

# **Clal Insurance Enterprises Holdings Ltd.**

## **Periodic Report for 2018**

**March 26, 2019**



**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, 2018

This Part A provides a description of the Company's business as of December 31, 2018, and the development of its business affairs during 2018 (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

<b>IDB Development -</b>	IDB Development Corporation Ltd.
<b>Bank Hapoalim -</b>	Bank Hapoalim Ltd.
<b>Bank Leumi -</b>	Bank Leumi Le-Israel Ltd.
<b>USD -</b>	US Dollar
<b>The Financial Statements -</b>	The Company's financial statements as of December 31, 2018
<b>HaClal HaRishon:</b>	HaClal HaRishon Ltd.
<b>The Commissioner -</b>	The Commissioner of Insurance / the Commissioner of the Capital Markets, Insurance and Savings Authority
<b>The Corporation or the Company -</b>	Clal Insurance Enterprises Holdings Ltd.
<b>The Insurance Law -</b>	The Control of Financial Services (Insurance) Law, 1981
<b>The Companies Law -</b>	The Companies Law, 1999

<b>The Pension Advice Law -</b>	The Control of Financial Services Law (Pension Advice, Marketing and Clearing System), 2005
<b>The Provident Funds Law -</b>	The Control of Financial Services (Provident Funds) Law, 2005
<b>Long Term Savings -</b>	Life insurance, pension, provident and study funds
<b>Clalbit Finance -</b>	Clalbit Finance Ltd.
<b>Clalbit Systems -</b>	Clalbit Systems Ltd.
<b>Clal Insurance -</b>	Clal Insurance Company Ltd.
<b>Clal Credit Insurance -</b>	Clal Credit Insurance Ltd.
<b>Clal Health -</b>	Clal Health Insurance Company Ltd. (formerly "Aryeh Israeli Insurance Company Ltd." ("Aryeh")) (merged into Clal Insurance)
<b>Clal Finance -</b>	Clal Credit and Financing Ltd.
<b>Clal Pension and Provident Funds -</b>	Clal Pension and Provident Funds Ltd. (formerly Meitavit Atudot - Pension Fund Management Company Ltd. ("Meitavit Atudot"))
<b>Canaf -</b>	Canaf - Clal Financial Management Ltd.
<b>Accounting Solvency Regime -</b>	As defined in insurance circular 2018-1-3.
<b>Economic Solvency Regime -</b>	Provisions of insurance circular 2017-1-9.
<b>Atudot Havatika -</b>	Atudot Pension Fund for Workers & Self-Employed Workers Ltd. (formerly Shevach)
<b>IDB Group -</b>	IDB Development and companies under its control, and controlled by its controlling shareholder.
<b>Clal Group or the Group -</b>	The Company and companies under its direct and/or indirect control
<b>NIS -</b>	New Israeli Shekel
<b>The Investment Regulations -</b>	The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Managing Companies and Insurers), 2012
<b>The Securities Regulations -</b>	<b>The Securities Regulations (Periodic and Immediate Reports), 1970</b>
<b>The Provident Fund Regulations -</b>	The Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964

