 9, 2013.

Scope of the Actuarial Opinion

1. Scope of the Actuarial Opinion

A. For the purpose of calculating the insurer's provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements.

I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.

B. Where necessary, I relied in my evaluation on data obtained from other reliable sources. I evaluated the extent of the data's adequacy and relevance.

C. The actuarial assumptions which were used by me in my work, as well as the methods for evaluating the provisions, as specified in Section 2 below, were determined by me, to the best of my professional judgment, subject to the instructions, directives and rules specified in Section 1 in Chapter C below.

D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer's reinsurance arrangements, the ability of collection of claims and problems in the payment policy of the reinsurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.

E. The following matters were also taken into account in rendering my opinion:

- 1) The provision that was calculated with respect to the residual insurance arrangement (the "Pool") was based on a calculation carried out by the Pool.
- 2) The provision that was calculated for coinsurances in which the insurer is not the lead insurer is based on a calculation which I implemented.
- 3) The reserve was not reduced for lack of correlation between the various branches for the purpose of reducing the total amount of provisions for all the branches included in my evaluation.

2. Data Attached to the Paragraph Regarding the Scope of the Actuarial Opinion

Presented below is the estimate of the reserves amount:

		<u>As of December 31, 2017</u>	
		<u>(NIS in thousands)</u>	
		<u>Gross</u>	<u>Retention</u>
	<u>Outstanding claims</u> ¹		
1(a)	Non-grouped branches:		
	Compulsory motor	2,123,427	1,850,318
	Third party liability	810,918	591,234
	Professional liability	615,924	258,805
	Employers liability	427,494	408,999
	Motor property	194,127	193,774
	Product liability	72,651	58,875
	Comprehensive	44,899	20,921
	apartments		
	Mortgages	10,772	1,185
	Total non-grouped	<u>4,300,212</u>	<u>3,384,111</u>
	branches		
1(b)	Total non-grouped and		
	grouped branches ²	<u>5,077,356</u>	<u>3,430,980</u>

¹ In insurance branches evaluated based on the underwriting year: outstanding claims and provision for deficient premiums:

²Property loss (including business, agriculture, diamonds, and terrorism insurance), engineering insurance, all risks, sick pay, professional liability and others, and managerial liability.

2)	Indirect expenses	<u>75,554</u>	<u>75,554</u>
3)	Premium deficiency		
	Compulsory motor	No reporting requirement	No premium deficiency
	Motor property	No reporting requirement	13,223
	Comprehensive apartments	No reporting requirement	No premium deficiency
	Total insurance liabilities with respect to insurance contracts included in the non-life insurance branch are calculated according to actuarial valuation.	<u>5,166,133</u>	<u>3,519,757</u>

Opinion

I hereby certify and affirm that in the following branches, as defined in the Notice Regarding Control of Insurance Business Operations (Insurance Branches), 1985:

- A. Employers liability insurance – Section 1(a)(7)
- B. Insurance pursuant to the requirements of the Motor Vehicle Insurance Ordinance (New Version), 1970 – Section 1(a)(8)
- C. Motor vehicle insurance – property (self and third party) – Section 1(a)(9)
- D. Comprehensive insurance for residential apartments and businesses – Section 1(a)(12)
- E. Third party liability insurance – Section 1(a)(14)
- F. Property loss insurance – Section 1(a)(15)
- G. Agricultural insurance, excluding insurance for natural damages to agriculture – Section 1(a)(17)
- H. Engineering insurance – Section 1(a)(18)
- I. Defective products liability insurance – Section 1(a)(22)
- J. Other risks insurance – Section 1(a)(25)

- 1 . I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, guidelines, and rules specified below, effective as of the date of the financial report:
 - A. Provisions of the Control of Insurance Law, 1981, and regulations enacted pursuant thereto;
 - B. The Insurance Commissioner's instructions and directives;
 - C. The Commissioner's position regarding the calculation of reserves in non-life insurance;
 - D. Generally accepted actuarial principles.
- 2 . Having evaluated the data mentioned in Chapter A, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.
- 3 . The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.
- 4 . The provisions specified in Chapter A, Section 1.2)a), with respect to the non-grouped branches: compulsory motor insurance, third party liability (excluding managers liability), employers liability, professional liability, motor property, product liability, residential apartments and bank mortgages, constitute, to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations with respect to outstanding claims, as defined above, for each separately specified branch, effective as of the reporting date.
- 5 . The total amount of provisions specified in Chapter A, Section 1.2)b), constitutes, to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations with respect to outstanding claims in the Grouped and non-grouped branches together, effective as of the reporting date.
- 6 . The provisions specified in Chapter A, Section 2.2) constitute to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations with respect to indirect claim settlement expenses, effective as of the reporting date.
- 7 . To the best of my knowledge and judgment, the provisions specified in Chapter A, Section 3.2) constitute an adequate reserve to cover the insurer's liabilities with respect to the difference between risks which have not yet materialized and unearned premiums on retention (if any) in the specified branches, effective as of the reporting date.

Notes and Clarifications

- 1 . The stated reserve is derived from claims data and an actuarial estimate, in which the statistical uncertainty constitutes an inseparable part of the estimated total cost of claims. Additionally, changes are possible in the risks, in environmental factors, court rulings, and precedents that cannot be forecast in advance. The actual cost of claims could be higher or lower. Therefore, this estimate could increase or decrease over time.
- 2 . In a number of large claims of a non-statistical nature, the reserve was determined (gross and on retention) based on professional opinions of the Company's experts, as well as according to the recommendations of their legal advisers. Any change or development in the estimates of the Company's experts may affect the cost of claims.
- 3 . The reserve in the compulsory motor branch (excluding outstanding claims reported by the Pool), and the liabilities and contractors branches was discounted at a rate of 1.3%, CPI-linked.
- 4 . The estimate of the liabilities in the compulsory motor branch and in the liabilities branches includes the additional safety margin which is calculated based on the standard deviation in the actuarial model.
- 5 . For grouped branches, due to the high level of uncertainty, an actuarial opinion is given for the total provisions with respect to all branches (non-grouped and grouped) together, in accordance with the provisions of the Commissioner's circular (circular 2015-1-1).
- 6 . In the following branches: cargo in transit insurance, aircraft insurance, including third party liability, sailing vessels insurance including third party liability, granting of guarantees and incoming business, no actuarial estimation has been carried out due to the nature of the coverage and insufficient data. Likewise, the reserve for special transactions in the area of medical malpractice, which are classified under professional liability branch, is calculated, in accordance with the insurance policy, for the amount of claims above the medical institution's payment liability. For these institutions, a reserve was not taken for the amount of claims below this amount, with respect to which the medical institution is obligated to bear the cost of the claims.
- 7 . Beginning in December 2015, the Company has applied the Commissioner's position in connection with best practices in the calculation of the reserves, which serves as the basis for determining a minimum amount for the required reserves. According to the position, with respect to the reserve which was calculated by an actuary, the meaning of an "adequate reserve to cover the insurer's liabilities" is that it is fairly likely that the determined insurance liability will suffice to cover the insurer's liabilities. The actuary is

required to take into account random risks (risk of random deviation from the results of the model), as well as systemic risks (risks which are not included in the model, for example, risk of suing an inappropriate model). This evaluation includes taking into account the revaluation method used in the financial statements for assets held against liabilities.

The Commissioner stated that if restrictions apply to the statistical analysis of the risk factors and the required margin, the actuary will exercise judgment, and conventional actuarial methods may be used. The Commissioner also stated that there is a restriction regarding the statistical analysis of systemic risk.

In the absence of appropriate statistical models, the calculation of systemic risks requires a high level of judgment with reference to the potential level of impact of various factors which may take place and affect the amount of the liability in the future. The estimation of these effects involves significant subjectivity, and therefore, different actuaries, working under the same circumstances, may reach different estimates.

It is noted that the Company will continue evaluating ways to improve the estimates of the model components, with reference, inter alia, to practices which will be formulated in the market, and to the experience and knowledge which will be accrued in the coming years.

8. In June 2014, an inter-ministerial committee led by the Hon. Judge (Emeritus) Dr. Eliyahu Winograd OBM was appointed in order to evaluate of the correction of life expectancy tables and the interest rate which is used discount annuities in accordance with the National Insurance Regulations (Discounting), 1978 (the "Discounting Regulations"). In June 2016, an amendment was published to the Regulations (hereinafter: the "Amendment"), which includes, inter alia, an update to the mortality tables and discount rates which are used to calculate the aforementioned annuities.

The Discounting Regulations formalize, inter alia, the discount rate which is used to calculate subrogation claims filed by the National Institute Insurance towards third parties, in accordance with the right which is conferred upon it pursuant to the National Insurance Law (Consolidated Version), 1995, in cases where the event serves as grounds for charging the third party, pursuant to the Civil Wrongs Ordinance or the RAVC law.

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

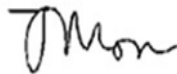
thereafter. The amendment to the Discounting Regulations entered into effect in October 2017.

The Company estimated the overall possible impact of the foregoing, including amounts which the Company may be required to pay in other disability and death claims, while giving weight to the uncertainty regarding the actual impact and the manner of its occurrence. The estimated impact of the liabilities, weighing the scenario involving the full effect of the recommendations of the Winograd committee on the discount rates, and a scenario according to which the discount rates which will be determined will reflect returns of relevant low-risk investment instruments, based on a legal opinion.

Accordingly, the Company increased the insurance liabilities for 2017, in the compulsory motor and liabilities branches, in the amount of approximately NIS 219 million on retention.

March 22, 2018

Date



Yaakov Mauser, F.I.A., F.I.L.A.A.

Chief Actuary in Non-Life Insurance

Chapter A - Actuarial Certification Regarding Health Insurance

Identity of Actuary

I have been requested by Clal Insurance Company Ltd. to evaluate the provisions specified in Chapter B below in the health insurance branches (hereinafter: the Provisions) in the financial statements of the insurer Clal Insurance Company Ltd. as of December 31, 2017, as specified below.

I am a salaried employee of Clal Insurance Company Ltd. (hereinafter: the “**Insurer**”).

I was appointed to the position on September 9, 2013

Scope of the Actuarial Opinion

1. The Actuarial Opinion

A. For the purpose of calculating the insurer’s provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements.

I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.

B. Where necessary, I relied in my evaluation on data obtained from other reliable sources. I evaluated the extent of the data’s adequacy and relevance.

C. The actuarial assumptions that were used by me in my work, as well as the methods for evaluating the provisions were determined by me, to the best of my professional judgment, subject to the instructions, guidelines and rules specified in Section 1 in Chapter C below.

D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer’s reinsurance arrangements, the ability of collection of claims and problems in the payment policy of the reinsurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.

- E. The following matters were also taken into account in rendering my opinion:
- 1) Provision calculated for incoming business – there is no incoming business.
 - 2) The provision that was calculated for coinsurances in which the insurer is not the lead insurer is based on a calculation which I implemented.

2. Data Attached to the Paragraph Regarding the Scope of the Actuarial Opinion

Presented below is the estimate of the reserves amount:

		<u>As of December 31, 2017</u>	
		<u>(NIS in thousands)</u>	
		<u>Gross</u>	<u>Retention</u>
<u>Outstanding claims</u>			
1)a)	Non-grouped branches:		
	Personal accidents ¹	226,883	226,182
	Total non-grouped branches	226,883	226,182
1(b)	Total non-grouped and grouped branches	226,883	226,182
2)	Indirect expenses	7,386	7,386
3)	Provision deriving from the terms of the insurance contract	None	
4)	Provision for participation in profits	None	
	Total insurance liabilities with respect to insurance contracts included in the non-life insurance branch are calculated according to actuarial valuation.	<u>234,269</u>	<u>233,568</u>

A. Effect of changes on the provisions

Presented below is the effect of the changes at the gross and retention level:

- For policies which came into effect after the end of the period of the last annual report, an adjustment of the provisions was not required due to differences between the premium basis assumptions and the provision basis assumptions.

¹ Over 90% of personal accident branches and students personal accident insurance branches are included in collective-type policies

2. For policies that came into effect prior to the period of the last annual report – the amount of the adjustment of the provision, arising from changes in assumptions, methods, or the amount of the premium expected to be collected and other amendments – see subsection 4 in the notes and clarifications presented below.

Opinion

I hereby certify and affirm that in the following health insurance sub-branches, as defined in the Notice Regarding Control of Insurance Business Operations (Insurance Branches), 1985:

A) Personal accident insurance - Section 1(a)(5)

1. I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, guidelines, and rules specified below, effective as of the date of the financial report:
 - A. Provisions of the Control of Financial Services (Insurance) Law, 1981 and regulations enacted pursuant thereto;
 - B. The Insurance Commissioner's instructions and directives;
 - C. Generally accepted actuarial principles.
2. Having evaluated the data mentioned in Chapter B, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.
3. The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.

The provisions specified in Chapter B constitute, to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations arising from health insurance contracts belonging to the Health Insurance sub-branches, as detailed above, as of the reporting date.

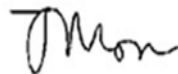
Notes and Clarifications

1. The stated reserve is derived from claims data and an actuarial estimate, where there is inbuilt statistical uncertainty as to the total cost of claims. Additionally, changes are possible in the risks, in environmental factors, court rulings, and precedents that cannot be forecast in advance. The actual cost of claims could be higher or lower. Therefore, this estimate could increase or decrease over time.
2. The reserve for the students personal accident insurance sub-branch was discounted at a rate of 1.3%, CPI-linked.

3. The estimated liabilities in the students personal accident insurance sub-branch includes an additional safety margin which is calculated based on the standard deviation in the actuarial model.
4. During the reporting year, there was a development (increase) in outstanding claims in the amount of approximately NIS 22 million gross and approximately NIS 21 million on retention, which was primarily due to an increase in the provision for outstanding claims in the students personal accident insurance branch.

March 22, 2018

Date



Yaakov Mauser, F.I.A., F.I.L.A.A.

Chief Actuary in Non-Life Insurance

**Actuarial Certification Regarding Long-Term Care Insurance
as of December 2017
Clal Insurance Company Ltd.**

Chapter A – Identity of Actuary

I have been requested by Clal Insurance Company Ltd. (hereinafter: the “Insurer”) to evaluate the provisions specified in Chapter B below regarding long-term care insurance (hereinafter: the “Provisions”), for the financial statements of the insurer Clal Insurance Company Ltd. as of December 31, 2017, as specified below.

I am a salaried employee of the insurer. I am not an interested party in the Company or in a company related to the insurer. I was appointed to the position of chief actuary in August 2013.

Chapter B – Scope of the Actuarial Opinion

1. Scope of the Actuarial Opinion

- A. For the purpose of calculating the insurer’s provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements. I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.
- B. Where necessary, I relied in my evaluation on data received from other reliable sources. I evaluated the degree of suitability and relevance of the data.
- C. The actuarial assumptions that were used by me in my work, as well as the methods for evaluating the provisions were determined by me, to the best of my professional judgment, subject to the instructions, guidelines and rules specified in Section 1 in Chapter C below.

- D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer's reinsurance arrangements, the ability of collection of claims, and problems in the payment policy of the re-insurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.
- E. The following matters were also taken into account in rendering my opinion:
- 1) Provision calculated for incoming business – the Company has no incoming business in the long-term care segment.
 - 2) The provision that was calculated for coinsurances in which the insurer is not the lead insurer is based on a calculation which was made by the leading insurers of the joint insurance.

2. Data Attached to the Paragraph Regarding the Scope of the Actuarial Opinion

A. Details of reserve amounts:

Annexes A and B below detail the provisions in NIS in thousands, both at the gross level and at the retention level, as follows:

- 1) The provision for outstanding claims (claims that have occurred but have not been paid in full, whether approved or not, with the exception of claims paid as annuities, such as long-term care, loss of working capacity and family income) and the direct and indirect costs arising from them (including a provision for unreported claims).
- 2) Provision (reserve) arising from the terms of the life insurance contract separately, including -
 - A) Reserve for plan with accrual;
 - B) A provision is required when a part of the premium collected for previous years of the contract is designated for providing future coverage at a later date, such as provision with respect to a fixed premium, insurability, and continuity.

- 3) Part of the provision for claims in payment, including claims paid as annuities, such as long-term care, loss of working capacity and family income.
- 4) Provision for participation in profits.
- 5) Supplementation due to the liability adequacy test – The liability adequacy test identified no need for an additional supplementation of the reserve.
- 6) Other – Additional provisions according to directives of the Insurance Commissioner, such as the provision with respect to a reserve for completion (DAC), completion of reserve for pension policies - the need for an additional provision was not found.
- 7) Provision for reserve with respect to unusual risks – this provision was canceled and was classified as part of the Company's equity.

B. Effect of changes on the provisions

Presented below is the effect of changes at the gross and net level for:

- 1) Policies which came into effect after the end of the period of the last annual report – The amount of the adjustment for the provisions, arising from differences between the premium basis assumptions and the provision basis assumptions – No adjustment of this type was required during the reporting period.
- 2) For policies which came into effect prior to the period of the last annual report – the amount of adjustment of the provisions, due to differences in changes in assumptions, methods or the amount of the premium expected to be collected and other amendments: no adjustment of this type was required in the reporting period.

Chapter C – The Opinion

I hereby certify and affirm that in the long-term care insurance branch:

- 1 . I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, guidelines, and rules specified below, effective as of the date of the financial report:
 - A. The Control of Financial Services (Insurance) Law, 1981, and regulations enacted pursuant thereto;
 - B. The Insurance Commissioner’s instructions and directives;
 - C. Generally accepted actuarial principles.
- 2 . Having evaluated the data mentioned in Chapter B, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.
- 3 . The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.
- 4 . The provisions specified in Chapter B constitute, to the best of my knowledge and judgment, an adequate reserve for covering the insurer’s obligations with respect to its liability due to long-term care insurance contracts which are in force at the reporting date.

Chapter D – Notes and Clarifications

1 . Remarks, clarifications and explanations

- A. Details regarding the types of reserves, interest rates, etc., are included in Note 37 to the financial statements of Clal Insurance.
- B. The long-term care insurance portfolio is exposed to regulatory changes and to developments in market conditions, such as the update to the long-term care plans which are sold by Additional Health Services in the health funds. The reserve is based on assumptions regarding morbidity, mortality and claim payout

period. These assumptions are subject to demographic and economic changes, which cannot be predicted in advance.

2 . Material adjustments and changes

No material changes or adjustments to the calculation method were made this year.

3 . Business activities regarding which actuarial valuations cannot be made

The data include provisions with respect to joint ventures in which the Company is not the leading company, in which case the actuarial estimate was submitted by the actuary of the leading company.

March 22, 2018

Date

Mark Revayev
F.I.L.A.A.

Name of Chief

Actuary



Signature

Annex A – Form 12.a

Form 12.a

Outstanding claims, reserve and reserve for extraordinary risks – **gross**

Name of company: Clal Insurance Company Ltd.

Gross data

December 31, 2017, NIS in thousands

			Total	Pure risk of death or risk of death component in the policy		Other covers 1)
				Individual	Collective	
				5a	5b	6
1	Outstanding claims		0	0	0	0
2	Reserve (total lines 2a1 to 6)		5,790,972	1,479,960	4,311,012	0
2a1	Policies including a savings component (including riders) by policy issuance date:	Policies issued until 1990	0	0	0	0
2a2		Policies issued from 1991-2003	0	0	0	0
2a3		Policies issued after 2004	0	0	0	0
2a4		Total (2a1 to 2a3)	0	0	0	0
2b	Policies not including a savings component		4,634,137	1,350,492	3,283,645	0
3	Share of reserve with respect to paid claims		1,126,835	129,468	1,027,367	0
4	Profit sharing		0	0	0	0
5	Supplementation due to liability adequacy test		0	0	0	0
6	Other		0	0	0	0
7	Reserve with respect to extraordinary risks		0	0	0	0
8a	Effect of adjustment to provisions with respect to new business		0			
8b1	Im pact of adjustment of provisions with respect to existing business	Changes in assumptions	0	0	0	0
8b2		Changes in methods	0	0	0	0
8b3		Differences on the premium level	0	0	0	0
8b4		Other changes	0	0	0	0

Annex B – Form 12.b

Form 12.b

Outstanding claims, reserve and reserve for extraordinary risks – **on retention**

Name of company: Clal Insurance Company Ltd.