1.2.2. Terms

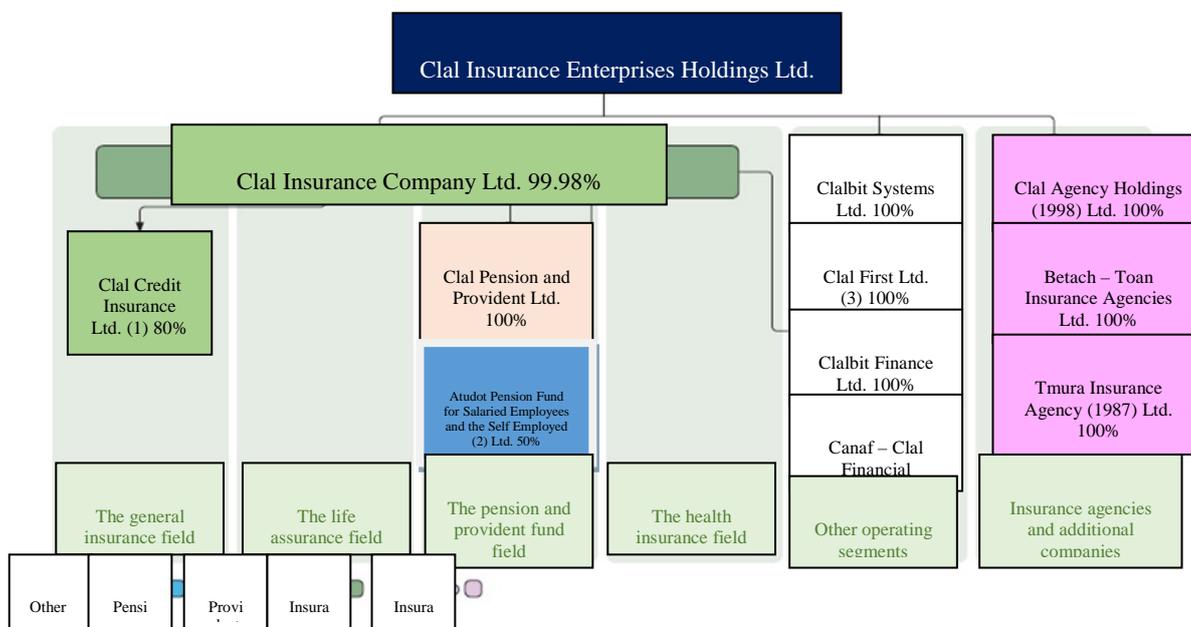
<b>Designated Bonds -</b>	CPI-linked government bonds issued by the state to insurance companies (of the "HETZ" type) and to pension funds (of the "Meiron" and "Arad" type), at interest and for a predetermined period.
<b>Managers Insurance -</b>	A commercial name for a life insurance plan for salaried employees, which is approved as a provident fund of the insurance type.
<b>Individual Insurance -</b>	Insurance prepared for individual policyholders - private individuals with whom the insurance company engages on an individual basis.
<b>Investment-Linked Insurance / Investment-Linked Contracts -</b>	An insurance plan according to which the insurance benefits to which the beneficiary is entitled depend on the returns generated by certain investments of the insurer.
<b>Collective Insurance -</b>	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.
<b>Institutional Entity -</b>	Insurer and managing company.
<b>Insurance Premiums / Premiums -</b>	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.
<b>Contributions -</b>	The amount deposited by a member in a pension fund and/or provident fund.
<b>Fees -</b>	The total sum of all amounts which are added to net premiums to cover the insurer's expenses.
<b>Managing Company -</b>	Managing company of pension fund or provident fund.
<b>Underwriting -</b>	The process of evaluating the risk and reaching a decision regarding whether to accept the risk for the insurance, and if so under what conditions / cost, in accordance with the Company's guidelines and past experience.

<b>Financial Margin -</b>	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.
<b>Net Surplus Revenues -</b>	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).
<b>Net Premiums -</b>	Insurance premiums without fees.
<b>Accrual -</b>	The total sum of amounts accrued in a pension fund and/or provident fund and/or insurance fund and/or individual insurance policy which are credited to their members / policyholders.
<b>Retention -</b>	The part of the insurance which the direct insurer keeps, and which is not covered by reinsurance.
<b>Insurance Benefits -</b>	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 holdings<sup>1</sup>, as of March 6, 2019:**



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 6, 2019<sup>2</sup> are IDB Development, which holds, to the best of the Company's knowledge, primarily through a trustee, as specified below, approximately 25.32% of the Company's shares (and approximately 25.16% at full dilution)<sup>3,4</sup>.

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

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

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

(3) In December 2018, a agreement was signed regarding a merger of HaClal HaRishon with and into Clal Insurance. As of the reporting date, all of the authorizations which are required to complete the merger have not yet been received, and there is no certainty that they will be received.

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

<sup>3</sup> "At Full Dilution" - The holding rate, at full dilution, was calculated as of March 1, 2019 (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 - 395,333 warrants), all warrants allocated on behalf of employees according to the 2015 plan (as of the publication date of the report - 271,013 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.

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. Accordingly, as of the present date, IDB Development has sold 25% of the control shares in swap transactions. Additionally, on January 2, 2019, IDB Development sold shares in the Company which constitute approximately 4.5% of the Company's issued capital, which were held by the trustee, through an over the counter transaction.

Further to IDB Development's instructions to the financing entity with whom it engaged in a swap transaction which was executed in connection with the Company's shares in May 2017, on January 2, 2019, the swap transaction concluded with respect to 1% of the Company's issued capital (according to the share price). Accordingly, the Company is held by IDB Development at a rate of approximately 25.3% (of which approximately 20.3% through the trustee). IDB Development's investment in the Company includes, in addition to the aforementioned holding, also an investment through swap transactions with respect to Company shares, at a rate of approximately 29% (including a swap transaction with respect to shares of Bank Hapoalim, as stated below). IDB Development clarified that, in accordance with the terms of the swap transactions, it is unaware of the buyers' identity. For details regarding the swap transactions, see Note 1(b)(2)(i) to the financial statements<sup>5</sup>.