Gross data

December 31, 2017, NIS in thousands

			Total	Pure risk of death or risk of death component in the policy		Other covers 1)
				Individual	Collective	
				5a	5b	6
1	Outstanding claims		0	0	0	0
2	Reserve (total lines 2a1 to 6)		5,350,313	1,456,942	3,893,371	0
2a1	Policies including a savings component (including riders) by policy issuance date:	Policies issued until 1990	0	0	0	0
2a2		Policies issued from 1991-2003	0	0	0	0
2a3		Policies issued after 2004	0	0	0	0
2a4		Total (2a1 to 2a3)	0	0	0	0
2b	Policies not including a savings component		4,634,137	1,350,492	3,283,645	0
3	Share of reserve with respect to paid claims		716,176	106,450	609,726	0
4	Profit sharing		0	0	0	0
5	Supplementation due to liability adequacy test		0	0	0	0
6	Other		0	0	0	0
7	Reserve with respect to extraordinary risks		0	0	0	0
8a	Effect of adjustment to provisions with respect to new business		0			
8b1	Im pact of adjustment of provisions with respect to existing business	Changes in assumptions	0	0	0	0
8b2		Changes in methods	0	0	0	0
8b3		Differences on the premium level	0	0	0	0
8b4		Other changes	0	0	0	0

Actuarial Certification Regarding Health Insurance - December 2017

Clal Insurance Company Ltd.

Chapter A – Identity of Actuary

I have been requested by Clal Insurance Company Ltd. (hereinafter: the “Insurer”) to evaluate the provisions specified in Chapter B below regarding health insurance for the financial statements (hereinafter: the “Provisions”) of the insurer Clal Insurance Company Ltd. as of December 31, 2017, as specified below.

I am a salaried employee of the insurer. I am not an interested party in the Company or in a company related to the insurer. I was appointed to the position of chief actuary in August 2013.

Chapter B – Scope of the Actuarial Opinion

1. The Actuarial Opinion

- A. For the purpose of calculating the insurer’s provisions, I have relied on data which was provided to me by the insurer. My requests for information and data were met in a manner sufficient for the purpose of evaluating the provisions, for the purposes of the financial statements. I evaluated the reasonableness and adequacy of the data, including a comparison of said data against the data for the year addressed in the report, and against data from previous years.
- B. Where necessary, I relied in my evaluation on data received from other reliable sources. I evaluated the degree of suitability and relevance of the data.
- C. The actuarial assumptions that were used by me in my work, as well as the methods for evaluating the provisions were determined by me, to the best of my professional judgment, subject to the instructions, guidelines and rules specified in Section 1 in Chapter C below.

- D. For the purpose of calculating the retention, I requested of the parties responsible for reinsurance at the insurer, information regarding the insurer's reinsurance arrangements, the ability of collection of claims, and problems in the payment policy of the re-insurers. I evaluated, based on the information which was given to me, the implications and effects of the reinsurance arrangements on the provisions.
- E. The following matters were also taken into account in rendering my opinion:
- 1) Provision calculated with respect to incoming business - the provision was recorded based on a calculation which was performed by the submitting insurance company.
 - 2) The provision which was calculated for coinsurances in which the Company is not the leading insurer – in the health segment, the Company has no coinsurance in which the Company is not the leading insurer.

2. Valuation Data for Amount of Reserves

A. Presented below are details regarding the provision amounts, in thousands of NIS

Presented below are details regarding the reported reserves in the non-life insurance report, at the gross level and at the retention level.

Description (NIS in thousands)	Individual	Collective	Total
<i>Gross</i>			
Outstanding claims	112,222	62,732	174,954
Indirect expenses	1,562	2,033	3,595
Insurance contract terms	200,426	26,680	227,106
Participation in profits	0	4,265	4,265
Total – Gross	314,210	95,709	409,920
<i>Retention</i>			
Outstanding claims	99,834	62,479	162,313
Indirect expenses	1,562	2,033	3,595
Insurance contract terms	190,331	26,680	217,012
Participation in profits	0	4,265	4,265
Total – On retention	291,727	95,457	387,184

In addition to the provisions specified above, there is also a provision in the foreign residents branch (advance premiums in the amount of NIS 1 thousand), which was not performed by the Company's actuary. See chapter D, section 4.

B. Effect of changes on the provisions

Presented below is the effect of the changes at the gross and retention level, in thousands of NIS, for:

- 1) Policies which came into effect after the end of the period of the last annual report – the amount of the adjustment for the provisions, arising from differences between the premium basis assumptions and the provision basis assumptions:

Reserve component	Total provisions
Provisions with respect to new policies, gross	2,346
Provisions with respect to new policies, on retention	2,125

- 2) Policies which came into effect prior to the period of the last annual report – the amount of adjustment of the provisions, due to changes in assumptions, methods or the amount of the premium expected to be collected and other amendments, gross and retention:

Total adjustment of reserves, gross	15,605
Total adjustment of reserves, on retention	15,377

Chapter C – The Opinion

I hereby certify and affirm that in the following health insurance sub-branches:

- Medical expenses
- Critical illness
- Personal accidents
- International travel
- Dental

- 1 . I have evaluated the insurance provisions specified in Chapter B, in accordance with the instructions, guidelines, and rules specified below, effective as of the date of the financial report:
 - A. The Control of Financial Services (Insurance) Law, 1981, and regulations enacted pursuant thereto.
 - B. The Insurance Commissioner's instructions and directives.
 - C. Generally accepted actuarial principles.
- 2 . Having evaluated the data mentioned in Chapter B, I have reached the conclusion that the data are reasonable and sufficient, and that they can be relied upon for the purpose of my evaluation.
- 3 . The assumptions and methods for evaluating the provisions were determined by me, to the best of my professional judgment, and in accordance with the instructions, guidelines and rules detailed above.
- 4 . The provisions specified in Chapter B constitute, to the best of my knowledge and judgment, an adequate reserve for covering the insurer's obligations arising from health insurance contracts belonging to the Health Insurance sub-branches, as detailed above, as of the reporting date.

Chapter D – Notes and Clarifications

1 . Remarks, clarifications and explanations

- A. Details regarding the types of reserves, interest rates, etc., are included in Note 37 to the financial statements of Clal Insurance.
- B. The calculation of reserves due to contract terms was performed based on an actuarial model of future cash flows, which is based on demographic and economic assumptions, and other working assumptions which may change in the future, and may affect the evaluation of the reserve in the future.

- C. The calculation of the provisions for outstanding and IBNR claims was determined based on a statistical forecasting model for the determination of the future claim payments, based on past experience.
- D. The models and the assumptions which were used to determine the provisions were developed according to my understanding of the Company's current business environment, and according my assessment regarding future developments. The medical expenses branch is exposed to medical inflation in the future, as a result of medical and technological developments. Additionally, it is important to recognize that the models are exposed to random and statistical fluctuations, and that it is possible that the future results will differ from the provisions which were determined based on the models.

2. Changes in assumptions and actuarial methods

During the reporting year, the Company updated the basic main assumptions which are used to calculate the provisions with respect to individual health policies. These assumptions are determined each year according to tests, past experience and current relevant studies (for details regarding the impact of the update, see chapter B, section 2.B).

3. Material changes in provisions relative to last year

There were no material changes during the reporting period.

4. Business activities regarding which actuarial valuations cannot be made

- A. Foreign residents - These business operations do not include insurance risk, and are based on agreements with service providers.
- B. In the international travel and collectives sub-branch, there is a provision for unearned premiums. The calculation is performed by the finance department.
- C. The data presented in Chapter B above include provisions with respect to incoming business; these provisions were recorded based on the calculation which was performed by the submitting insurance company.

March 22, 2018

Date

Mark Revayev,
F.I.L.A.A.

Name of Chief
Actuary



Signature

Part D

Additional Details Regarding the Corporation

Company name : Clal Insurance Enterprises Holdings Ltd. (hereinafter: the
"Company")
Company number in registrar : 52-003612-0
Address : 36 Raul Wallenberg St., Kiryat Atidim, Tower 8, Tel Aviv 6136902
Email address : Talc@clal-ins.co.il
Telephone : 03-6387504
Fax : 03-7965678
Balance sheet date : 31.12.2017
Publication date of the report : 22.03.2018

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**Clal Insurance Enterprises
Holdings Ltd.**

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

**As of December 31, 2017
(Regulation 9C)**

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<p>Somekh Chaikin KPMG Millennium Tower 17 Ha'Arbaa St., P.O. Box 609 Tel Aviv 6100601 03 684 8000</p>		<p><i>Kost Forer Gabbay and Kasierer</i> 144 Menachem Begin Rd. <i>Tel Aviv 6492102</i> Tel: +972 3 623 2525 Fax: +972 3 562 2555 ey.com</p>
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Attn.:
Shareholders of Clal Insurance Enterprise Holdings Ltd.

Re: Auditors' Special Report Regarding the Separate Financial Information in Accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970, of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") as of December 31, 2017 and 2016, and for each of the three years the last of which ended December 31, 2017, and which is included in the Company's periodic report. The Company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion regarding the separate financial information, based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Israel. In accordance with these standards, we are required to plan and perform the audit in order to obtain a reasonable measure of assurance that the financial statements are free of any material misrepresentation. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and details presented in the separate financial information. An audit also includes performing an evaluation of the accounting principles which were applied in the preparation of the separate financial information and of the significant estimates which were made by the Company's board of directors and management, as well as an evaluation of the overall adequacy of presentation of the separate financial information. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial information was prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel Aviv,
March 22, 2018

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

Joint Auditors

Financial Data from the Consolidated Financial Statements Attributed to the Company as of December 31, 2017

Data Regarding the Financial Position

NIS in thousands	Additional informati on	As of December 31, 2017	As of December 31, 2016
Assets			
Investments in investee companies	2.5	5,011,035	4,651,374
Loans and balances of investee companies	2.5	63	27
Other accounts receivable		151	81
Other financial investments:			
Marketable debt assets		26,589	46,024
Stocks		44	531
Total other financial investments	2.2 (A)	26,633	46,555
Cash and cash equivalents	2.3	16,652	54,528
Total assets		5,054,534	4,752,565
Capital			
Share capital		143,367	143,216
Premium on shares		1,001,880	977,898
Capital reserves		649,964	484,165
Retained earnings		3,251,608	3,068,909
Total capital		5,046,819	4,674,188
Liabilities			
Other accounts payable	2.2 (B)	7,303	7,504
Balances of investee companies		412	873
Liabilities to banking corporations and others	2.2 (C)	-	70,000
Total liabilities		7,715	78,377
Total capital and liabilities		5,054,534	4,752,565

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

March 22, 2018				
Approval date of the financial statements	Danny Naveh	Izzy Cohen	Anath Levin Investments, Finance, and Credit Division Manager	Tal Cohen Senior VP Chief Accounting Division Manager
	Chairman of the Board	Chief Executive Officer		

Data Regarding Income

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Company's share in the income (loss) of investee companies, net of tax	207,609	104,864	483,827
Income from investments, net, and financing income from investee companies	-	29	100
Others	(117)	218	101
Total income	207,492	105,111	484,028
General and administrative expenses	3,337	3,278	2,201
Financing expenses	1,044	1,715	3,932
Other expenses	15	5,539	610
Total expenses	4,396	10,532	6,743
Income (loss) before taxes on income	203,096	94,579	477,285
Taxes on income (tax benefit)	-	(1,822)	-
Income (loss) for the period	203,096	96,401	477,285

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

Data Regarding Comprehensive Income

NIS in thousands	For the year ended December 31		
	2017	2016	2015
Income (loss) for the period	203,096	96,401	477,285
Other comprehensive income:			
Components of other comprehensive income which, following initial recognition in comprehensive income, have been or will be transferred to profit and loss:			
Change, net, in the fair value of available-for-sale financial assets applied to capital reserves	(53)	(288)	405
Change, net, in the fair value of available-for-sale financial assets transferred to profit and loss	(68)	(2)	5
Other comprehensive income (loss) with respect to investee companies which has been or will be transferred to profit and loss, net of tax	165,920	23,901	(198,599)
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	165,799	23,611	(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	165,799	23,611	(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	1,177	2,228	6,214
Other comprehensive income for the period which will not be transferred to profit and loss, net of tax	1,177	2,228	6,214
Other comprehensive income (loss) for the period	166,976	25,839	(191,975)
Total comprehensive income for the period	370,072	122,240	285,310

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

Financial Data from the Consolidated Financial Statements Attributed to the Company as of December
31, 2017

NIS in thousands	Data Regarding Cash Flows		
	2017	2016	2015
Cash flows from operating activities			
Income (loss) for the period	203,096	96,401	477,285
Adjustments:			
Losses of investee companies	(207,609)	(104,864)	(483,827)
Dividends from investee companies	15,045	17,300	23,829
Interest accrued with respect to liabilities to banking corporations	1,044	1,686	3,842
Income from other financial investments	1,337	1,174	(215)
Taxes on income (tax benefit)	-	(1,822)	-
	<u>(190,183)</u>	<u>(86,526)</u>	<u>(456,371)</u>
Changes to other items in the data regarding financial position, net:			
Change in other accounts receivable	(70)	68	5,013
Change in other accounts payable	(51)	5,763	999
	<u>(121)</u>	<u>5,831</u>	<u>6,012</u>
Cash which were received during the period for:			
Net cash from operating activities with respect to transactions with investee companies	2,062	4,817	12,878
Interest received	-	29	349
Net cash from operating activities	<u>14,854</u>	<u>20,552</u>	<u>40,153</u>
Cash flows from investing activities			
Repayment of loans to investee companies	-	-	21,811
Investment in available for sale financial assets	(9,916)	(36,998)	(62,126)
Consideration from sale of available for sale financial assets	28,380	47,058	40,782
Net cash from (used in) investing activities	<u>18,464</u>	<u>10,060</u>	<u>467</u>
Cash flows from financing activities			
Repayment of liabilities to banking corporations	(70,000)	-	(75,000)
Interest paid with respect to liabilities to banking corporations	(1,194)	(1,715)	(7,632)
Net cash used in financing activities	<u>(71,194)</u>	<u>(1,715)</u>	<u>(82,632)</u>
Increase (decrease) in cash and cash equivalents	<u>(37,876)</u>	<u>28,897</u>	<u>(42,012)</u>
Cash and cash equivalents at beginning of period	54,528	25,631	67,643
Cash and cash equivalents at end of period	<u>16,652</u>	<u>54,528</u>	<u>25,631</u>

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

2.1 General

Presented below are financial data regarding the Company's consolidated financial statements as of December 31, 2017 (hereinafter: the "**Consolidated Reports**") which are published within the framework of the periodic reports (in Chapter C - financial statements), which are attributed to the Company itself (hereinafter: the "**Separate Financial Information**"), and which are presented within the framework of Regulation C9 and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 2010 (hereinafter: the "**Regulation**" and the "**Tenth Addendum**", respectively), regarding the corporation's separate financial data. The separate financial information should be read together with the consolidated reports.

Significant accounting policies applied in the separate financial information:

The accounting policies specified in the consolidated reports were applied consistently in all periods which are presented in the separate financial information by the Company, including the manner in which the financial data were classified in the consolidated reports, with the required adjustments, as specified below:

A. Presentation of financial data

1. Data regarding the financial position

These data include information regarding the amounts of assets and liabilities which are included in the consolidated reports attributed to the Company itself (except with respect to investee companies), including details by types of assets and liabilities. These data also include information regarding the net amount, based on the consolidated reports, attributed to the shareholders of the Company itself, of the total assets less total liabilities with respect to investee companies, including goodwill.

2. Data regarding comprehensive income

These data include information regarding the amounts of assets and liabilities which are included in the consolidated report, segmented between profit and loss and other comprehensive income, as attributed to the Company itself (except with respect to investee companies), including details by types of assets and liabilities. The data also include information regarding the net amount, based on the consolidated reports, attributed to the shareholders of the Company itself, of the total income less total expenses with respect to the results of operations of investee companies, including impairment of goodwill, impairment or cancellation of investment in an associate company, and impairment or cancellation of an investment in a company under joint control accounted by the equity method.

3. Data regarding cash flows

These data include details regarding the cash flow amounts which are included in the consolidated reports attributed to the Company itself (excluding with respect to investee companies), and are taken from the consolidated statement of cash flows, segmented by cash flows from operating activities, investing activities and financing activities, including specification of their components. Cash flows with respect to operating activities, investing activities and financing activities in respect of transactions with investee companies are presented separately, net, under the relevant activity, according to the characteristics of the transaction.

B. Transactions between the Company and investee companies

1. Presentation

The inter-company balances in the Group, and income and expenses due to inter-company transactions, which were canceled within the framework of the preparation of the consolidated reports, were presented separately from the balance with respect to investee

Financial Data from the Consolidated Financial Statements Attributed to the Company as of
December 31, 2017

companies and income with respect to investee companies, together with similar balances vis-à-vis third parties.

Unrealized profit and loss which are due to transactions between the Company and its investee companies were presented under the balance with respect to investee companies and under income with respect to investee companies.

2. Measurement

Transactions which were performed between the Company and its consolidated companies were measured in accordance with the principles of recognition and measurement, as set forth in International Financial Reporting Standards, which establish the accounting treatment for transactions of this kind which are performed vis-à-vis third parties.

2.2 Financial Instruments**8. Financial investments**

The composition is as follows:

NIS in thousands	As of December 31	
	2017	2016
<u>Marketable debt assets</u>		
Government bonds (1)	<u>26,589</u>	<u>46,024</u>
Total marketable debt assets	<u>26,589</u>	<u>46,024</u>
<u>Stocks (2)</u>		
Non-marketable - available for sale	<u>10</u>	<u>10</u>
Marketable - available for sale	<u>34</u>	<u>521</u>
	<u>44</u>	<u>531</u>
Total financial investments	<u>26,633</u>	<u>46,555</u>

(1) Short term NIS bills, repayable in 2018, at an effective interest rate of 0.32% per year.

(2) The forecasted exercise date of the shares has not yet been determined.

B. Other accounts payable

The composition is as follows: *)

NIS in thousands	As of December 31	
	2017	2016
Expenses payable	<u>1,109</u>	<u>721</u>
Interest payable to banking corporations, see section D below	<u>-</u>	<u>150</u>
Institutions	<u>15</u>	<u>3</u>
Suppliers	<u>68</u>	<u>53</u>
Others **)	<u>6,111</u>	<u>6,577</u>
Total	<u>7,303</u>	<u>7,504</u>

*) The balances of payables are unlinked.

**) Primarily with respect to the provision for claims. For additional details, see Note 42 to the consolidated reports.

Financial Data from the Consolidated Financial Statements Attributed to the Company as of
December 31, 2017

2.2 Financial instruments (Cont.)

C. Liabilities to banking corporations and others

Composition and linkage:

NIS in thousands	Margin from prime rate	As of December 31	
	%	2017	2016
Unlinked NIS	0.85	-	70,000
Total		-	70,000
Prime interest rate		-	1.60%

Contractual repayment dates*:

Presented below are the contractual repayment dates of liabilities to banking corporations, including an estimate of interest payments:

NIS in thousands	As of December 31	
	2017	2016
Up to one year	-	1,715
One year to two years	-	36,715
Two years to three years	-	35,858
Calculated amount	-	74,288
Book value	-	70,000

*) During the reporting period, the Company performed an initiated early repayment of the balance of the bank loan, in the amount of NIS 70 million.

2.3 Cash and cash equivalents

Composition and linkage:

NIS in thousands	Interest rate as of December 31, 2017	As of December 31	
	%	2017	2016
Unlinked NIS	0.0-0.1	16,180	54,042
Linked to the EUR	0	273	268
Linked to the USD	0	195	214
Total		16,652	54,528

Most of the cash and cash equivalents are checking account balances and daily deposits in banking corporations. The interest rates on checking account balances are based on interest rates with respect to daily deposits.

2.4 Taxes on income

Financial Data from the Consolidated Financial Statements Attributed to the Company as of
December 31, 2017

- A. For details regarding the tax environment in which the Company operates, including the change to the corporate tax rate, see Note 23(a) to the consolidated reports.
- B. For details regarding deferred tax liabilities which were not recognized, and losses and deductions for tax purposes which are transferable to subsequent years, see Note 23(f) to the consolidated reports.

2.5 Investee companies - investments, balances, engagements and material transactions

The composition is as follows:

NIS in thousands	As of December 31	
	2017	2016
Investments in investee companies	5,011,035	4,651,374
Current balances	63	27
Loans and debit balances of investee companies	63	27
Total	<u>5,011,098</u>	<u>4,651,401</u>

- A. For details regarding the list of main investee companies, see Note 9(b) to the consolidated reports.
- B. For details regarding the Company's undertakings regarding the capital supplementation required of its investee companies, and insofar as may be required upon the application of the Solvency II capital regime, see Note 16(e) to the consolidated reports.
- λ. The Company has agreements on immaterial amounts with investees which include management fees to the Company, guarantee commission, cost of collaboration on development, and business promotion.

Financial Data from the Consolidated Financial Statements Attributed to the Company as of
December 31, 2017

3. Report Regarding the Liabilities of the Reporting Corporation and its Consolidated Companies by Repayment Dates as of December 31, 2017 (Regulation 9D)

As of December 31, 2017, the Company and the consolidated companies have no liabilities in accordance with Regulation 9D.

For details regarding the early repayment which was performed by the Company in 2017, see Note 25 to the financial statements.

4. Condensed quarterly statements of comprehensive income (Regulation 10A)

Condensed quarterly statements of comprehensive income for 2017

NIS in thousands	Q1	Q2	Q3	Q4	Total
Gross premiums earned	2,444,144	2,445,299	2,416,826	2,422,934	9,729,203
Premiums earned by reinsurers	262,242	297,115	310,550	320,374	1,190,281
Premiums earned on retention	2,181,902	2,148,184	2,106,276	2,102,560	8,538,922
Income from investments, net, and financing income	1,169,733	1,550,109	1,479,122	2,035,584	6,234,548
Income from management fees and portfolio management	291,053	247,485	348,573	339,372	1,226,483
Income from commissions	55,727	61,625	74,067	75,694	267,113
Other income	25	2,095	1,133	305	3,558
Total income	3,698,440	4,009,498	4,009,171	4,553,515	16,270,624
Payments and change in liabilities with respect to insurance contracts and investment contracts, gross	3,042,221	3,358,765	3,736,349	3,871,413	14,008,748
Share of reinsurers in payments	(288,883)	(261,069)	(279,204)	(274,798)	(1,103,954)
Payments and change in liabilities with respect to insurance contracts and investment contracts on retention	2,753,338	3,097,696	3,457,145	3,596,615	12,904,794
Commissions, marketing expenses and other acquisition costs					
Others	464,713	465,201	510,064	516,574	1,956,552
General and administrative expenses	204,893	201,370	223,168	242,630	872,061
Impairment of intangible assets	-	81,000	10,715	29,922	121,637
Other expenses	3,164	17,173	4,834	(1,398)	23,773
Financing expenses	26,742	45,538	27,843	34,332	134,455
Total expenses	3,452,850	3,907,978	4,233,769	4,418,675	16,013,272
Share in the results of associate companies, net	3,559	2,981	645	18,396	25,581
Income before taxes on income	249,149	104,501	(223,953)	153,236	282,933
Taxes on income	84,983	24,020	(80,454)	46,698	75,247
Income (loss) for the period	164,166	80,481	(143,499)	106,538	207,686
Attributable to:					
Company shareholders	163,346	79,075	(144,583)	105,258	203,096
Minority interests	820	1,406	1,084	1,280	4,590
Income (loss) for the period	164,166	80,481	(143,499)	106,538	207,686
Earnings per share attributable to company shareholders					
	Q1	Q2	Q3	Q4	Total
Basic earnings (loss) per share (in NIS) from continuing operations	(4.21)	1.43	(2.61)	1.90	3.66
Diluted earnings (loss) per share (in	(4.21)	1.43	(2.61)	1.89	3.65

Clal Insurance Enterprises Holdings Ltd.

Financial Data from the Consolidated Financial Statements Attributed to the Company as of
December 31, 2017

NIS) from continuing operations					
Basic earnings (loss) per share (in NIS)	<u>(4.21)</u>	<u>1.43</u>	<u>(2.61)</u>	<u>1.90</u>	<u>3.66</u>
Diluted earnings (loss) per share (in NIS)	<u>(4.21)</u>	<u>1.43</u>	<u>(2.61)</u>	<u>1.89</u>	<u>3.65</u>
Number of shares used to calculate Earnings per share					
Basic	<u>55,412</u>	<u>55,426</u>	<u>55,427</u>	<u>55,447</u>	<u>55,447</u>
Diluted	<u>55,412</u>	<u>55,434</u>	<u>55,427</u>	<u>55,618</u>	<u>55,618</u>

Financial Data from the Consolidated Financial Statements Attributed to the Company as of
December 31, 2017

4. Condensed quarterly statements of comprehensive income (Regulation 10A)

Condensed quarterly statements of comprehensive income for 2017 (Cont.)

NIS in thousands	Q1	Q2	Q3	Q4	Total
Income (loss) for the period	164,166	80,481	(143,499)	106,538	207,686
Components of other comprehensive income					
Foreign currency translation differences for foreign operations applied to capital reserves	(21,291)	(10,633)	5,928	(5,986)	(31,982)
Change, net, in the fair value of available for sale financial assets applied to capital reserves	27,295	49,112	225,294	220,157	521,858
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	(44,888)	(54,643)	(46,246)	(99,481)	(245,258)
Impairment loss of available for sale financial assets transferred to profit and loss	6,288	-	1,667	6,322	14,277
Tax impact	(8,627)	(4,246)	63,137	42,059	92,323
Total components of net profit which will subsequently be reclassified to profit and loss	(23,969)	(11,918)	123,506	78,953	166,572
Amounts which will not subsequently be reclassified to profit and loss.					
Income with respect to re-evaluation of property, plant and equipment which was classified as investment property					
Actuarial income (loss) from defined benefit plan	(1,328)	2,666	2,678	(5,948)	(1,932)
Taxes with respect to other components of comprehensive income	(419)	693	783	(1,810)	(753)
Total components of net income (loss) which will not subsequently be reclassified to profit and loss	(909)	1,973	1,895	(4,138)	(1,179)
Other comprehensive income (loss) for the period, before taxes on income	(23,060)	(13,891)	121,611	83,091	167,751
Total comprehensive income (loss) for the period	141,106	66,590	(21,888)	189,629	375,437
Attributable to:					
Company shareholders	140,202	65,090	(23,230)	188,012	370,074
Minority interests	904	1,500	1,342	1,617	5,363
Total comprehensive income (loss) for the period	141,106	66,590	(21,888)	189,629	375,437

5. Use of consideration from securities (Regulation 10C)

None

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position
(Regulation 11)

Company name	Stock number on the stock exchange	Share class and par value	Number of Shares	Total par value in NIS	Value in the separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in %			Market price as of the date of the statement of financial position In NIS per share	Country of incorporation other than Israel
						In capital	In voting rights	In right to appoint directors		
Clal Insurance Company Ltd. ("Clal Insurance") [1] [2]		Ordinary shares with a value of NIS 1	118,490,456	118,490,456	4,869,071	99.98	99.98	99.98		
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")		Ordinary shares with a value of NIS 1	99	99	75,658	100.00	100.00	100.00		
Clalbit Systems Ltd. ("Clalbit Systems") [3]		Ordinary shares with a value of NIS 1	1,000	1,000	6,886	100.00	100.00	100.00		
Clal Credit and Finance Ltd. [4]		Ordinary shares with a value of NIS 1	34,667	34,667	56,776	100.00	100.00	100.00		
<u>Subsidiaries and related companies of Clal Insurance</u>										
Clal Credit Insurance Ltd. ("Clal Credit") [4]		Ordinary shares with a value of NIS 1	8,537,280	8,537,280	177,006	80.00	80.00	80.00		
ADC Holdings Ltd. [5]		Ordinary shares with a value of NIS 1	500	500	15,753	33.00	33.00	33.00		
Clal Insurance Company Property Ltd. [6]		Ordinary shares with a value of NIS 0.0001	100	0.1	115,325	100.00	100.00	100.00		
Clal Pension and Provident Funds Ltd. [7] ("Clal Pension and Provident Funds")		Ordinary shares with a value of NIS 1	124,638	124,638	715,460	100.00	100.00	100.00		

Additional Details Regarding the Corporation

Company name	Stock number on the stock exchange	Share class and par value	Number of Shares	Total par value in NIS	Value in the separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in %			Market price as of the date of the statement of financial position In NIS per share	Country of incorporation other than Israel
						In capital	In voting rights	In right to appoint directors		
HaClal HaRishon Ltd.		Ordinary shares with a value of NIS 1	101	101	2,346	100.00	100.00	100.00		
Clalbit Finance Ltd.		Ordinary shares with a value of NIS 1	1,000	1,000	-	100.00	100.00	100.00		
Clal Insurance Company Property Ltd. [8]		Ordinary shares with a value of NIS 1	100	100	27,643	100.00	100.00	100.00		

[1] For details regarding the Company's undertaking to supplement the equity of Clal Insurance and the validity thereof, see Note 16(e)(5) to the financial statements.

[2] Including holdings of 1 ordinary share through Clal Credit and Finance Ltd.

[3] Includes holding of 1 ordinary share through Betach - Thorne Insurance Agency Ltd.

[4] For details regarding an undertaking of Clal Insurance to supplement the equity of Clal Credit Insurance and the validity thereof, see Note 16(e)(6) to the financial statements.

[5] Formerly Shagrir Towing Services Ltd.

[6] Includes holding of 1 ordinary share through Canaf - Clal Financial Management Ltd.

[7] For details regarding an undertaking of the Company to supplement the equity of Clal Pension and Provident Funds and the validity thereof, see Note 16(e)(7) to the financial statements.

[8] Includes direct holding of 1 ordinary share through the Company.

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report	Holding rates in %	Market price as of the date of the report	Country of incorporation
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	Stock number on the stock exchange			as defined	In capital	In voting	In right	statement of	other than
				in Regulation 9C NIS in thousands			to appoint directors	financial position In NIS per share	Israel
Atudot Pension Fund for Workers & Independent Workers Ltd.		Ordinary shares with a value of NIS 1	4,000,000	4,000,000	45,170	50.00	50.00	50.00	
Canaf - Clal Financial Management Ltd. ("Canaf")		Ordinary shares with a value of NIS 1	1,000	1,000	4,833	100.00	100.00	100.00	
Kingsway 22 Ltd. ("Kingsway 22")		Ordinary shares with a value of NIS 0.1	10	1	31,127	50.00	50.00	50.00	
Ibex House Ltd. - Clal (US) Management Inc		Ordinary shares with a value of NIS 0.1	500	50	43,234	50.00	50.00	50.00	
		No par value	200	-	-	100.00	100.00	100.00	United States

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Number of share on the stock exchange	Share class and par value	Number of Shares	Total Par value in NIS	Value in the separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in %			Market price as of the date of the statement of financial position In NIS per share	Country of incorporation other than Israel
						In capital	In voting	In right to appoint directors		
<u>Subsidiaries and related companies of Clal Agencies</u>										
Betach - Thorne Insurance Agency Ltd. (Betach - Thorne) [9]										
		Ordinary shares with a value of NIS 1	20,339	20,339	40,686	100.00	100.00	100.00		
		Class A management shares with a value of NIS 1	418	418	39,424	-	-	100.00		
		Class B management shares with a value of NIS 1	418	418	-	-	-	100.00		
		Ordinary shares with a value of NIS 1	4,359	4,359	-	100.00	100.00	-		
Tmura Insurance Agency (1987) Ltd. ("Tmura")		Preferred shares with a value of NIS 1	1,392	1,132	-	100.00	-	-		
<u>Subsidiaries and related companies of Tmura</u>										

Tmura Mele'a Insurance Agency Ltd.	Ordinary shares with a value of NIS 0.001	100,000,000	100,000	2,497	100.00	100.00	100.00
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[9] Formerly Batach Ltd.

6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Number of share on the stock exchange	Share class and par value	Number of Shares	Total value of Par value in NIS	Value in the separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in %			Market price as of the date of the statement of financial position In NIS per share	Country of incorporation other than Israel
						In capital	In voting	In right to appoint directors		
<u>Subsidiaries and related companies of Ibex House Ltd.</u>										
Ibex London Limited [10]		Ordinary shares with a value of GBP 0.01	196,000	1,960 (GBP)	162,090	49.00	49.00	49.00		Jersey
<u>Subsidiaries and related companies of Clal Credit and Finance</u>										
Clal Finance Consumer Credit Ltd.		Ordinary shares with a value of NIS 1	10,000	10,000	18,054	100.00	100.00	100.00		

Clal Insurance Enterprises Holdings Ltd.

Additional Details Regarding the Corporation

Clal Finance Business Credit Ltd.	Ordinary shares with a value of NIS 1	10,000	10,000	21,375	100.00	100.00	100.00
Clal Factoring and Finance Ltd. ("Clal Factoring and Finance")	Ordinary shares with a value of NIS 1	10,001	10,001	15,648	100.00	100.00	100.00

[10] Includes holding of 47,040 ordinary shares through Clal Pension and Provident Funds.

7. Loans and capital notes to the Company's subsidiaries and related companies

Loan provider	Loan recipient	Balance of loans and capital notes, (including accrued interest) NIS in thousands	Rate of interest %	Type of linkage	Years of repayment
Loans from Clal Insurance					
Clal Insurance	Clal Agencies	5,703	4.00%	Consumer price index Unlinked capital note	Ten equal principal payments beginning on December 1, 2010
Clal Insurance	Elite Real Estate A.P. Ltd. [11]	19,028	-	Unlinked capital note	Undetermined
Loans from Clal Agencies					
Clal Agencies	Tmura Insurance Agency (1987) Ltd.	1,537	4.00%	Consumer price index Unlinked capital note	Ten equal principal payments beginning on March 10, 2014
Clal Agencies	Clal Leaders Insurance Agency Ltd. [11]	15,176	-	Unlinked capital note	Undetermined

[11] Inactive

7.1 Changes in loans to subsidiaries and to related companies during the reporting period (Regulation 12)**Clal Holdings and subsidiaries**

The Company	Date	Name of investee company	Description of change	Amounts in millions of NIS
Clal Insurance				
Clal Insurance	December 2017	Clal Agencies	Current repayment of loan	3
Clal Agencies				
Clal Agencies	February - March 2017	Tmura Insurance Agency (1987) Ltd.	Early and current repayment of loan *)	2
Clal Agencies	December 2017	Clal Heath Solutions Insurance Agency (1989) Ltd.	Waiver of capital note balance	0.3
Betach				
Betach Ltd.	December 2017	Tmura Insurance Agency (1987) Ltd.	Current repayment of loan	4
Betach Ltd.	January 2017	Korin Insurance Agencies (1997) Ltd.	Waiver of capital note balance	0.3

*) Total repayment amount - NIS 0.2 million of current repayment, and additionally, NIS 1 million early repayment, possible as part of the loan terms.

8. Income and loss of active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2017

(Regulation 13)

8.1 Clal Holdings and subsidiaries

	Income (loss) for the year		Other comprehensive income (loss) for the year		Total comprehensive income (loss) for the year		Revenue		
	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Attributable to company owners	Attributable to non-controlling interests	Dividend	Interest	Management fees and directors compensation
<u>Subsidiaries of Clal Holdings through direct holding</u>									
Clal Insurance Company Ltd.	189,206	4,590	167,048	726	356,254	5,316	-	-	-
Clal Agency Holdings (1998) Ltd.	12,693	-	(744)	-	11,949	-	10,000	-	-
Clalbit Systems Ltd.	459	-	859	-	1,318	-	-	-	-
Clal Credit and Financing Ltd.	5,250	-	(65)	-	5,185	-	5,000	-	567

8. **Income and loss of active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2017 (Cont.)**

(Regulation 13)

8.1 **Clal Holdings and subsidiaries (Cont.)**

	<u>Income (loss) for the year</u>		<u>Other comprehensive income (loss) for the year</u>		<u>Total comprehensive income (loss) for the year</u>		<u>Revenue</u>		
	<u>Attributable to company owners</u>	<u>Attributable to non-controlling interests</u>	<u>Attributable to company owners</u>	<u>Attributable to non-controlling interests</u>	<u>Attributable to company owners</u>	<u>Attributable to non-controlling interests</u>	<u>Dividend</u>	<u>Interest</u>	<u>Management fees and directors compensation</u>
					NIS in thousands				
<u>Subsidiaries and related companies of Clal Insurance</u>									
Clal Credit Insurance Ltd.	18,355	4,590	2,903	726	21,258	5,316	-	-	-
ADC Holdings Ltd.	363	-	-	-	363	-	-	-	-
Clal Pension and Provident Funds Ltd.	(5,147)	-	2,882	-	(2,265)	-	-	-	-
HaClal HaRishon Ltd.	690	-	(419)	-	271	-	-	-	-
Atudot Pension Fund for Workers & Independent Workers Ltd.	(1,515)	-	331	-	(1,184)	-	-	-	14,075
Canaf - Clal Financial Management Ltd.	791	-	(211)	-	580	-	-	-	-

8. Income and loss of active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2017 (Cont.) (Regulation 13)

8.1 Clal Holdings and subsidiaries (Cont.)

	<u>Income (loss) for the year</u>		<u>Other comprehensive income (loss) for the year</u>		<u>Total comprehensive income (loss) for the year</u>		<u>Dividen</u>	<u>d</u>	<u>Revenue</u>	<u>Interest</u>	<u>Mana</u>	<u>f</u>	<u>and d</u>	<u>compe</u>
	<u>Attributable to company owners</u>	<u>Attributable to non-controlling interests</u>	<u>Attributable to company owners</u>	<u>Attributable to non-controlling interests</u>	<u>Attributable to company owners</u>	<u>Attributable to non-controlling interests</u>								
	NIS in thousands													
<u>Subsidiaries and related companies of Clal Agencies</u>														
Betach - Thorne Insurance Agency Ltd.	4,955	-	(123)	-	4,832	-	4,250	-	-	-	-	-	-	380
Tmura Insurance Agency (1987) Ltd.	7,662	-	(621)	-	7,041	-	7,700	-	65	-	-	-	-	380
<u>Subsidiaries and related companies of Clal Credit and Finance</u>														
Clal Finance Consumer Credit Ltd.	1,777	-	-	-	1,777	-	-	-	-	-	-	-	-	-
Clal Finance Business Credit Ltd.	145	-	-	-	145	-	-	-	-	-	-	-	-	-
Clal Factoring and Finance Ltd.	1,321	-	-	-	1,321	-	-	-	-	-	-	-	-	-

9. List of groups of loan balances which were given as of the date of the statement of financial position
(Regulation 14)

Not relevant.

10. Trading on the stock exchange
(Regulation 20)

8. Securities listed for trading during the reporting year

During the reporting year, 151,253 ordinary company shares were listed for trading, which were issued as a result of the exercise of warrants which were allocated to company officers and employees.

2. Suspension of trading of securities during the reporting year

During the reporting year, the trading of ordinary company shares on the stock exchange was suspended (excluding timed suspensions with respect to the publication of financial statements and/or other material reports).

11. Compensation to interested parties and corporate officers**(Regulation 21)****Presented below are details regarding the compensation which was given in 2017 (NIS in thousands), as recognized in the financial statements for 2017:**

- Each of the five highest recipients of compensation among the corporate officers in the Company or in companies under its control, if the compensation was given in connection with their tenure in the Company or in companies under its control, and regardless of whether the compensation was given by the Company or by companies under its control;
- Each of the three highest recipients of compensation in the Company, to whom the compensation was given in connection with their tenure in the Company itself, and who is not listed in section 1 above;
- Any interested party in the Company who is not listed in sections 1 and 2 above, except for a subsidiary of the Company, if the compensation was given to them by the Company or by a corporation under its control, in connection with the services which they provided as a senior position holder in the corporation or in a corporation under his control, regardless of whether or not a employer - employee relationship exists, including if the interested party is not a corporate officer.