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<sup>4</sup> It is noted that IDB Development pledged approximately 4.98% (approximately 4.94% 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.

<sup>5</sup> It is noted that IDB Development announced that, in accordance with legal position number 101-22, which was published by the Israel Securities Authority on February, 28, 2019 (the "**Authority's Position**"), and for the sake of prudence, it is considered (in accordance with the Authority's position) as holding approximately 54.2% of the Company's issued and paid-up share capital, whereby, with respect to approximately 28.9%, IDB Development is considered as the holder jointly with third parties, whose identity is not known to it, in accordance with the terms of the swap transactions. The staff of the Israel Securities Authority clarified to the Company that, as stated in its position, the position entered into effect beginning on its date of publication, and therefore, it does not apply to existing transactions which have not yet concluded, and whose commencement date was before the publication date of the position.

Additionally, within the framework of the understandings vis-à-vis the Commissioner from December 18, 2018, IDB Development undertook to avoid, in the future, entering into any additional swap transactions beyond those which currently apply to the Company's shares, and to avoid extending the existing swap transactions in connection with the Company's shares.

On December 18, 2018, IDB Development announced that the Board of Directors and management of IDB Development will continue evaluating various alternatives for the sale of the control of the Company (through methods other than the sale of tranches of Company shares in accordance with the outline) to various entities (the "**Sale Of Control**"), including by contacting Discount Investment Corporation Ltd. (hereinafter: "**DIC**"), a company which is controlled by the controlling shareholder of IDB Development, regarding the evaluation of such a sale, and subject to the provisions of the law, the approval of the competent organs of IDB Development (and, as relevant, also the approval of the competent organs of DIC), and the required regulatory approvals, including the Commissioner's approval, and that there is no certainty that the sale of control, whether to a third party or to DIC, will be completed, inter alia, due to the non-receipt of the required approvals.

Accordingly, in December 2018, the Board of Directors of IDB Development appointed an independent committee, whose members include its currently serving outside directors and the independent director, for the purpose of formulating an offer for the sale of the control of the Company to DIC, and to discuss the terms of the said transaction (the "**Independent Committee**").

On January 17, 2019, the independent committee contacted DIC's Chairman of the Board via letter, in which DIC offered to commence a process of negotiations towards the acquisition of the control of the Company (the "**Letter**"). It is noted that, in the letter, IDB Development did not offer any terms for the transaction, and to the best of the Company's knowledge, as of the publication date of the report, DIC's response to the letter has not yet been received.

For additional details regarding the process involving the sale of control and the sale of the control shares, 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, the Group 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 10.17.3 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 Israel Discount Bank Ltd. 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 Ltd. 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.

#### **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(d) 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 changes in insurance reserves in a low interest rate environment, and its impact of the discount rates in life insurance, see Note 39(e)(e1)(d) to the financial statements.

2.5.1.4. **Capital regime**

In accordance with the Commissioner's directives, the insurance companies in the Group calculated the economic solvency ratio as of December 31, 2017, and are expected to calculate the economic solvency ratio as of December 31, 2018, by July 15, 2019. For details regarding the results of the calculation which was published during the reporting year, see Note 16(e)(3) to the financial statements and Part B of the report - board of directors' report, section 3.2.3.

2.5.2. Human capital and organizational structure

2.5.2.1. **Changes in company management**

On July 1, 2018, Mr. Yoram Naveh's tenure as CEO of the Company and Clal Insurance commenced, in place of Mr. Izzy Cohen, who announced, on March 7, 2018, his intention to conclude his tenure as the CEO of the Company and of Clal Insurance. Mr. Naveh was appointed following the establishment of a committee tasked with searching for and recommending a new CEO for the Company in March 2018, led by the Chairman of the Board, Danny Naveh, whose members included directors in the Company and in Clal Insurance (the "Search Committee").

2.5.2.2. **Changes to the organizational structure**

On July 26, 2018, the company's board of directors resolved to implement a change to the organizational structure of the Group, effective September 1, 2018, in which the life insurance and pension and provident fund divisions were merged into the long term savings division. A new division was created: the customers and distribution division, which merged the customers unit with some of the business unit's activities; A new unit was formed: the service and operations unit; The investments, finance and credit division was split into two divisions - the finance division and the investments division; The headquarters division was canceled, and the headquarters divisions were made directly subordinate to the CEO, excluding the actuarial division, which was made subordinate to the finance division.