Details of compensation recipient					Compensation for services						Other compensation			T	
Name	Gender	Position	Scope of Position	Holding rate in the corporation's capital	Salary [1]	Bonus [2]	Share-based payment [3]	Management fees	Consulting fees	Commission	Other	Interest	Rent	Other	
Mr. Cohen [4]	Male	Company CEO	100%	-	2,925 ²⁶	-	-	-	-	-	-	-	-	-	2,
Ms. Levin [6]	Female	Finance, Investments and Credit Division Manager and CEO of Canaf	100%	-	271,707	793	286	-	-	-	-	-	-	-	2,
Mr. Kaliman	Male	CEO of Tmura	100%	-	1,605	1,000	-	-	-	-	-	-	-	-	2,

²⁶It is noted that Mr. Cohen's salary, without provisions for compensation, including loss of working capacity and the provision for severance pay, as required by law, amounts to approximately NIS 2.4 million.

²⁷It is noted that Ms. Levin's salary, without provisions for compensation, including loss of working capacity and the provision for severance pay, as required by law, amounts to approximately NIS 1.3 million.

11. Compensation to interested parties and corporate officers (Cont.)**(Regulation 21)****Notes regarding the data in the table:**

1. Salary linked to the consumer price index, according to the definition of CPI linkage in the Company's compensation policy (see section 1 of the compensation policy) ("CPI Linkage"), except with respect to the CEO and the Chairman, whose salaries were restricted during the reporting year, according to the compensation limit set forth in section 2(a) of The Compensation of Corporate Officers in Financial Corporations Law ("Special Approval and Non-Permission of Expense for Tax Purposes Due to Extraordinary Compensation"), 2016 (in this section: the **Executive Compensation Law**" and the **Compensation Limit**"), and it is linked to the CPI, in accordance with the mechanism specified therein. The amount specified in the table includes provisions for compensation including loss of working capacity, and the provision for severance pay as required by law for all components of compensation (which are not included in the calculation of the compensation limit), severance provisions, annual holiday, convalescence pay and other benefits, including grossing-up of vehicle and cellphone expenses. According to the mechanism set forth in the Executive Compensation Law, the cost of salary of an employee in a financial corporation which exceeds the compensation limit will not be permitted for deduction for tax purposes by the Company, in accordance with the mechanism set forth in the Executive Compensation Law. It is noted that, in accordance with the compensation policy, the Company may bear an additional expense with respect to excess employment cost, as required, with respect to components which were paid which exceed that cost.
2. In general, the amount specified in the table above refers to the entire amount of the variable bonus, paid in cash, to which the corporate officer is entitled with respect to the reporting year, without taking into account the distribution arrangements with respect to the deferred bonus. The amounts of variable compensation, if and insofar as any are paid, which are effectively received, are lower such that, with respect to corporate officers and senior positions holders, 50% of the bonus with respect to a given year is paid in cash, and 50% is deferred to be paid CPI-linked, over 3 years, and its payment is made conditional upon the fulfillment of the targets specified in the relevant compensation policy. There is no certainty that the deferred compensation amount will be paid. Shortly after the approval of the financial statements, deferred bonuses will be released which were recorded in the reports during the years 2014 and 2015, and which have not yet been paid.
3. Unless specified otherwise, the share-based payment amount is based on an evaluation of the warrants as of their allocation date, where the fair value of each tranche is distributed over the vesting period. For additional details regarding share-based payment, see Note 41 to the Company's financial statements.
4. For details regarding the employment terms of Mr. Izzy Cohen, see Note 40(b)(5) to the Company's financial statements. For details regarding the warrants which were allocated to the Company's CEO in February 2013, and realized and sold in 2017, see Note 41(a) to the financial statements.
5. The employment terms of the Company's corporate officers (excluding the CEO and the Chairman), including those specified in the table above (hereinafter in this section: the **Corporate Officers**"), were specified in a personal employment agreement which defines the base salary and the social and pension conditions, according to the conventional practice for corporate officers in Clal Group, including provisions for pension insurance with respect to the severance, compensation, holiday and convalescence components. In accordance with the terms of the corporate officers' employment agreements, in case of dismissal or resignation, the party terminating the engagement must provide notice to the other party two or fourth months in advance. In general, in case of termination of employment, as stated above, the corporate officers will be entitled, in addition to the severance pay, to a one-time bonus in the amount of 6 monthly salaries (base salary), without social benefits and without a vehicle, provided that the termination of the working relationship was not due to the resignation of the corporate officer during the period of two years following the employment commencement date (except if the resignation took place within 12 months after the date of transfer of the control of the Company), subject to the fulfillment of the terms of the compensation policy, and with reference to the transitional provisions which were determined in the

compensation circular, as relevant (the “Severance Package”). The corporate officers are entitled to receive severance pay, whether upon resignation or upon dismissal, except in case which by law do not confer eligibility for severance pay. As part of their employment terms, the corporate officers are entitled to vehicles which the Company provides to them, and regarding which the Company bears the applicable grossing-up of tax. The corporate officers are also entitled to an annual bonus in accordance with the conventional criteria in the Group for managers of their rank, and in accordance with the Company’s compensation policy (as published in the Company’s periodic report), where the target bonus of the corporate officers during the reporting year was a maximum rate of 0.266% of comprehensive income, and their eligibility for the bonus is in accordance with the Company’s fulfillment of the minimum conditions for the receipt of an annual bonus, in accordance with the compensation policy and the corporate officers’ fulfillment of the targets (which refer to their personal performance and/or to the performance of the unit for which they are responsible and/or for the Company’s performance, where the goals may be quantitative or qualitative, measurable or discretionary). The targets will be determined for the corporate officers on an annual basis, except with respect to the discretionary component. In any case, the corporate officers will not be entitled to an annual bonus exceeding NIS 1 million. For additional details, see the annex to the periodic report.

It is noted that the compensation policy does not prejudice the rights which have accrued and/or which will be accrued with respect to periods prior to this date, and nor any other engagements and/or rights of the employees in connection with their tenure and employment in the Company, which existed prior to the entry

11. Compensation to interested parties and corporate officers (Cont.)

(Regulation 21)

Notes regarding the data in the table:

5. (Cont.)

into effect and publication of the compensation circular and/or the amendment to the compensation circular, and prior to the publication of the compensation policy, or with respect to periods to which previous agreements applied (the “**Transitional Provision**”). It is further noted that at the end of 2016 and 2017, the transitional provisions of the compensation circular and the amendment thereto, respectively, expired, and accordingly, the employment agreements of the corporate officers were adjusted to the provisions of the compensation policy, the compensation circular and the amendment to the compensation circular. On October 9, 2016, following the entry into effect of the Executive Compensation Law, the Company notified its corporate officers that beginning from the application date of the Executive Compensation Law, on October 12, 2016, the compensation to which they are entitled will be adjusted in accordance with the provisions of the Executive Compensation Law.

In general, until 2015 (inclusive), the Company’s practice was to allocate Company options to its corporate officers. For details, see the information provided regarding each officer.

The Company acquires corporate officers insurance for the corporate officers in the Group, and letters of exemption and letters of indemnity from the Company were given to each of the Company’s corporate officers.

- Anath Levin, Executive VP, has served as the Investments, Finance, and Financial Services Division Manager and as the CEO of Canaf since February 2015 (until May 2016, she served as the Finance, Investments and Credit Manager and CEO of Canaf). Her employment terms are defined in the personal employment agreement which corresponds to the employment agreement specified in subsection 5 above. In August 2015, 140,000 warrants were allocated to Anath Levin out of the 2015 plan, with respect to each of the years 2015-2017. Each of the aforementioned allocations will be exercisable into shares over 3 years, according to a progressive exercise price of NIS 66.12 to NIS 69.70 for tranches with respect to 2015; NIS 67.70 to NIS 70.85 for tranches with respect to 2016; and NIS 69.27 to NIS 72.42 to for tranches with respect to 2017. In accordance with the 2015 options plan, which was a performance-dependent plan, Anath Levin’s eligibility for the warrants which were given to her with

respect to each year, will be made conditional on the fulfillment of the minimum conditions for materialization of eligibility. Additionally, the vesting of the options over the years will be made conditional on the fulfillment of the vesting terms. The aforementioned conditions are contingent upon the achievement of measurable quantitative targets. The materialization of the conditions for eligibility for options which were granted with respect to a certain year will be evaluated proximate to the publication date of the period report for the evaluated year (the “**Materialization of Eligibility Date**”). An allocation for which eligibility has materialized will vest over a period of three years, in three tranches, according to a progressive exercise price (subject to adjustment, inter alia, with respect to dividend distributions). The first warrant vesting date will be April 1 after the passage of one year, two years and three years after the date when eligibility materialized. Each tranche will vest two years following after its vesting date (the “**Expiration Date**”). Anath Levin was not entitled to options which were allocated to her with respect to 2016, since the Company did not fulfill all of the basic conditions for the materialization of eligibility, and therefore, these warrants were returned to the register of warrants.

In order to meet the compensation limit, Anath Levin waived a part of the bonus. Additionally, with respect to options which were given with respect to 2017 - due to the compensation policy and the Executive Compensation Law, during the reporting year, Anath Levin waived 28,655 warrants, out of the 46,666 warrants which were given with respect to that year, and she will not be entitled to those warrants, such that the total compensation received by her will not exceed NIS 2.5 million. It is noted that, despite the waiver, the accounting expense with respect to those warrants was recorded, in its entirety, in the Company’s financial statements for the reporting year. Accordingly, as of the present date, she has 46,667 exercisable warrants with respect to 2015, and 18,011 warrants with respect to 2017, the vesting of which is subject to the vesting conditions according to the 2015 plan.

7. Daniel Cohen, Executive VP, has served as Health Division Manager since January 2013, and also serves as customers unit manager, since January 2018. His employment terms were defined in the personal employment agreement which corresponds to the employment agreement specified in subsection 5 above. The aforementioned bonus includes a special bonus in accordance with the Company’s compensation policy. In accordance with the 2013 warrants plan, in February 2013, 70,000 share warrants were allocated to Daniel Cohen, divided into three tranches, according to a progressive exercise price of NIS 55 per share (for the first tranche), NIS 57.5 per share (for the second tranche), and NIS 60 per share (for the third tranche) (subject to adjustment, inter alia, with respect to a dividend distribution). During and after the reporting year, Mr. Cohen exercised those warrants. In accordance with the 2013 warrants plan, in October 2014, 35,000 share warrants were allocated to Daniel Cohen from the 2013 plan, divided into three tranches, according to a progressive exercise price of NIS 68.5 per share (for the first tranche), NIS 70.1 per share (for the second tranche), and NIS 71.72 per share (for the third tranche) (subject to adjustment, inter alia, with respect to a dividend distribution).

11. Compensation to interested parties and corporate officers (Cont.)

(Regulation 21)

Notes regarding the data in the table:

(Cont.)

The tranches are exercisable for two years following a progressive vesting period of two years (first tranche), three years (second tranche) and four years (third tranche). As of the date of this report, the first tranche and second tranche have vested.

Additionally, in August 2015, 35,000 warrants were allocated to Daniel Cohen from the 2015 plan, with respect to the years 2015-2017, which are exercisable into shares according to a progressive exercise price of NIS 66.12 to NIS 69.70 for tranches with respect to 2015; NIS 67.70 to NIS 70.85 for tranches with respect to 2016; and NIS 69.27 to NIS 72.42 for tranches with respect to 2017. In accordance with the 2015 warrants plan, which was a performance-dependent plan, Daniel Cohen’s eligibility for the warrants which were given to him with respect to each year will be made conditional on the fulfillment of the minimum conditions for the materialization of

eligibility. Additionally, the vesting of the options over the years will be made conditional on the fulfillment of the vesting terms. The aforementioned conditions are contingent upon the achievement of measurable quantitative targets. The materialization of the conditions for eligibility for options which were granted with respect to a certain year will be evaluated proximate to the publication date of the period report for the evaluated year (the “**Materialization of Eligibility Date**”). An allocation for which eligibility has materialized will vest over a period of three years, in three tranches, according to a progressive exercise price (subject to adjustment, inter alia, with respect to dividend distributions). The first warrant vesting date will be April 1 after the passage of one year, two years and three years after the date when eligibility materialized. Each tranche will vest two years following after its vesting date (the “**Expiration Date**”). Daniel Cohen was not entitled to warrants which were allocated to him with respect to 2016, since the Company did not meet the basic conditions for the materialization of eligibility, and therefore, these warrants were returned to the register of warrants.

Accordingly, as of the present date, he has 11,667 exercisable warrants with respect to 2015, and 11,666 exercisable warrants with respect to 2017, which are conditional upon the fulfillment of the vesting conditions under the 2015 plan.

8. Yoram Naveh, Executive VP, serves as Head of the Resources Division in Clal Insurance since January 2014. Previously served as CEO of Clal Finance and Clal Finance Batucha, beginning in December 2011. His employment terms were defined in the personal employment agreement which corresponds to the employment agreement specified in subsection 5 above. According to the 2007 warrants plan, the Company allocated to Mr. Naveh 75,000 warrants in 2012, according to an exercise price of NIS 75 per warrant (linked to the consumer price index with respect to November 2011), and as of the present date, all of the aforementioned warrants expired, and were not exercised. In accordance with the 2013 warrants plan, in February 2014, 90,000 share warrants were allocated to Mr. Naveh, divided into three tranches, according to a progressive exercise price of NIS 71 per share (for the first tranche), NIS 72.75 per share (for the second tranche), and NIS 74.5 per share (for the third tranche) (subject to adjustment, inter alia, with respect to a dividend distribution). The tranches are exercisable for two years following a progressive vesting period of two years (first tranche), three years (second tranche) and four years (third tranche). As of the present date, the warrants of the first tranche expired without being exercised, and the warrants of the second tranche have vested, and have not yet been exercised.
9. Mr. Akiva Kaliman has served as the CEO of Tmura, a second-tier subsidiary of the Company, since November 2013. His employment terms were specified in a personal employment agreement with Tmura, which defines the base salary and the social and pension conditions, according to the conventional practice for corporate officers in Clal Group, including provisions for pension insurance with respect to the severance, compensation, holiday and convalescence components. In accordance with the terms of the employment agreement of Mr. Kaliman, in case of dismissal or resignation, the party terminating the engagement must provide notice to the other party three months in advance. In general, upon conclusion of employment, Mr. Kaliman will be entitled to severance pay, and additionally, in case the employment is concluded, as stated above, by Tmura, Mr. Kaliman will also be entitled to receive a one-time bonus in the amount of 3 monthly salaries (base salary), excluding social benefits and excluding a vehicle. Mr. Kaliman is entitled to receive severance pay, whether upon resignation or upon dismissal, except in case which by law do not confer eligibility for severance pay. As part of his employment terms, Mr. Kaliman is entitled to a vehicle which Tmura provides to him, and Tmura bears the grossing-up of tax which applies to him with respect to the foregoing. Mr. Kaliman is also entitled to an annual bonus in accordance with his fulfillment of a personal targets plan which was determined for him (which refers to his personal performance and/or to the performance of Tmura, whereby the targets may be quantitative or qualitative, measurable or discretionary). The targets are determined on an annual basis, except with respect to the discretionary component. The maximum bonus of Mr. Kaliman for 2017 was set as a total of NIS 1 million. The bonus with respect to 2017, which is in the amount of the maximum bonus, will be paid to Mr. Kaliman shortly after the approval of the reports, subject to the approval of the Board of Directors of Tmura, and half of the bonus will be spread over three years. Mr. Kaliman

received no warrants of the Company. It is hereby clarified that Mr. Kaliman is not subject to the provisions of the compensation policy and the Executive Compensation Law.²⁹

10. For details regarding the employment terms of Mr. Danny Naveh, see Note 40(b)(4) to the Company's financial statements. For details regarding the warrants which were allocated to the Chairman of the Board, see Note 41(a) to the financial statements.

²⁹It is noted that the foregoing does not include payments with respect to business engagements between Tmura and Clal Insurance, and a company in which Mr. Kaliman is a shareholder.

11. Compensation to interested parties and corporate officers (Cont.)**(Regulation 21)****8. Compensation plans**

For details regarding the Company's capital compensation plans, see Note 41(a) to the Company's financial statements. For the Company's compensation policy, see the annex "**Compensation Policy**" in Part A of the Periodic Report.

2. Directors' compensation

The Company's payments in each of the years 2017 and 2016 to the Company's directors, with respect to their tenure on the Company's board of directors and in the various committees (excluding payments to the Chairman of the Company's Board of Directors), amounted to a total of approximately NIS 1,625 thousand and approximately NIS 1,668 thousand, respectively. The compensation paid to directors in the Company and in Clal Insurance is the maximum compensation allowed in accordance with the Company's classification for directors without expertise (the compensation does not include taking into consideration any expertise), in accordance with the Companies Regulations (Rules Regarding Compensation and Expenses of External Director), 2000, as approved on June 18, 2008. The Company participates in 20% of the cost of salary of the joint directors, who are serving both in the Company and in Clal Insurance (not including the salary of the Chairman of the Board, which is paid separately by Clal Insurance) and Clal Insurance bears 80% of the cost. The aforementioned amounts are after the participation of Clal Insurance in the aforementioned insurance.

For details regarding the salary of the Chairman of the Company's Board of Directors, which is not included in the aforementioned amount, see section A above, and Note 40(b)(4) to the Company's financial statements.

12. Controlling shareholder of the corporation (Regulation 21A)

Approximately 34.8% of the Company's issued share capital and voting rights are held on behalf of IDB Development Corporation Ltd. ("**IDB Development**"), through the trustee, Mr. Moshe Terry (hereinafter: the "**Trustee for the Control Shares**"), who was appointed as the trustee for the aforementioned shares and voting rights (see Note 1(b)(2) to the Company's financial statements). In addition to the holding through the trustee for the control shares, IDB Development directly holds approximately 5% of the Company's issued capital, and a total of approximately 39.8% of the Company's issued capital³⁰ (approximately 39.4% at full dilution).

For the sake of caution, the Company considers IDB Development as the Company's controlling shareholder for the purpose of Regulation 21A³¹.

To the best of the Company's knowledge, IDB Development is a private company whose bonds are listed for trading on the Tel Aviv Stock Exchange Ltd., and as such, constitutes a reporting corporation in accordance with the Securities Law.

For details regarding the appointment of a trustee for the Company's control shares, and the letters of the Commissioner regarding the activation of the rights associated with the aforementioned means of control, see Note 1 to the financial statements.

For additional details regarding expected changes in the control of the Company, including regarding the sale of holdings and the demand to sell additional holdings of IDB Development in the Company, and legal proceedings which are being conducted on the matter, see the Commissioner's letters, as specified in Note 1 to the financial statements.

³⁰ On March 22, 2017, IDB Development reported that it had pledged approximately 4.99% (4.87% at full dilution, which constitute as of the present date approximately 4.98% and approximately 4.92% at full dilution) of the Company's shares which are held by IDB Development in favor of the trustee for the bondholders (Series K) of IDB Development. For details regarding the issuance of bonds (Series K) of IDB Development, see section 4(B) below.

³¹ See the legal opinion which was received by the Company, with respect to control for the purpose of the chapter regarding "Interested party transactions" in the Companies Law, as specified in section 13(b) below.

For details regarding an agreement between IDB Development and Bank Hapoalim Ltd. (hereinafter: “**Bank Hapoalim**”) from March 1999, with respect to the Company (the “**Shareholders Agreement**”), see the notes to holder no. 1 in the report regarding interested parties and corporate officers with respect to the corporation’s securities, which was published by the Company on January 5, 2017 (reference number 2017-01-002370). It is noted that, to the best of the Company’s knowledge, in May 2009, Bank Hapoalim announced to IDB Development (through its representatives) that it does not request to appoint any directors on its behalf to the Company’s board of directors, so long as it has not notified IDB Development otherwise. To the best of the Company’s knowledge, following IDB Development’s engagement in an agreement for the sale the Company’s shares in August 2013 (an engagement which expired without being completed in May 2014), and following negotiations regarding the engagement in an agreement for the sale the Company’s shares in December 2015, Bank Hapoalim contacted IDB Development on the matter, and presented a preliminary position according to which, in accordance with the provisions of the shareholders agreement in connection with the addition of a strategic investor to the Company, approval from Bank Hapoalim is required regarding the identity of the investor, and therefore, Bank Hapoalim has pro-rata joining rights to the aforementioned sale, in accordance with its holding rate in the Company. According to the position of IDB Development, which was submitted to Bank Hapoalim, in connection with those transactions, the provisions of the shareholders agreement which pertain to the addition of a strategic investor do not apply, in light of the circumstances of the matter and of the transaction.

13. Transactions with the controlling shareholder (Regulation 22)³²

As stated above, the Company views IDB Development and its controlling shareholders as the Company’s controlling shareholders, and for the sake of caution only, and accordingly, considers also transactions with companies in which the aforementioned entities are interested parties (the “**Entities from the IDB Group**”) as transactions in which the Company’s controlling shareholder has a personal interest.

It is noted that, in accordance with a legal opinion which the Company received and which was approved in the Company’s audit committee and board of directors on January 27, 2016, IDB Development is not considered a controlling shareholder in the Company with respect to the chapter regarding interested party transactions in the Companies Law. However, for the sake of caution only, the Company decided to continue regarding transactions with IDB Development as transactions with a controlling shareholder, and will also regard transactions with third parties in which IDB Development has a personal interest as transactions in which the controlling shareholder has a personal interest, except with respect to engagement in transactions with entities which may be considered material creditors of IDB Development or its controlling shareholders, including banking corporations³³, in which case it will not regard them as transactions in which the Company’s controlling shareholders have a personal interest, which require approvals in accordance with sections 270(4) and 275 of the Companies Law.

8. Insignificant transactions

On March 18 and 22, 2018, the Company’s audit committee and board of directors, respectively, decided to update guidelines and rules for the classification of a transaction of the Company or its consolidated company with an interested party therein as an insignificant transaction, as determined in Regulation 41(a3)(a)(1) of the Securities Regulations (Annual Financial Statements), 2010 (the “**Financial Statements Regulations**”). These rules and guidelines will also serve to evaluate the scope of disclosure in the periodic report and in the prospectus (including in shelf offering reports) regarding a transaction of the Company, a corporation under its control, or its related company, with the controlling shareholder, or regarding which the controlling shareholder has a personal interest in

³² It is noted that, in light of the provisions of section 12 above, the transactions described in this section include, inter alia, transactions which were implemented during the reporting year and/or which were in effect during the reporting year, with entities which, as of the agreement date, were considered, for the sake of caution, controlling shareholders or transactions in which the controlling shareholders were considered, at the time of the engagement, as having a personal interest. Additionally, in light of that stated in section 12 above, regarding the creditors’ settlement in IDB Holding, and regarding the appointment of the trustee, the Company stopped considering engagements with Messrs. Nochi Dankner, Shelly Bergman, Avraham Livnat and Yitzchak and Ruth Manor, or engagements in which any of them have a personal interest, as transactions with controlling shareholders, and will continue, for now, to consider the trustee for the control shares, and for the sake of caution, IDB Development as well, as the controlling shareholders for the purpose of the approval and classification of transactions with controlling shareholders. For details regarding developments in connection with the expected changes in control in the Company and/or in the Company’s controlling shareholder, see Note 1 to the financial statements.

³³ In March 2013, within the framework of the Company’s reports, a position of the Israel Securities Authority was published which determined, inter alia, that a transaction made by a public company with a material creditor of the controlling shareholder, during a period when the controlling shareholder is undergoing a cash flow crisis, and when the decisions of that material creditor may affect its future, the situation in question gives rise to a personal interest for the controlling shareholder (hereinafter: the “**Authority’s Position**”).

its approval, as determined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 (the “**Periodic Reports Regulations**”), and in Regulation 54 of the Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus), 1969 the (“**Details of Prospectus Regulations**”), which was in effect until January 15, 2016 (the types of transactions specified in the financial statements regulations, in the periodic reports regulations and in the details of prospectus regulations shall hereinafter be referred to as: “**Interested Party Transactions**”). It is noted that the aforementioned guidelines and rules are also used for transaction classification purposes, in accordance with the provisions of section 117(2a) of the Companies Law. For additional details regarding the policy with respect to transactions with interested parties, including guidelines for the classification of a transaction as an insignificant transaction, and for additional details regarding the policy with respect to the evaluation of significance, regarding the obligation to submit an immediate report regarding the foregoing, by virtue of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970, and regarding the requirement to classify the transactions specified in section 270(1), (4) and (4a) of the Companies Law, see sections D, E and F below.

In their ordinary course of business, the Company, its consolidated companies and its related companies perform, or **may** perform, non-extraordinary insignificant transactions, with the aforementioned entities from the IDB Group, with the trustee or with companies in which the trustee has a personal interest, and also with entities which have, or may have, undertakings to perform transactions, including transactions of the types and characteristics specified below:

1. Transactions involving the acquisition of services and/or products and/or investments:

(A) Transactions with banking corporations and financial institutions, including deposits and associated banking services, credit agreements and credit facilities; (B) Transactions involving the acquisition of products and services (such as communication and telephony products, food products, electricity products, office supplies and furniture, paper products, clothing, hygiene products and supplementary kitchen cleaning products); (C) Acquisition and/or provision of subsidization for the acquisition of discounted shopping cards; (D) Transactions for the acquisition of travel and tourism services; (E) Event production services; (F) Policy and services for income-generating properties; (G) Financial investments within the framework of a consortium and/or the acquisition of securities within the framework of public offerings and/or private issuances to institutional entities and/or private transactions; (H) Investments in funds and/or acquisition of rights in funds; (I) IT and organizational consulting; (J) Company rating services or issuances and underwriting for securities distribution, securities agency and brokerage; (K) Agency services with respect to insurance, pension and provident funds by insurance agencies;

13. **Transactions with the controlling shareholder (Regulation 22) (Cont.)**

(L) Leasing, management and rental of properties; (M) Acquisition and sale of properties together with interested parties; (N) Investment/credit management services, including credit rating; (O) Acquisition of financial and/or economic services, including economic and business consulting, underwriting services, underwriting and investment banking services; (P) IT and software services.

2. Transactions involving the sale of services and/or products

(A) Sale of insurance policies which were issued by the insurers in Clal Group, in all insurance branches, to the interested parties in the Company and/or to other parties, in cases where the interested parties have a personal interest in the engagement and/or in the employees of the aforementioned entities, including policies which are shared by the Company and/or IDB and additional member companies in the Company’s group and/or in IDB Group (including employee trust insurance, real estate, property and liabilities insurance, managers’ insurance, professional liability insurance, etc.); (B) Provision of insurance activity agency services by insurance agencies; (C) Provision of provident fund and/or pension fund management services to corporations and/or their employees; (D) Provision of banking, financial and/or economic services, including factoring, financing and mortgages; (E) Property rentals.

It is noted that the approval process for related party claims, with respect to the receipt of insurance benefits, although it constitutes the implementation of the policy terms, was approved, for the sake of caution, by the audit committee, within the framework of a separate policy, in which policies were pre-approved with respect to the approval processes of such claims.

The evaluation of the insignificance of a transaction will be performed according to the relevant criteria from among those specified in section E below. The evaluation of the significance of a transaction will be performed according to the criteria set forth in the Company's significance policy, as specified in section F below.

In case of a transaction with the controlling shareholder, or in which the Group's controlling shareholder has a personal interest, the question of insignificance will be evaluated with respect to the operations and results of Clal Holdings.

In case of a transaction with a corporate officer in which the controlling shareholder does not have a personal interest, the question of insignificance will be evaluated with respect to the operations and results of the Company which is engaging in the transaction.

Each case will be evaluated on its own merits, and a quantitative and qualitative evaluation will be conducted regarding the relevant event, based on the entire set of information, data, facts and estimates pertaining to the case, in light of the entire set of circumstances which are relevant to the Company.

2. Transactions which are not specified in section 270(4) of the Companies Law, and which are not insignificant

During the reporting year, the Company and the Group's member companies did not engage in transactions with entities from the IDB Group and/or with other parties in which IDB and/or the trustee have a personal interest, and which were not listed in section 270(4) of the Companies Law, and are not insignificant, and no such transactions were in effect as of the reporting date.

C. Transactions specified in section 270 (4) of the Companies Law

Presented below are details, to the best of the Company's knowledge, regarding extraordinary transactions of the Company with the Company's controlling shareholders, or extraordinary transactions of the Group with third parties in which the Company's controlling shareholders have a personal interest, where the engagement in the aforementioned transactions was performed during the year preceding the date of this report, or which are in effect as of the date of this report:

1. **Approval of donations to IDB Community Fund (RA)** - On August 21, 2006, prior to the change of control of IDB Development, as specified in Note 1 to the financial statements, the general meeting approved, after approval was received from the audit committee and board of directors for this purpose, a fixed annual framework for donations to IDB Community Fund (RA) (hereinafter: the "**Fund**"), out of its total annual donations budget. The fund is a Registered Association which collects donations for large, ongoing projects in the fields of welfare, education, culture, lifesaving efforts and assistance to the community. In the aforementioned general meeting, it was determined that the Company's donation to the fund in each calendar year will amount to a total of up to 75% of the Company's overall donations budget for that year, and no more than 0.75% of the Company's annual net profit, according to its consolidated audited financial statements for the preceding year. In light of Amendment 16 to the Companies Law, on March 18, 2012, the Company's audit committee decided to set the engagement period in the aforementioned transaction until May 15, 2018, i.e., approximately six additional years from the date of the aforementioned decision of the audit committee. During the reporting year, no donations funds were transferred to the fund. For additional details, see Note 42(e)(1) the Company's financial statements.

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

1. (Cont.)

Personal interest of the controlling shareholder in the transaction - To the best of the Company's knowledge, the entities which may be considered, for the sake of caution, as interested parties in the transaction, are IDB Development, and the controlling shareholder of IDB Development, as specified in section 12 above, due to the status of IDB Development as the manager of the fund.

2. **Directors and officers liability insurance** - On July 28, 2013, the general meeting of the Company's shareholders approved the engagement in a framework transaction jointly with additional member companies of the IDB Group, or separately, for liability insurance with respect to the directors and officers in the Company and in some of its investee companies, including officers who are, or whose relatives are, the Company's controlling shareholders, for a period of 3 years beginning on August 1, 2013. The insurance period of the insurance transactions which were performed as part of the framework transaction has concluded; however, the insurance which was purchased in the past continues to cover claims which were filed before the end of the

insurance period. For additional details, see section 23(d) below and Note 42(b)(6)(a) to the Company's financial statements.

Personal interest of the controlling shareholder in the transaction - To the best of the Company's knowledge, the entities which may be considered, for the sake of caution, as interested parties in the transaction, are IDB Development and the controlling shareholder of IDB Development, as specified in section 12 above, due to the fact that IDB Development or companies under its control may be considered as beneficiaries in accordance with the insurance policies, and due to the tenure of the controlling shareholder and/or the tenure of his relatives (as the term "Relative" is defined in the Companies Law) as directors in the other companies which are participating in the insurance policies, which will be and/or may be beneficiaries under the insurance policies. It is noted that, as of the reporting date, the insurance period concluded of the directors and officers liability insurance policies which were obtained in collaboration with IDB Development and/or companies under its control.

It is noted that in recent years, various claims were filed against member companies of the IDB Group and against corporate officers in member companies of the IDB Group, which purchased insurance from Clal Insurance, as specified above, and in similar previous transactions, as well as alerts with respect to additional claims against them, amounting to a total of billions of NIS.

The aforementioned claims and alerts refer to different underwriting years, each of which included coverage in separate policies, as stated above. Some of the claim and demand amounts are beyond the liability limits in the policies.

After the reporting year, two claims concluded with a settlement, in which the cumulative alleged amount was approximately NIS 1 billion, in a total amount of approximately NIS 275 million, of which a total of approximately NIS 231 million was paid by reinsurers, and the remainder was paid by the policyholders.

As of the publication date of the report, two claims are being conducted in the Courts with respect to various underwriting years, which exceed the liability limit amount in the policy, in a claimed total of approximately NIS 1.94 billion.

Clal Insurance is covered, through these policies, in 100% reinsurance, whereby the reinsurers in the policies are international reinsurers with an international rating of at least A-. For details regarding the exposure to reinsurers, see Note 41(f).

It is hereby clarified that non-fulfillment of the reinsurers' undertakings towards Clal Insurance will not release Clal Insurance from its liabilities towards the policyholder according to the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the Company to incur losses.

3. **Indemnification of directors and corporate officers** - On May 3, 2012, the general meeting of the Company's shareholders approved the provision of new letters of indemnity to corporate officers and directors. On July 28, 2013, an amendment to the letters of indemnity was approved. For details on this matter, see section 23(d)(2) below.

Personal interest of the controlling shareholder in the transaction - To the best of the Company's knowledge, the entities which may be considered as interested parties in the transaction are Nochi Dankner, Shelly Bergman, Avraham Livnat, Yitzchak Manor and Ruth Manor, who were the Company's controlling shareholders, due to their tenure and/or the tenure of their relatives as directors and/or as controlling shareholders in the Company and/or in companies under the Company's control, who were entitled to indemnification in accordance with the aforementioned decision.

4. **Investment in Emerging Markets Credit Opportunity Fund (EMCO)** - On August 11, 2010, the Company's audit committee and board of directors approved its engagement in a transaction in which entities from Clal Insurance Enterprises Holdings Group (hereinafter: the "**Clal Insurance Group**") and Koor Industries Ltd., a member company of the IDB Group (hereinafter: "**Koor**")³⁴, undertook to invest a sum total of USD 250 million and USD 125 million by Clal Insurance Group and USD 125 million by Koor, in Credit Suisse Emerging Markets Opportunity Fund L.P. (hereinafter: the "**Fund**"), which is a private investment fund which will be managed by corporations from the Swiss banking group Credit Suisse (hereinafter: "**Credit Suisse**"), and whose purpose is to invest in emerging markets, primarily through debt products.

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

³⁴On March 2, 2014, Koor was merged with Discount Investment Corporation Ltd.

4. Investment in Emerging Markets Credit Opportunity Fund (EMCO) (Cont.)

An agreement was signed between member companies of the Clal Insurance Group and Koor in order to formalize their mutual rights and obligations in the fund. It was further approved, in accordance with Regulation 1(4) of the Companies Regulations (Easements Regarding Transactions with Interested Parties), 2000, that the terms of the joint investment in the fund, with respect to the Clal Insurance Group, are not materially differently from its terms with respect to Koor, in consideration of their relative share in the joint investment. On November 22, 2010, the investment agreements in the fund were signed, according to which the Clal Insurance Group and Koor undertook to invest in the fund a total of USD 250 million (USD 125 million by the Clal Insurance Group, of which, a total of USD 33 million out of funds held against non-investment-linked liabilities, and the remainder out of members' funds (funds held against investment-linked liabilities, provident funds and pension funds), and USD 125 million by Koor), out a total scope of investment in the fund, in the amount of approximately USD 1 billion. On May 8, 2013, the fund manager announced that it had reduced the balance of the investors' liability in the fund to 2.5% of the original liability amount to the fund, which will be continued only with respect to the management fees, investments and continuation of the undertaking to indemnify. In accordance with the agreement with the fund manager from February 2016, as of the reporting date, there is no balance of liabilities of the investors in the fund, except for the possibility to offset management fees, in negligible amounts, from future distributions. The cumulative scope of Clal Insurance Group's investments in EMCO amounts to a total of approximately USD 45 million.

The balance of the Clal Insurance Group's investment as of the reporting date, after deducting repayments in the amount of approximately USD 35.5 million which were received, amounts to approximately USD 8.9 million.

Personal interest of the controlling shareholder in the transaction - To the best of the Company's knowledge, the entities which may be considered, for the sake of caution, as interested parties in the engagement (excluding a personal interest which is due to an interest of the Company and/or of companies under its control), during the reporting year, are IDB Development and its controlling shareholder, as specified in section 12 above. The personal interest is due to the fact that Koor is a company under the control of IDB Development, and due to the fact that the investors in the fund (including Koor) are or were related parties of Credit Suisse, or were its primary shareholders or entities related thereto. In this context, it is noted that in accordance with Koor's reports in the second half of 2013, up to and including January 2014, Koor disposed of its entire holding in Credit Suisse shares, and as of the publication date of the report, no longer holds Credit Suisse shares.

D. Policy regarding the identification and approval of transactions with interested parties

The Companies Law, 1999 (the "**Companies Law**") determines that certain transactions in which the Company's corporate officers have a personal interest, and transactions of public companies with the controlling shareholder (including those in which the controlling shareholder has a personal interest) (hereinafter, jointly: "**Transactions With Interested Parties**"), require the receipt of special approvals, in accordance with the party to the transaction, the type of the transaction, and the transaction terms. It is emphasized that according to the conventional interpretation of the Companies Law, a transaction of a private company which is under the Company's control, with a controlling shareholder or in which the controlling shareholder has a personal interest, may be considered as a transaction of the Company, as a public company (even if the public company is not party to the transaction), and require the receipt of approvals in the Company.

On January 10, 2014, an amendment to the Companies Law entered into effect, according to which the audit committee is required, inter alia: (1) to determine, with respect to transactions with the controlling shareholder, as specified in section 270(4) or 270(4a) of the Companies Law, even if they are not extraordinary transactions, that a competitive process will be conducted under the supervision of the audit committee, or any entity which will be determined by it for this purpose, and in accordance with criteria which it will determine, or to determine that other processes will be conducted, as determined by the audit committee, before engaging in such transactions, in accordance with the type of transaction; (2) to determine the approval method for non-insignificant transactions, including determining the types of such transactions which will require the approval of the audit committee.

In accordance with the decision of the audit committee in its meetings on **November 23, 2014**, March 11, 2015, March 10, 2016, March 16, 2017 and March 18, 2018, the audit committee adopted a permanent policy³⁵ which defines, inter alia, the method used to perform a competitive process, and alternative processes and procedures regarding the classification and approval of such transactions³⁶. Presented below are details regarding the main principles of the policy.

The processes for the approval of extraordinary transactions will be in accordance with the provisions of the Companies Law.

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

- **Transactions with corporate officers or in which corporate officers have a personal interest**³⁷
 - o **Extraordinary transactions** - will be presented to the audit committee and board of directors for approval.
 - o **Non-extraordinary and non-insignificant transactions**³⁸ - Will be presented to the audit committee or board of directors for approval.
 - o **Non-extraordinary and insignificant transactions** - On February 17, 2009, an amendment was implemented to the Company's bylaws, in which it was determined that a transaction with a corporate officer, or a transaction in which a corporate officer has a personal interest, will be approved by another corporate officer, provided that it is not an extraordinary transaction (excluding a transaction which pertains to terms of tenure and employment). The Company's board of directors determined, on the same date, that the evaluation regarding whether the transaction is insignificant will be performed by a relevant corporate officer, in accordance with an internal company policy regarding the on the same date and approval of transactions with interested parties, as approved by the audit committee and board of directors on an annual basis.
- **Transaction with the controlling shareholder or in which the controlling shareholder has a personal interest**³⁹
 - o **Extraordinary transactions** - will be approved in accordance with the provisions of the Companies Law.
 - o **Non-extraordinary and non-insignificant transactions** - will be presented for approval to the audit committee, for classification of the transaction and approval of the transaction itself.
 - o **Non-extraordinary and insignificant transactions** - will be pre-approved, provided that they are implemented in accordance with the provisions of the policy. The evaluation of the aforementioned transactions will be performed by the corporate officer who is responsible for the relevant segment in the Group (and insofar as he has a personal interest in the performance of the transaction - by his supervisor).
- **Non-extraordinary and highly insignificant retail transactions** - pre-approval was given for the performance of "retail" transactions in which the member companies in the Group sell deviation to private entities and small businesses, including non-life, health and life insurance policies, pension funds and provident funds and associated services, which are provided to members and to small employers. These transactions are approved insofar as the premium amount or management fees with respect to the transaction, as applicable, according to the Company's price list, do not exceed NIS 50,000 per year, except with respect to deposits to

³⁵In accordance with the decision of the audit committee on January 14 and February 16, 2014, which were reached following the amendment to section 117(2a) of the Companies Law, a temporary policy was approved regarding the implementation of the aforementioned amendment to the Companies Law, until the permanent policy has been established.

³⁶For the avoidance of doubt, the provisions of the policy will apply both upon the approval of the transaction, and upon its renewal.

³⁷Investment transactions with a related party in the investment segment will also be subject to the current provisions, in accordance with the law, including institutional entities circular 2013-9-13, "Investment rules for institutional entities", and including the Control of Financial Services Regulations (Insurance) (Board of Directors and its Committees), 2007, and therefore, transactions involving members' funds or the funds of profit sharing policies will be presented for approval to the relevant investment committee, in addition to, or instead of, the approval of the aforementioned organs, and investment transactions involving nostro funds will be presented to the audit committee for approval, in addition to, or instead of, the aforementioned organs.

³⁸For the purpose of this policy, an "**Insignificant Transaction**" will be as defined in the Company's insignificance policy (see section E below).

³⁹See footnote 2.

pension products, and provided that they are performed in accordance with price lists which include predetermined prices and discount levels (hereinafter: “**Highly Insignificant Current Transaction**”).

Criteria for the classification of transactions

The Companies Law determines that an “extraordinary transaction” is a transaction which fulfills one of the following three criteria:

(A) A transaction which is not in the Company’s ordinary course of business; (B) a transaction which is not executed in market conditions; (C) a transaction which may significantly affect the Company’s profitability, property or liabilities.

The relevant corporate officer, or the relevant organ, as stated above, will evaluate the transaction in question, and will determine whether the transaction fulfills the three criteria for qualification as an **extraordinary transaction**.

- For the purpose of the evaluation of exceptionality, a transaction will be considered a transaction **in the Company’s ordinary course of business** following a factual evaluation, in light of the ordinary economic activity of the Company which is engaging in the transaction, in a manner whereby the type of product or service which are purchased, the liabilities or which are accepted in the Company’s ordinary course of business, are within its operating segments, are required for its operations.
- For the purpose of the aforementioned exceptionality, a transaction will be classified as a **material transaction** in accordance with the significance policy which has been adopted by the Company, as specified in section F below. A transaction will be classified as an **insignificant transaction** in accordance with the insignificant policy which has been adopted by the Company, as specified below.
- For the purpose of the aforementioned evaluation of exceptionality, the evaluation of **market conditions** will be performed based on an external, objective indication of the market conditions of the transaction, and therefore, market condition identify similar transactions to those conducted with the controlling shareholder or with the corporate officer, which were performed with non-related parties, and to compare those transactions. The comparison will be performed, where possible, against similar transactions in terms of operating segment, type of product or service, and in terms of the financial scope of the engagement, with non-related parties, except in special cases, and for reasons which will be specified. As part of the above, efforts will be made to evaluate also similar transactions which were performed on the market by other companies.

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

Additionally, in a transaction with a controlling shareholder or in which the controlling shareholder has a personal interest, the existence of a competitive process, or another process which was determined by the committee, will be necessary. In certain cases, or in cases where it is not possible to perform a competitive process, the committee has determined other criteria for implementation as an alternative to the competitive process, such as corresponding transactions which were performed by the Company with non-related parties during the last 3 years, participation of another non-related party in the transaction, receipt of approval from a third party which has expertise in the segment regarding the existence of market conditions, receipt of approval from the counterparty in the transaction regarding the terms of corresponding transactions which were performed by non-related parties.

In accordance with the provisions of the policy, insofar as the existence of a **competitive process** is required, the following provisions will apply: (A) the competitive process will be performed under the supervision of a supervisory entity, which will supervise the process of evaluating and approving the transaction; (B) Consultations will be performed with relevant entities before the approval of the engagement; (C) The competitive process will include contact to three bidders with an alternative or identical product or service (and when such contact is irrelevant, the matter will be reported to the Company's audit committee); (D) The criteria for the competitive process will be, in general, the total cost for the Company. In accordance with the characteristics and circumstances, the company will be entitled to determine, in advance, additional corresponding criteria, including: fulfillment of technical requirements, fulfillment of regulatory requirements, quality, experience in the field, service, previous experience vis-à-vis the company, availability and timetable. (E) In cases where a competitive process is required, although the transaction is performed under identical conditions as a transaction for which a competitive process was performed, and where one year has not yet passed since the date of engagement in the original transaction, and according to the evaluation of the supervising entity, no significant changes have occurred in market conditions - the Company will be able to engage under the same conditions, or under beneficial conditions, without conducting another competitive process. (F) A competitive or other process will not be required insofar as the transaction only credits the Company, or if it is an engagement which does not exceed a cumulative total of NIS 50,000 in a single calendar year.

Preparation of a list of potential related parties

In order to identify potential conflicts of interests, and to create in the Company a list of entities which may be considered related parties to interested parties, a questionnaire will be sent to the directors, corporate officers and controlling shareholders of the following, which will include a request for details in connection with the interests and holdings, as interested parties, of those corporations and persons in various corporations, including service as directors and as corporate officers. According to the responses which will be received, a list of entities which may be considered entities with potential for interested party transactions will be compiled (the "**List of Interested Parties**").

The list of interested parties will be updated upon the personal turnover of the interested parties and/or corporate officers in the Company, and in case of a change in the interested parties and holdings as interested parties of those corporations and people in various corporations (insofar as they will be reported to the Company).

The Company will followup, for the purpose of evaluating the adequacy of actual classification of the transactions by management, in accordance with the criteria which were determined;

- The relevant control units will periodically follow up on transactions with related parties.
- The internal auditor will conduct an internal audit regarding the compliance with the provisions of the policy each calendar year.
- The audit committee will hold a discussion regarding the criteria established in this policy each calendar year, in which it will receive reports regarding the audit report, and any significant control findings, as stated above.

7. Policy regarding the evaluation of insignificance

Without derogating from the generality of the foregoing, the quantitative and qualitative evaluations will be conducted in the following manner:

1. Quantitative evaluation

A. Insurance transaction

In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, a transaction of this kind which is implemented in market conditions, in the ordinary course of business, and which does not have a significant influence on the Company, will be considered an insignificant transaction if its scope is lower than NIS 15 million. For the avoidance of doubt, it is hereby clarified that the scope of the transaction will be evaluated according to the total income from the transaction in a calendar year, and in life insurance and long-term saving products transactions, the scope of the transaction will be evaluated according to the total management fees with respect to the transaction in a calendar year.

B. Transactions involving the acquisition of products and/or services

In the absence of special qualitative considerations in light of the entire set of relevant circumstances, a transaction of this kind which is performed in market conditions, in the ordinary course of business, and which does not have a significant influence on the Company, will be considered an insignificant transaction if it is in a scope lower than NIS 10 million, and if it does not involve the receipt of services from the controlling shareholder (management agreement) in accordance with section 270(4) of the Companies Law.

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)**C. Transactions involving investment and/or acquisition or sale of fixed assets (non-current assets) / acceptance of monetary liability**

In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, a transaction of this kind which is performed in market conditions, in the ordinary course of business, and which does not have a significant influence on the Company, will be considered an insignificant transaction if all of the following criteria amount to a rate of less than one tenth of a percent (0.1%).

It should be noted that the evaluated data will be based on the Company's consolidated financial statements, audited or reviewed (the last statements to be published before the performance of the transaction).

D. Transactions involving investment and/or acquisition or sale of fixed assets (non-current assets)

Two cumulative tests are applied:

- In a transaction involving nostro assets and/or profit sharing policies - the scope of assets which is the subject of the transaction, out of the aforementioned sources, divided by the total assets in the Company's consolidated balance sheet.
- In a transaction involving the assets of provident funds and/or pension funds - the scope of assets involved in the transaction from the aforementioned sources, divided by total members' assets in the provident funds and pension funds which are managed by the Group.
- In a sale transaction from nostro assets - the annual profit/loss attributed to the Company's shareholders, net, after tax, in terms of profit and loss or comprehensive income, actual or forecasted, as attributed to the transaction (whichever is more stringent), divided by the profit or loss attributed to the Company's shareholders, net after tax, in terms of the Company's average profit and loss or annual comprehensive income (in other words, over four quarters) over the last three years, calculated based on the last 12 quarters prior to the performance of the transaction, and for which audited or reviewed financial statements have been published. It is hereby clarified that the profit/loss in each quarter is calculated according to absolute values.

E. Acceptance of monetary financial liability

The scope of the liability which is the subject of the transaction, divided by the total assets in the Company's consolidated balance sheet.

If the transaction involves a subsidiary or associate company of the Company ("**Investee Company**"), an evaluation should be performed regarding the impact of the transaction on the Company's relative share, i.e., relative to the Company's holding rate in the investee company, while applying the insignificance tests specified above.

2. Qualitative test

The evaluation of the qualitative considerations of the interested party transaction may lead to a situation wherein a transaction will be determined as insignificant, even though according to the quantitative evaluation in accordance with section 1 above, it has qualified as an insignificant transaction. Thus, for example, and for the sake of example only, a transaction will generally not be considered insignificant if it is perceived by Company management to be a highly significant event, even if it is insignificant according to the quantitative criteria specified above, such as in cases where the transactions involved highly significant chances, risks or exposures, or if the transaction involves entry into a new and significant operating segment, or departure from a current and significant operating segment. It is hereby clarified, with respect to transactions which involve transferring all or part of a corporation's activity (including by way of transfer of securities), the tests set forth in Regulation 6(b) of the Securities Regulations (Transaction Between a Company and its Controlling Shareholder), 2001, will be taken into account.

Separate transactions which are dependent on one another, in a manner whereby they effectively constitute a part of the same engagement (for example, conducting centralized negotiations with respect to the entire set of transactions), will be evaluated as a single transaction.

A transaction which should be classified as an insignificant transaction by an investee company will be considered as an insignificant transaction also on the level of the holding company. A transaction of an investee company which should be classified as a non-insignificant transaction in an investee company may be classified as an insignificant transaction according to the relevant criteria on the level of the holding company.

F. Policy regarding the evaluation of significance

With respect to the evaluation of significance, the Company adopted a policy which was approved by the Company's board of directors on August 20, 2008 (which was clarified and updated by the Company's board of directors on March 17, 2010, and again on March 24, 2015), in which the Company established for itself guidelines and rules regarding the evaluation of whether a certain event or affair of the Company and/or its investee company (the "**Event**") is significant to the Company, with respect to the obligation to file an immediate report regarding it by virtue of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970, and for the purpose of the classification of the transactions specified in section 270(1), (4) and (4a) of the Companies Law. The main principles of the policy are as follows:

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)**F. Policy regarding the evaluation of significance (Cont.)**

In principle, each case will be evaluated on its own merits, and a quantitative and qualitative evaluation will be conducted regarding the relevant event, based on the entire set of information, data, relevant facts and assessments, in light of the entire set of circumstances which are relevant to the Company. Without derogating from the generality of the foregoing, the quantitative and qualitative evaluations will be conducted in the manner described below.

1. Quantitative evaluation

- A. Regarding any event which fulfills the significance test, all of the relevant indicators will be taken into account, as applicable, among the following indicators, with reference to and based on the last published consolidated financial statements (audited or reviewed) of the Company, and the data included thereafter: (A) Assets ratio - the total scope of assets involved in the event (assets acquired or sold) divided by total assets;⁴⁰ (B) Profit ratio - comprehensive income or comprehensive loss, actual or forecasted, which are attributed to the event, divided by the average annual comprehensive income or comprehensive loss (i.e., over four quarters) in the last three years, calculated based on the last 12 quarters for which audited or reviewed financial statements have been published; It is hereby clarified that the income/loss which is attributed to the event, and the income/loss in each quarter, are calculated according to absolute values. (C) Equity ratio - the increase or decrease in equity, divided by equity before the event; (D) Liabilities ratio - the financial liability associated with the event, divided by the Company's total assets in the consolidated balance sheet before the event.
- B. Without derogating from the need to estimate, with respect to each event whose significance is evaluated, which of the indicators specified in section 1(a) above are relevant, the following indicators will be considered relevant to the transactions specified below:
- Acquisition of an asset - assets ratio
 - Sale of an asset - profit ratio, assets ratio
 - Acceptance of a loan - assets ratio
 - Service provision transaction, including insurance transaction - income ratio, profit ratio (according to the profit expected from the transaction).
 - In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, an event will be considered significant if one of the relevant indicators which are calculated for it, as specified in section 1(a) above, exceeds 10%.
 - In the absence of special qualitative considerations which arise in light of the entire set of relevant circumstances, an event will be considered insignificant if all of the relevant indicators which are calculated for it, as specified in section 1(a) above, are lower than 5%.
 - Events which are not classified under sections 1 and 2 above may be considered significant, and an evaluation of qualitative considerations should be performed regarding them, taking into account the entire set of information, and the entire set of relevant circumstances.
 1. An evaluation of the significance of an event which is expected to take place in the future should include taking into account the likelihood of the event's materialization, and the importance and expected impact of the event, if it materializes.
 2. In case of an event which pertains to a subsidiary or associate company of the Company ("**Investee Company**"), an evaluation should be performed regarding the event's impact on the Company's relative share in the event, i.e., relative to the Company's holding rate in the investee company, including application of the relative share tests specified above.
 3. In case of an event which does not constitute an investment in the securities of any corporation, such as engagement in service receipt agreements, etc., an evaluation should be performed

⁴⁰ In a transaction performed with the assets of the nostro and/or profit sharing portfolio, the assets ratio will be evaluated relative to the total assets in the Company's consolidated balance sheet. In a transaction performed with the assets of provident funds and/or pension funds, the assets ratio will be evaluated relative to total members' asset in the provident funds and pension funds which are managed by the Group.

regarding the consequences of the relevant event on the Company, also with respect to additional relevant accounting items, which pertain to the characteristics of the event in question.

13. Transactions with the controlling shareholder (Regulation 22) (Cont.)**F. Policy regarding the evaluation of significance (Cont.)****2. Qualitative test**

The significance of the event will be evaluated, as stated above, also in terms of qualitative considerations. The qualitative evaluation may lead to the refutation of presumptions arising from the quantitative test, with respect to the significance or insignificance of the event. The qualitative evaluation regarding the significance of the event may include taking into account its consequences and implications on the Company, in light of one or more of the following considerations:

- A. It involves significant chances, risks or exposures. The evaluation of this aspect will include taking into account if, and to what extent, the risks associated with the event reflect risk factors to which the Company is exposed, and which were included in its previous reports. Additionally, an evaluation will be performed regarding whether or not the event involves the materialization of a risk factor which was reported to the investor public before the event took place;
- B. If the event involves entry into a new and significant operating segment, or departure from a current and significant operating segment;
- C. If the disclosure of the event may result, with a reasonable degree of certainty, and based on past experience, and with respect to evaluation and reference models conventionally applied by investors and analysts, in a significant change in the price of the Company's securities;
- D. If the event may have a special impact on the Company's financial statements (such as on the reclassification of certain components, on the segmental note, etc.), or on another business component of the Company, which has an important role in all matters pertaining to the analysis of its business operations and profitability;
- E. The event has the potential to affect the Company's compliance with significant regulatory requirements, significant financial covenants, which may impose significant difficulties on the Company, or on other significant contractual requirements;
- F. The event may significantly affect analysts and/or investors in their analysis of the Company's activities and results.
- G. The event is perceived as a significant event by Company management, and is used as the basis for reaching managerial decisions. Events which do not receive special managerial attention, and a fortiori those which are not brought to the attention of Company management, will generally be considered immaterial events from a qualitative perspective.

3. Legal claims (including class actions)

Without derogating from the generality of the foregoing, in an event which involves the filing of a claim, including a class action, against the Company or its investee company, the materiality of the event will be evaluated as follows: (1) Quantitative evaluation - will be conducted based on the amount of the claim (or class action), multiplied by the Company's holding rate in the sued company, in the case of an investee company, regardless of whether it is an associate company or consolidated company. If an estimate of the claims' chances is available during the stage involving the evaluation of significance, these chances will be taken into account, and the prediction regarding the claim assessment will be taken into account. The relevant quantitative indicator for the evaluation of the significance of claims will be the profit ratio. In other words, the weighted claim amount which will be obtained from the performance of the aforementioned calculations will be divided by the average annual comprehensive income or comprehensive loss during the last three years, calculated based on the last 12 quarters for which audited or reviewed financial statements were published. The ratio which will be obtained from the performance of the aforementioned calculation, in light of the ordinary quantitative evaluation policies specified in section A above. (2) Qualitative evaluation - including the evaluation regarding whether or not the filing of the claim or threat of its filing significantly affect the entire set of information which serves as the basis for reaching investment decisions, by the investor public, with respect to the Company's securities. As part of the foregoing, one or more of the relevant considerations will be taken into account, including: the identity of the plaintiff; the Group of plaintiffs; the Group of defendants; The expected effects in case the claim is approved as a class action, and in case it is accepted by the judicial instance; The existence of similar claims against the Company, which pertain to a similar matter, and the extent of the impact of the additional claim on the entire set of information which is available to the investors; reference to the class action in the Company's financial statements.

Notwithstanding the foregoing, with respect to an event which involves an insurance claim, the quantitative evaluation will be performed in the manner stated below:

An event which involves an insurance claim will be considered significant, in quantitative terms, if the following two conditions cumulatively apply to it:

- The amount claimed, less reinsurance (retention), interest and expenses, exceeds 1% of equity.
- The amount claimed (gross) exceeds 5% of Company's equity.

Additionally, an event involving an insurance claim will be considered significant in quantitative terms if the gross amount claimed exceeds 20% of the Company's equity.

4. With respect to administrative or criminal proceedings - in case of an event which involves a criminal investigation being conducted against the Company, on a material issue, by the proceeding, the Israel Securities Authority, or another regulatory authority, and events which involve criminal or administrative proceedings against the Company regarding a significant matter, excess weight will be given to the qualitative evaluation of the significance of the event, and particularly, an on the subject will be placed on the way in which the event may affect investors and/or analysts in their analysis of the Company's activities and results, and the reference of investors to the manner in which the Company conducts its business affairs.

14. Holdings of interested parties and corporate officers

(Regulation 24)

14.1 In the corporation

- ⌘ **Stocks and other securities which are held by interested parties in the corporation** - On this matter, see the immediate reporting dated January 10, 2018 (reference number 2018-01-004258).
- ⌚ **Holding of the Company's warrants by corporate officers** - On this matter, see the immediate reporting dated January 10, 2018 (reference number 2018-01-004258).
- ⌛ **Holding of the Company's liability certificates** - None

14. Holdings of interested parties and corporate officers (Regulation 24) (Cont.)

14.2 Stocks and other securities which are held by an interested party in the Company whose activity is material to the corporation's activity, as of February 5, 2018 *

Name of interested party	Company number	Name of security	Number of security on the stock exchange	Amount	% of total Outstanding government bonds
Epsilon Mutual Funds Management (1991) Ltd. **	511576209	Clalbit Finance Ltd. - bonds (Series F)	1132950	135,860	0.04%
		Clalbit Finance Ltd. - bonds (Series I)	1136050	158,919	0.04%

* For details regarding the Company's holdings in subsidiaries, see Regulation 11 above.

** A wholly owned company of Epsilon Investment House Ltd., which is a subsidiary of Koor Industries Ltd., a wholly owned subsidiary of Discount Investment Corporation Ltd., a public company which is controlled, directly and indirectly, by Mr. Eduardo Elsztain, and which is a fellow subsidiary of IDB Development, which is considered, for the sake of caution, as the Company's controlling shareholder.

14.3 Dormant shares - The Company has no dormant shares.

15. Registered capital, issued capital and convertible securities

(Regulation 24A)

- א. **Number of shares included in the corporation's registered capital** - 100,000,000 ordinary shares with a par value of NIS 1 each
- ב. **Number of shares included in the corporation's issued share capital** - 55,577,247 ordinary shares with a par value of NIS 1 each.
- ג. **Number of shares included in the corporation's issued capital, less dormant shares** - 55,577,247 ordinary shares with a par value of NIS 1 each.
- ד. **Number of shares which do not confer voting rights** - None.
- ה. **There are no shares in the corporation's issued share capital which do not confer any rights whatsoever.**
- ו. **Convertible securities of the corporation** - See the immediate reporting dated March 18, 2018 (reference number 2018-01-025579).

16. Register of shareholders

(Regulation 24B)

- א. For details, see the immediate reporting dated March 18, 2018 (reference number 2018-01-025579).

17. Directors of the corporation as of December 31, 2017

(Regulation 26)

Name: Danny Naveh, Chairman	ID number 056480049
Year of birth:	1960
Address for service of process:	55 Hashikma St., Savyon
Citizenship:	Israeli
Membership in board of directors committees:	Risk management and information technology committee and class actions committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	Yes ⁴¹ , Chairman of the Board of Clal Insurance
Serves as a director since:	5.6.2013
Education:	Bachelor's degree in Law from The Hebrew University of Jerusalem
Activity in the last five years and corporations in which serves as a director:	Served as CEO and investment committee chairman of Agate Medical Investment Group; Served as a director in Ilex Medical Ltd., Medtechnica Ltd., Consent MD Ltd. and C Squared Community Services Ltd. Serves as a director in the private companies I.I.Y. Mordechai Ltd., Consent MD Ltd., and Agyat N.M. Ltd., and founder of Agatejt Healthcare GP Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

⁴¹For the sake of caution, it is noted that, prior to the appointment of Mr. Naveh as Chairman of the Board, subsidiaries of the Company invested in funds in which Mr. Naveh was a partner and manager. For details, see the immediate reporting dated June 6, 2013 (reference number 2013-01-058722).

17. Directors of the corporation as of December 31, 2017 (Cont.)

Name: Varda Alsheich	ID number 008059925
Year of birth:	1944
Address for service of process:	19 Yaakov Meridor St., Tel Aviv
Citizenship:	Israeli
Membership in board of directors committees:	Audit committee, Compensation Committee and class actions committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Bachelor's degree in Law from the Tel Aviv Branch of The Hebrew University of Jerusalem.
Activity in the last five years and corporations in which serves as a director:	Until 2013, served as Vice President of the District Court of Tel Aviv-Yafo, and as the Director of the Liquidation, Receivership, Recovery and Bankruptcy Department. From 2013 onwards, served as a consultant regarding the debt settlement of Hadassah Hospital, and serves as an arbitrator and mediator at the Center for Arbitration in Tel Aviv, while also providing consulting to legal firms and opinions regarding her previous areas of engagement.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	No
Name: Hana Mazal (Mali) Margalio	ID number 024138497
Year of birth:	1969
Address for service of process:	36 Tchernichovsky St., Jerusalem
Citizenship:	Israeli
Membership in board of directors committees:	Balance sheet committee and risk management and information technology committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Bachelor's degree in Economics and Communication from The Hebrew University of Jerusalem, M.B.A. with a specialization in Finance and Information Systems from The Hebrew University of Jerusalem. Holds Financial Risk Management (FRM) certificate issued by GARP.
Activity in the last five years and corporations in which serves as a director:	CEO and director in Galil Mor Financial Products Ltd., CEO of Mofet Financial Products Ltd. Serves as an independent director in Israel Petrochemical Enterprises Ltd. Served as an independent director in Greenergy Renewable Energy Ltd. (formerly Intercolony Investments Ltd.).
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

17. Directors of the corporation as of December 31, 2017 (Cont.)

Name: Avraham Knobel	ID number 012594156
Year of birth:	1949
Address for service of process:	6 Wallach St., Kiryat Ono.
Citizenship:	Israeli
Membership in board of directors committees:	Risk management and information technology committee
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Bachelor's degree in Economics and Sociology from Tel Aviv University, Master's degree in Economics from Tel Aviv University, Doctorate in Economics from Tel Aviv University.
Activity in the last five years and corporations in which serves as a director:	Serves as an economic and financial consultant and as a director in Idud Ltd. Served as Chairman of the Board and investment committee member of the Managing Company of the Biochemical & Microbiological Association Study Fund Ltd. and as an outside director, investment committee chairman, and audit committee member in Ayalon Insurance Company Ltd., and in Ayalon Provident Fund Management Company Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

Name: Yaacov Dior	ID number 004090940
Year of birth:	1944
Address for service of process:	36 Aharon Katzin St., Ra'anana 43214
Citizenship:	Israeli
Membership in board of directors committees:	Audit committee, balance sheet committee, Compensation Committee, risk management and information technology committee, and class actions committee
Outside director:	Yes
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2009
Education:	Bachelor's degree in Economics and Political Science, The Hebrew University. M.B.A., Tel Aviv University.
Activity in the last five years and corporations in which serves as a director:	Until February 25, 2018, served as outside director, finance and audit committee chairman, Compensation Committee chairman and director in subsidiaries of Israel Chemicals Ltd. Served as a member of the board of trustees and audit committee chairman of Bar Ilan University;

Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:

No

Defined as a director with accounting and financial expertise or professional qualifications:

Has accounting and financial expertise

17. Directors of the corporation as of December 31, 2017 (Cont.)

Name: Yosef Yagil	ID number 042419911
Year of birth:	1947
Address for service of process:	14 Greenberg St., Haifa
Citizenship:	Israeli, Canadian
Membership in board of directors committees:	Audit committee, balance sheet committee, risk management and information technology committee, Compensation Committee
Outside director:	Yes
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2012
Education:	B.A. in Economics and M.B.A. with a specialization in Finance from The Hebrew University of Jerusalem; Ph.D. in Finance from Toronto University; Professor of Finance at University of Haifa.
Activity in the last five years and corporations in which serves as a director:	Served as Dean of the Faculty of Management, Chair of the Finance Department and Chairman of the English MBA Program at University of Haifa. Serves as President of Carmel Academic Center.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise.

Name: Sami Moualem	ID number 047443072
Year of birth:	1947
Address for service of process:	10 Boaz St., Ramat HaSharon.
Citizenship:	Israeli
Membership in board of directors committees:	Audit committee, Compensation Committee
Outside director:	Yes
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Certified Public Accountant, Member of the Institute of Certified Public Accountants in Israel
Activity in the last five years and corporations in which serves as a director:	Independent economic consultant. Served as a director from the public, as audit committee chairman, as investment committee chairman, as balance sheet committee chairman, and investment committee member in Psagot Provident and Pension Funds Ltd.; as Chairman of U-Bank Mutual Fund Management Ltd.; and as a director representing the public, investment committee member, credit committee member and audit committee member of Psagot Pension (H.A.L.) Ltd.
Family member of another interested party in the corporation, to the best of his knowledge, and to the best of the corporation's knowledge:	No
Defined as a director with accounting and financial expertise or professional qualifications:	Has accounting and financial expertise

18. Corporate officers of the corporation³⁶ as of December 31, 2017 (Regulation 26A)

ID number 012306320	Izzy Cohen ⁴²	Name:
1951	Year of birth:	
CEO	Position in the corporation:	
CEO of Clal Insurance. Currently serves as Chairman of the Board and/or as a director in member companies of Clal Group, including as Chairman of the Board of Clal Pension and Provident Funds Ltd. and Clalbit Finance.	Position in a subsidiary, related company or interested party of the corporation:	
Yes	Interested party in the corporation:	
No	Family member of another corporate officer or of another interested party in the corporation:	
Bachelor's degree in Statistics from The Hebrew University.	Education:	
CEO of the Company and of Clal Insurance	Business experience in the last five years:	
2012	First year of tenure:	

Name: Moshe Arnst ⁴³	ID number 24416604
Year of birth:	1969
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Headquarters Division, served as Chairman of the Board and as a director in subsidiaries of the Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	LL.B. from Bar Ilan University, M.B.A. with a specialization in Finance from Bar Ilan University.
Business experience in the last five years:	Headquarters Division Manager in Clal Insurance. Serves as Chairman of the Board and as a director in subsidiaries of Clal Holdings Group.
First year of tenure:	2013

Name: Eran Shahaf	ID number 027985894
Year of birth:	1971
Position in the corporation:	Internal auditor
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Internal Auditor in Clal Insurance and in additional institutional entities of Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Attorney, LL.B., B.A. in Logistics and Economics and M.B.A. from Bar Ilan University, LL.M. from Tel Aviv University.

⁴²Concludes his tenure in June 2018.⁴³Concludes his term in 2018.

Business experience in the last five years:	Internal auditor of the Company and of member companies in Clal Holdings Group; Board member of the Institute of Internal Auditors in Israel (IIA Israel) and Chairman of the Internal Auditors Committee of the institutional entities in the Institute; Deputy internal auditor of the Company and of member companies in Clal Holdings Group;	[36] Corporation's officers in the Company
Year of tenure:	2014	

any, and, in accordance with the Company's decision from 2013 regarding the classification of the Company's corporate officers, members of management of Clal Insurance, a subsidiary of the Company.

18. Corporate officers of the corporation as of December 31, 2017 (Regulation 26A) (Cont.)

ID number 27788421 1970 General Counsel of the Company Executive VP, General Counsel and Head of the Legal Consulting and Regulation Division in Clal Insurance and in other member companies of Clal Holdings Group. No No LL.B. and LL.M. from Tel Aviv University General Counsel and Head of the Legal Consulting and Regulation Division in Clal Group. 2013	Name: Hadar Brin Weiss Year of birth: Position in the corporation: Position in a subsidiary, related company or interested party of the corporation: Interested party in the corporation: Family member of another corporate officer or of another interested party in the corporation: Education: Business experience in the last five years: First year of tenure:
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Name: Hila Conforti Year of birth: Position in the corporation: Position in a subsidiary, related company or interested party of the corporation: Interested party in the corporation: Family member of another corporate officer or of another interested party in the corporation: Education: Business experience in the last five years: First year of tenure:	ID number 058368408 1963 None Executive VP, Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group No No Bachelor's degree in Economics and International Relations from The Hebrew University of Jerusalem, M.A. in Economics from Bar Ilan University Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group 2007
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Name: Tal Cohen Year of birth: Position in the corporation: Position in a subsidiary, related company or interested party of the corporation: Interested party in the corporation: Family member of another corporate officer or of another interested party in the corporation:	ID number 027427681 1974 Chief Accountant Senior VP, Manager of the Comptrollership Division in Clal Insurance, CFO and director in Clalbit Finance Ltd., and director in member companies of Clal Holdings Group. No No
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Education:	C.P.A., Bachelor's degree in Accounting from Tel Aviv University, Bachelor's degree in Economics and M.B.A from The Hebrew University
Business experience in the last five years:	Comptroller and Manager of the Comptrollership Division in the Company and in Clal Insurance, CFO and director in Clalbit Finance Ltd.; Comptroller in the Company, in Clal Insurance and in Clalbit Finance; Head of the Professional Department and Audit Department, KPMG Somekh Chaikin
First year of tenure:	2013

18. Corporate officers of the corporation as of December 31, 2017 (Regulation 26A) (Cont.)

Name: Elite Caspi	ID number 59169730
Year of birth:	1964
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Non-Life Insurance Division in Clal Insurance; Serves as Chairman of the Board of Betach-Thorne and as a director in subsidiaries of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Industrial Engineering and Management from Ben Gurion University; M.S.M. in Business Administration from Boston University in England.
Business experience in the last five years:	Head of the Non-Life Insurance Division in Clal Insurance
First year of tenure:	2013

Name: Anath Levin	ID number 069420867
Year of birth:	1963
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Investments, Finance, and Financial Services Division in Clal Insurance, and CEO of Canaf - Clal Financial Management Ltd.; Serves as Chairman of the Board of Clal Credit Insurance and as a director and CEO of Clalbit Finance Ltd., and as a director in subsidiaries of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Economics and Business Administration from The Hebrew University, M.B.A. with a specialization in Marketing and Performance Research from The Hebrew University

Business experience in the last five years:	Head of the Investments, Finance, and Financial Services Division in Clal Insurance, and CEO of Canaf - Clal Financial Management Ltd.; CEO of Migdal Insurance Holdings and Finance Ltd., and Chairman of the Board of Directors of Migdal Insurance Company Ltd.; Executive VP and Head of the Financial Markets Division in Bank Hapoalim Ltd.; Chairman of Poalim Capital Markets; Executive VP and Head of the Investments and Credit Department at Migdal Insurance Company Ltd.
First year of tenure:	2015

18. Corporate officers of the corporation as of December 31, 2017 (Regulation 26A) (Cont.)

Name: Daniel Cohen	ID number 029589751
Year of birth:	1972
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Health Division in Clal Insurance; Head of the customers unit in Clal Insurance; Serves as Chairman of the Board of HaClal HaRishon Ltd.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Behavioral Science, Management and Economics from Ben Gurion University, and M.B.A. from Ben Gurion University.
Business experience in the last five years:	Head of the Health Division and Customers Unit of Clal Insurance, CEO of Clal Health Insurance Company Ltd.
First year of tenure:	2013

Name: Yaakov (Chiko) Zecharya	ID number 053323564
Year of birth:	1955
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Business Unit in Clal Insurance and director in member companies of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	M.Sc. in Engineering from Haifa Technion; M.B.A. from Tel Aviv University.
Business experience in the last five years:	Head of the Business Unit in Clal Insurance and director in member companies of Clal Holdings Group.
First year of tenure:	2013

Name: Ofer Brandt	ID number 57342206
Year of birth:	1962
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Chief Actuary and Head of the Actuarial Division in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	B.Sc. in Science from Tel Aviv University, Diploma in Actuarial Sciences (DipAct) from City University London, full member of the Institute and Faculty of Actuaries in the UK (FIA), full member of the Israel Association of Actuaries (F.I.L.A.A), Kellogg-Recanati M.B.A from Tel Aviv University and Northwestern University Chicago, Chartered Enterprise Risk Analyst (CERA) certified by the Society of Actuaries in the United States.
Business experience in the last five years:	Chief Actuary and Head of the Actuarial Division in Clal Insurance
First year of tenure:	2013

18. Corporate officers of the corporation as of December 31, 2017 (Regulation 26A) (Cont.)

Name: Binyamin Gurevitz ⁴⁴	ID number 056231384
Year of birth:	1960
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	CEO of Clalbit Systems Ltd., Information Systems Manager in Clal Insurance and in Clal Pension and Provident Funds
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	B.Sc. in Mathematics and Computer Science from Tel Aviv University, M.Sc. in Management Science from Tel Aviv University.
Business experience in the last five years:	CEO of Clalbit Systems Ltd., Information Systems Manager in Clal Insurance and in Clal Pension and Provident Funds, Information Systems Department Manager in Union Bank of Israel Ltd.
First year of tenure:	2015

Name: Galli Schved	ID number 22387260
Year of birth:	1967
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Head of the Marketing, Strategy and Spokesmanship Division in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Food Sciences from The Hebrew University of Jerusalem, M.B.A. from UK Heriot Watt University
Business experience in the last five years:	Head of the Marketing, Strategy and Spokesmanship Division in Clal Insurance, VP Marketing and Strategy in Clal Insurance
First year of tenure:	2013

Name: Yoram Naveh	ID number 028865301
Year of birth:	1971
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP and Head of Resources Division in Clal Insurance, CEO and director in Clal Finance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Law and Economics from University of Haifa, Master's degree in Law and Economics from Erasmus University of Rotterdam
Business experience in the last five years:	Head of Resources Division in Clal Insurance, CEO and director in Clal Finance
First year of tenure:	2014

⁴⁴Concludes his tenure on April 30, 2018.

18. Corporate officers of the corporation as of December 31, 2017 (Regulation 26A) (Cont.)

Name: Dror Sessler	ID number 054307145
Year of birth:	1956
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Claims Unit Manager in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Political Science from University of Haifa, Master's degree in Public Policy from University of Haifa
Business experience in the last five years:	Claims Unit Manager in Clal Insurance, Deputy Claims Unit Manager in Clal Insurance, Chairman of the Board in subsidiaries on behalf of the Migdal Group, Executive VP of Migdal Insurance Agencies Holdings and Management Ltd., VP and Regional Director in Migdal Insurance Company Ltd.
First year of tenure:	2015

Name: Avi Rozenbaum	ID number 033769001
Year of birth:	1978
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Pension and Provident Division Manager and CEO of Clal Pension and Provident Funds. Serves as Chairman of the Board of Tmura, as a director in member companies in Clal Holdings Group, and as nostro investment committee chairman in Clal Pension and Provident Funds Ltd..
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's in Economics and Business Administration from Bar Ilan University
Business experience in the last five years:	Manager of the Pension, Provident and Financial Products Division, Joint Manager of the Long Term Savings Division in Clal Insurance, CEO of Clal Pension and Provident Funds, Head of the Headquarters Department of the Long Term Savings Division in Clal Insurance, Professional Headquarters Manager in the insurance company Simon Insurance Agency Ltd. Served as a director in Atudot Pension Fund for Workers & Independent Workers.
First year of tenure:	2015

Name: Yaron Shamay	ID number 033638693
Year of birth:	1977
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Life Insurance Division
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No

Education:	Bachelor's in Business Administration with a major in Information Systems from Ruppin Academic Center, Master's in Business Administration with a major in Marketing, from Ruppin Academic Center
Business experience in the last five years:	Life Insurance Division Manager, Joint Head of Long-Term Savings Division in Clal Insurance, National Operations Manager in Clal Insurance, CEO of Tmura Insurance Agency (1987) Ltd. Served as a director in Atudot Pension Fund for Workers & Independent Workers.
First year of tenure:	2015

18. Corporate officers of the corporation as of December 31, 2017 (Regulation 26A) (Cont.)

Name: Shlomi Tamman	ID number 54141767
Year of birth:	1957
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Central Region Manager and Business Unit Deputy Manager in Clal Insurance
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Multidisciplinary Bachelor's from University of Haifa, Master's in Law from Bar Ilan University.
Business experience in the last five years:	Central Region Manager and Business Unit Deputy Manager in Clal Insurance in Clal Insurance, Central Region Manager in Clal Insurance and Tel Aviv Region Manager in Clal Insurance.
First year of tenure:	2015

Name: Shimon Kalman	ID number 53592424
Year of birth:	1955
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Personal Assistant to the CEO Regarding Special Affairs
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Certified Public Accountant, BA in Economics with a major in Accounting from Bar Ilan University, MBA from Business Administration.
Business experience in the last five years:	Personal Assistant to the CEO Regarding Special Affairs; Executive VP and Manager of the Headquarters and Finance Division in Phoenix Holdings Ltd. and Phoenix Insurance Company Ltd., and director in Excellence Investments and various member companies of Phoenix Group.
First year of tenure:	2016

19. Authorized signatories of the corporation (Regulation 26B)

The Company has no independent authorized signatories.

20. Accountants of the Company**(Regulation 27)**

Kost Forer Gabbay and Kasierer: 144 Menachem Begin Rd., Tel Aviv.

Somekh Chaikin: 17 Ha'arbaa St., Tel Aviv.

21. Changes to bylaws or articles of association (Regulation 28)

No changes were made during the reporting year to the Company's bylaws or articles of association.

22. Resolutions and recommendations of the board of directors (Regulation 29)**(A) Recommendations of the board of directors to the general meeting and resolutions of the board of directors which do not require approval from the general meeting regarding:****1. Dividend payment or performance of a distribution by other means, or distribution of bonus shares:**

No dividends were distributed during the reporting year.

2. Changes to the Company's registered or issued capital: None.**3. Changes to the corporation's bylaws or articles of association: None.****4. Redemption of shares: None.****5. Early redemption of bonds: None.****6. Transactions in non-market conditions between the corporation and an interested party: None.****(B) Resolutions of the general meeting which were passed without the recommendations of the managers: None.****(C) Resolutions of special general meetings:**

In the Company's special general meeting which was convened on October 23, 2017, it was resolved to approve the terms of tenure and employment of Mr. Izzy Cohen, the Company's CEO, who also serves as the CEO of Clal Insurance Company Ltd., a subsidiary of the Company, in accordance with the Company's compensation policy and the provisions of the law.

23. Resolutions of the Company(Regulation 29A)

- (A) **Approval of actions in accordance with section 255 of the Companies Law, 1999 (hereinafter: the “Companies Law”):** None.
- (B) **Actions in accordance with section 254(a) of the Companies Law, which were not approved:** None.
- (C) **Transactions which require special approvals in accordance with section 270(1) of the Companies Law, provided that they constitute extraordinary transactions:** None.
- (D) **Exemption, insurance or indemnity undertaking towards corporate officers which are in effect as of the reporting date:**

1. **Presented below is a description of the arrangements which apply with respect to insurance for directors and corporate officers in the Company:**

For a description of the arrangement which applies with respect to liability insurance for the Company’s directors and corporate officers during the years preceding the reporting year, see Note 40(b)6(a) to the financial statements, and section 13c(4) above⁴⁵.

On December 18, 2016, the general meeting of the Company’s shareholders approved the compensation policy, which includes a clause regarding exemption, indemnification and insurance for corporate officers (hereinafter: the “**Arrangements**”). In the compensation policy, it was determined that the Company will be entitled to acquire, for the corporate officers in the Group, corporate officers’ liability insurance, in insurance amounts which will not exceed USD 400 million, and in consideration of an annual premium which will not exceed USD 1 million, and that the Company will be entitled to acquire runoff insurance for corporate officers, in case of the transfer of the control of the Company and/or of a subsidiary.

In accordance with the aforementioned resolution, the Company engaged in an insurance policy which was issued by an insurer which is a non-related party, for the period from December 1, 2016 to November 30, 2017 (the “**Policy for 2017**”), and later engaged in an insurance policy which was issued by an insurer which is a non-related party, for the period from December 1, 2017 to November 30, 2018 (the “**Policy for 2018**”), in which the Company acquired insurance coverage for the Company and its investee companies, including Clal Finance Ltd. and its investee companies. The overall liability limit of each of the insurance policies for 2017 and 2018 is up to USD 200 million with respect to a single claim or cumulatively.

In accordance with the aforementioned compensation policy, the total annual premium which was paid for corporate officers’ liability insurance does not exceed USD 1 million.

2. **Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the Company:**

2.1 On October 10, 2002, the general meeting of the Company’s shareholders approved, after receiving approval for this purpose from the Company’s audit committee and board of directors, its undertaking to indemnify directors and corporate officers in the Company, as specified below:

2.1.1 The Company undertook, insofar as is permitted by law, to indemnify its corporate officers and/or those of companies under the Company’s control, as specified in section 2.9 below, with respect to any debt or expense, as specified below, which may be imposed on them due to actions which they performed (including actions before the date of the letter of indemnity) and/or which may be performed by virtue of their status as corporate officers in the Company, which are related, directly or indirectly, to one or more of the types of events specified in the letter of indemnity, or any part thereof, or any matter related thereto, directly or indirectly, provided that the maximum indemnification amount does not exceed the amount specified in section 2.1.3. below.

For additional details regarding the Company’s directors and corporate officers insurance policy, which was in effect until July 31, 2016, and regarding a claim which was filed in accordance therewith, see Note 40(b)(6)(a) and Note 40 to the financial statements.

- 2.1.2 The undertaking to indemnify specified in section 2.1.1 above will apply with respect to any debt or expense which is indemnifiable by law, as follows:
1. Any monetary debt which may be imposed on them towards another person, in accordance with a court ruling, including a court ruling issued in a settlement or a court-approved arbitration award;
 2. Reasonable litigation expenses, including legal fees, which they may spend or be ordered to pay by the court, in proceedings which were filed against them by the Company or in its name or by another person, or with respect to a criminal indictment of which they are acquitted, or with respect to a criminal indictment of which they are convicted, in case of a crime which does not require proof of criminal intent;
- 2.1.3 The indemnification amount which the Company will pay (in addition to the amounts which will be received from the insurance company, if any, within the framework of insurance which the Company acquired and/or amounts which will be received, if any, as part of the indemnification of any party other than the Company) to all of the Company's corporate officers, cumulatively, in accordance with all of the letters of indemnity which will be issued for them by the Company in accordance with the indemnification resolution, with respect to one or more of the types of events specified in the letter of indemnity, will not exceed 25% (twenty five percent) of the Company's equity in accordance with its last financial statements which were published proximate to the actual date of indemnification (hereinafter: the **Maximum Indemnification Amount**”).

23. Resolutions of the Company (Regulation 29A) (Cont.)

2. Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the Company: (Cont.)

- 2.1 On October 10, 2002, the general meeting of the Company's shareholders approved, after receiving approval for this purpose from the Company's audit committee and board of directors, its undertaking to indemnify directors and corporate officers in the Company, as specified below:
- 2.1.4 if and insofar as the total indemnification amounts which the Company will be required to pay will exceed the maximum indemnification amount or the balance of the maximum indemnification amount (as calculated at the time), as stated above, the maximum indemnification amount, or the balance thereof, as applicable, will be divided between the corporate officers who will be entitled to indemnification, in a manner whereby the indemnification amount which each of the corporate officers will receive will be calculated according to the ratio between the indemnification amount owed to each of the aforementioned corporate officers, cumulatively, with respect to that event.
- 2.1.5 Upon the occurrence of an event for which the corporate officers may be entitled to receive indemnification in accordance with the foregoing, the Company will provide to him, from time to time, the funds which are required to cover the various expenses and other payments which are associated with the handling of those legal proceedings, including investigation proceedings, in a manner whereby they will not be required to pay or finance them independently, subject to the terms and provisions set forth in the letters of indemnity.
- 2.1.6 The undertaking to indemnify is subject to the terms which were specified in the letter of indemnity, with respect to the handling of legal proceedings, collaboration on the part of the indemnification recipient, reimbursement of excess amounts which were paid, etc.
- 2.1.7 the Company's undertakings will be available to the corporate officer also after the end of his tenure as a corporate officer in the Company, provided that the actions for which the exemption from liability or undertaking to indemnify were given were performed and/or will be performed in his period of tenure as a corporate officer in the Company.
- 2.1.8 The Company's undertakings in accordance with the letter of indemnity will be interpreted extensively and in a manner which is aimed towards the fulfillment, insofar as is permitted by law, of their intended purpose. In case of any discrepancy between any provisions of the letter of indemnity and the provisions of the law which cannot be made conditional, amended or added upon, the aforementioned provision of the law will take precedence, but without derogating from the validity of the other provisions of the letter of indemnity.

- 2.2 On April 16, 2008, the Company's board of directors approved, after approval was received for this purpose from the Company's audit committee, to amend, inter alia, the list of companies whose corporate officers (who do not serve as directors in the Company and who are not the Company's controlling shareholders or their relatives) are entitled to indemnification, and to clarify that the undertaking to indemnify will also apply with respect to the actions of the aforementioned corporate officers, within the framework of their status as corporate officers in subsidiaries and/or related companies of the aforementioned companies, and to update the types of events for which the letter of indemnity will be given (hereinafter: the "**Additional Letter of Indemnity**").
- 2.3 The additional letter of indemnity which was given will not prejudice or derogate from the Company's undertakings in accordance with previous letters of indemnity which were given, if any, before the date of the additional letter of indemnity, insofar as such undertakings are legally valid, and provided that the Company will not be obligated to indemnify the corporate officers with respect to that event, both in accordance with a previous letter of indemnity and in accordance with the additional letter of indemnity.
- 2.4 On May 3, 2012, the general meeting of the Company's shareholders approved the provision of new and amended letters of indemnity to the corporate officers of the Company and/or of additional member companies in the Group (hereinafter: the "New Letter of Indemnity"), in light of Amendment 16 to the Companies Law, and in accordance with the provisions of the Efficiency of Enforcement Procedures Law (Legislative Amendments), 2011, and the Law to Increase Enforcement in the Capital Market (Legislative Amendments), 2011 - on this matter, see the immediate reporting dated March 22, 2012 (reference number 2012-01-077232).
- 2.5 On July 28, 2013, the general meeting of the Company's shareholders approved the implementation of a correction to omissions in the definitions of "administrative procedure" and "payment to injured party due to breach" in the letters of indemnity, which were approved in the Company's general meeting on May 3, 2012. For additional details, see the immediate report regarding the convention of a general meeting of the Company dated July 22, 2013 (reference number 2013-01-098091).
- 2.6 The provisions of the new letter of indemnity take precedence over any previous agreement or understanding (prior to the signing of the new letter of indemnity), whether verbal or in writing, between the Company and a corporate officer on the subjects specified in the new letter of indemnity, including with regard to events which took place prior to the signing of the new letter of indemnity. The above is subject to the condition that a previous letter of indemnity which has been provided to a corporate officer, if any, will continue to apply and will remain valid with respect to any events which occurred prior to the signing of the new letter of indemnity (including in the event that legal proceedings with respect to the above have been filed against a corporate officer after the signing of the new letter of indemnity), in the event that the terms of the new letter of indemnity worsen the reimbursement terms for the corporate officer with respect to the above event, subject to all laws.
- 2.7 The Company provides, from time to time, letters of indemnity to directors and/or corporate officers in the Company and/or in subsidiaries, as stated above, in accordance with the aforementioned resolutions.
- 2.8 In some of the Group's subsidiaries, letters of indemnity were provided to their corporate officers in a manner whereby the indemnification amount therein does not exceed 25% of the equity of those companies, or NIS 1 million.

23. Resolutions of the Company (Regulation 29A) (Cont.)

2. Presented below is a description of the arrangements which apply to the indemnification of directors and senior officers in the Company: (Cont.)

- 2.9 On December 18, 2016, the general meeting of the Company's shareholders approved the compensation policy, which includes a clause regarding exemption, indemnification and insurance for corporate officers. Within the framework of the compensation policy, it was determined that the Company will be entitled to grant letters of indemnity, according to a wording which will be decided by the Company, and which has been approved and/or will be approved by the general meeting of the Company's shareholders. Insofar as the Company wishes to make changes to the letters of indemnity, for any reason whatsoever, the Company will present the amended letters of indemnity to the competent organs for approval, in accordance with the provisions of the law.

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3. **Presented below is a description of the arrangements which apply with respect to the exemption for directors and senior officers in the Company:**
- 3.1 On October 9, 2016, the Company's Compensation Committee and board of directors approved the provision of an exemption from liability to the Company's corporate officers due to a breach of duty of care towards it, subject to the receipt of the authorizations which are required by law in order to grant the exemption. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the Company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.
- 3.2 On December 18, 2016, the general meeting of the Company's shareholders approved the compensation policy, in which it was determined that the Company will be entitled to grant an exemption from liability to the Company's corporate officers. The aforementioned exemption will not apply to any decision or transaction in which the controlling shareholder, or any corporate officer in the Company (including a different corporate officer than the one to whom the letter of exemption was given), have a personal interest.
- 3.3 In accordance with the aforementioned decision, the Company granted letters of exemption to directors and corporate officers in the Company.

Clal Insurance Enterprises Holdings Ltd.

Danny Naveh
Chairman of the
Board of
Directors

Izzy Cohen
Chief Executive
Officer

Date: March 22, 2018

Annual report regarding the effectiveness of internal control over financial reporting and disclosure in accordance with Regulation 9b(a)

Management, under the supervision of the board of directors of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) is responsible for the establishment of adequate internal control over financial reporting and disclosure in the corporation.

For this purpose, the members of management include:

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

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

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

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

Management, under the supervision of the board of directors, conducted the test and evaluated the internal control over financial reporting and disclosure, and the effectiveness thereof;

The evaluation of the effectiveness of internal control over financial reporting and disclosure which was conducted by management, under the supervision of the board of directors, included: entity level controls, controls over the process of preparation and closure of the financial statements, general controls over information systems (ITGC) and controls over processes which are very material to the financial reporting and disclosure (these processes are carried out within the framework of Clal Insurance Company Ltd., a subsidiary of the corporation, which is an institutional entity, and which is subject to the following regarding institutional entities, as well as within the framework of Clalbit Finance Ltd., a subsidiary of the corporation).

Clal Insurance Ltd., a subsidiary of the corporation, is an institutional entity, which is subject to the directives of the

Commissioner of the Capital Markets, Insurance and Savings Division in the Ministry of Finance, with respect to the evaluation regarding the effectiveness of internal control over financial reporting.

With respect to the aforementioned subsidiary, management performed, under the supervision of the board of directors, an evaluation and assessment of internal control over financial reporting and the effectiveness thereof, based on institutional entities circular 2009-9-10, regarding “responsibility of management for internal control over financial reporting”, institutional entities circular 2010-9-6, regarding “responsibility of management for internal control over financial reporting - amendment”, and institutional entities circular 2010-9-7, regarding “internal control over financial reporting - certifications, reports and disclosures”.

Based on this evaluation, the Company’s board of directors and management have concluded that the internal control over financial reporting, with respect to the internal control in an institutional entity, as at December 31, 2017, is effective.

Based on the evaluation of effectiveness which was conducted by management, under the supervision of the board of directors, as specified above, the Company’s board of directors and management have concluded that the internal control over financial reporting and disclosure in the corporation, as of December 31, 2017, is effective.

**Executive Certification
Certification of the CEO**

I, Izzy Cohen, hereby certify the following:

1. I have evaluated the periodic report of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) for 2017 (hereinafter: the “**Reports**”).
2. To the best of my knowledge, the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.
3. To the best of my knowledge, the financial statements and the other financial information included in the reports adequately reflect, in all material respects, the corporation’s financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer.
4. I have disclosed to the corporation’s auditor, to the Board of Directors and to the balance sheet committee of the Company’s Board of Directors, based on my most current assessment regarding internal control over financial reporting and disclosure:
 - A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure, which may reasonably have an adverse affect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of financial reporting and the preparation of the financial reports in accordance with the provisions of the law; And:
 - B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.
5. I, alone or together with others in the corporation:
 - A. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:
 - B. I have established controls and policies, or have verified the establishment and implementation of controls and policies, under my supervision, which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.
 - C. I have evaluated the effectiveness of internal control over financial reporting and of the disclosure, and I have presented in this report the conclusions of the board of directors and management regarding the effectiveness of the said internal control, as of the reporting date.

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

March 22, 2018

Izzy Cohen
Chief Executive Officer

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

I, Anath Levin, hereby certify the following:

1. I have evaluated the financial statements and other financial information which is included in the reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) for 2017 (hereinafter: the “**Reports**”).
2. To the best of my knowledge, the financial statements and the other financial information which is included in the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.
3. To the best of my knowledge, the financial statements and the other financial information which is included in the reports adequately reflect, in all material respects, the Company’s financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer;
4. I have disclosed to the corporation’s auditor, to the board of directors and to the balance sheet committee of the Company’s board of directors, based on my most current assessment regarding internal control over financial reporting and disclosure:
 - A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure insofar as it pertains to the financial statements and to the other financial information which is included in the reports, which may reasonably have an adverse affect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:
 - B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.
5. I, alone or together with others in the corporation:
 - A. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, insofar as it is relevant to the financial statements and to the other financial information which is included in the reports, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:
 - B. I have established controls and policies, or have verified the establishment and implementation, under our supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.
 - C. I have evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and to the other financial information which is included in the reports, as of the reporting date. My conclusions with respect to my aforementioned evaluation have been presented to the board of directors and management, and are included in this report.

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

March 22, 2018

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

Executive Certification
Certification of the Chief Accountant

I, Tal Cohen, hereby certify the following:

1. I have evaluated the financial statements and other financial information which is included in the reports of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) for 2017 (hereinafter: the “**Reports**”).
2. To the best of my knowledge, the financial statements and the other financial information which is included in the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.
3. To the best of my knowledge, the financial statements and the other financial information which is included in the reports adequately reflect, in all material respects, the Company’s financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer;
4. I have disclosed to the corporation’s auditor, to the board of directors and to the balance sheet committee of the Company’s board of directors, based on my most current assessment regarding internal control over financial reporting and disclosure:
 - A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure insofar as it pertains to the financial statements and to the other financial information which is included in the reports, which may reasonably have an adverse affect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:
 - B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.
5. I, alone or together with others in the corporation:
 - A. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, insofar as it is relevant to the financial statements and to the other financial information which is included in the reports, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:
 - B. I have established controls and policies, or have verified the establishment and implementation, under our supervision, of controls and policies which are intended to reasonably ensure the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles.
 - C. I have evaluated the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and to the other financial information which is included in the reports, as of the reporting date. My conclusions with respect to my aforementioned evaluation have been presented to the board of directors and management, and are included in this report.

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

March 22, 2018

Tal Cohen
Senior VP
Chief Accounting Division Manager

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

**Clal Insurance Company Ltd.
Certification**

I, Izzy Cohen, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the “**Company**”) for 2017 (hereinafter: the “**Report**”).
2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.
3. Based on my knowledge, the financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company’s financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.
4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; And:
 - A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;
 - B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;
 - C. We have evaluated the effectiveness of controls and policies with respect to the Company’s disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:
 - D. We have disclosed in the report any change in the Company’s internal control over financial reporting which occurred during the fourth quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company’s internal control over financial reporting; And:
5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the board of directors and to the balance sheet committee of the Company’s board of directors, based on our most current assessment regarding internal control over financial reporting:
 - A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company’s ability to record, process, summarize and report financial information; And:
 - B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.

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

March 22, 2018

Izzy Cohen
Chief Executive Officer

**Clal Insurance Company Ltd.
Certification**

I, Anath Levin, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the “**Company**”) for 2017 (hereinafter: the “**Report**”).
2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.
3. Based on my knowledge, the financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company’s financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.
4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; And:
 - A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;
 - B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;
 - C. We have evaluated the effectiveness of controls and policies with respect to the Company’s disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:
 - D. We have disclosed in the report any change in the Company’s internal control over financial reporting which occurred during the fourth quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company’s internal control over financial reporting; And:
5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the board of directors and to the balance sheet committee of the Company’s board of directors, based on our most current assessment regarding internal control over financial reporting:
 - A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company’s ability to record, process, summarize and report financial information; And:
 - B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.

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

March 22, 2018

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

Clal Insurance Company Ltd.
Certification

I, Tal Cohen, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the “**Company**”) for 2017 (hereinafter: the “**Report**”).
2. Based on my knowledge, the report does not include any incorrect representation of any material fact, and does not lack any representation of any material fact which is required in order for the representations which are included therein, in light of the circumstances in which those representations were included, to not be misleading with respect to the period which is covered in the report.
3. Based on my knowledge, the financial statements and the other financial information which is included in the report adequately reflect, in all material respects, the Company’s financial position, results of operations, changes in equity and cash flows as of the dates and with respect to the periods covered in the report.
4. I, and others in the Company who are making this certification, are responsible for the establishment and implementation of controls and policies with respect to the disclosure and control over financial reporting in the Company; And:
 - A. We have established the aforementioned controls and policies, or have caused the establishment of the aforementioned controls and policies under our supervision, which are intended to ensure that material information pertaining to the Company, including its consolidated companies, is brought to our attention by others in the Company and in those companies, and particularly during the preparation period of the report;
 - B. We have established internal control over financial reporting, or have overseen the establishment of internal control over financial reporting, which is intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting, and that the financial statements have been prepared in accordance with IFRS and the directives of the Commissioner of Capital Markets;
 - C. We have evaluated the effectiveness of controls and policies with respect to the Company’s disclosure, and we have presented our conclusions regarding the effectiveness of the controls and policies with respect to the disclosure, as of the end of the period covered in the report, based on our evaluation; And:
 - D. We have disclosed in the report any change in the Company’s internal control over financial reporting which occurred during the fourth quarter, and materially influenced, or which could have been reasonably expected to materially influence, the Company’s internal control over financial reporting; And:
5. I, and others in the Company who are making this certification, have disclosed to the auditor, to the board of directors and to the balance sheet committee of the Company’s board of directors, based on our most current assessment regarding internal control over financial reporting:
 - A. All material deficiencies and material weaknesses in the determination or implementation of internal control over financial reporting, which can reasonably be expected to harm the Company’s ability to record, process, summarize and report financial information; And:
 - B. Any fraud, whether material or immaterial, in which management is involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.

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

March 22, 2018

Tal Cohen
Senior VP
Chief Accounting Division Manager