As part of the change, new corporate officers were appointed, some of the Company's corporate officers left, and changes were made to some of the positions of the serving corporate officers. For additional details, see Part D of the report - Additional Details Regarding the Corporation, section 18.

2.5.3. Termination of engagement with Maccabi and Leumit health funds

In 2018, Maccabi, Leumit and Clalit health funds published new tenders for the selection of a collective long term care insurance insurer for the fund members, according to a different engagement framework than the engagement framework which currently exists for Clal Insurance vis-à-vis Maccabi and Leumit (in a manner whereby the winning insurer will bear only 20% of the insurance risk, and the policyholder fund will bear the remainder). In accordance with the funds' notice, the offer of Clal Insurance for the provision of collective long term care insurance service to the fund members did not win the tender. Clal Insurance has insurance liability to cover claims of policyholders who were insured by it through the aforementioned insurance policies, with respect to insurance events which first occurred during the validity period of the collective insurance in Clal Insurance (until December 2018 with respect to Maccabi policyholders, and until March 2019 with respect to Leumit policyholders), including with respect to claims which were submitted after the end of the insurance period, and subject to obsolescence, in accordance with the law. For additional details, see section 8.1.2.2(c) below.

2.5.4. Regulatory reforms

In recent years in general, and in the reporting year in particular, significant regulatory reforms were promoted in the various insurance and savings branches, primarily including reforms which are intended to directly or indirectly reduce premiums and management fees, through the use of various regulatory tools. Worthy of note, inter alia, was the establishment of a default pension fund by the Commissioner as a means of reducing management fees, the intervention in the terms and tariffs of loss of working capacity and life insurance risk 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 is creating in the engagement structure and in the reciprocal relationships between institutional entities, agents, employers and customers, in a manner which affects, and may continue to 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, 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 year preceding the reporting year. 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.**

### 2.5.5. Long term savings segment

#### 2.5.5.1. **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, began, or prepared for the implementation, during the reporting year, of significant reforms, including, inter alia, the clearing house activity and the operational interface between employers and institutional entities on all matters associated with deposits to provident funds (in accordance with the provisions of the circular regarding the payment deposit method to provident funds) (see section 6.2.2(d) below); Regarding increased deposits to pension products, following regulatory changes; the consolidation of inactive accounts in pension funds (see section 6.2.2(b) below); the creation of default pension funds and the process of choosing the pension fund which will serve as the default pension fund by the employer (see section 6.2.2(a) below); 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 (see section 10.8.1.1 below), and non-payment of commissions to license holders with respect to pension products regarding which a pension marketing process was not performed (see section 10.8.1.1 below), and the launch of loss of working capacity policies in accordance with the circular "guidelines with respect to loss of working capacity insurance plan" (see section 6.2.2(g)(2) below).

#### 2.5.5.2. **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. Approval was given, inter alia, for the performance of feasibility evaluations, which are expected to be concluded in 2019, for the conversion of one of the life insurance systems into an automation system which currently serves the health systems in Clal Insurance, while making the required adjustments, in order to reduce redundancies in the segment's core systems. 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, and there is no certainty that it will be approved.

#### 2.5.5.3. **New tariffs for life insurance products in case of death (risks)**

Subsequent to the reporting period, in February 2019, the Authority approved new tariffs for life insurance products in case of death (risks) of insurance companies in Israel, including a reduction of dozens of percent in the tariffs of risk products which will be sold from that date onwards. The Authority also determined that the insurance companies are required to apply a mechanism for the repayment of commissions by insurance agents, such that the cancellation of the policies in the first years after their purchase will lead to the progressive repayment of commissions which will be paid by insurance companies to agents. This mechanism may lead to increased retention in the risk insurance portfolio. The Company is unable to estimate the full implications of the aforementioned change in tariffs on the sale of risk products, including on the sales volume, the actual sale tariffs (after discounts), and the commissions which will be paid with respect thereto.

As of the publication date of the report, as part of the approval of risk tariffs, tariffs were not approved for the Company (and, to the best of its knowledge, nor for other companies) for the sale of risk coverages in managers' insurance policies. Due to the above, the insurance companies discontinued marketing risk coverages as part of managers' insurance policies. According to the Company's assessment, the absence of approved tariffs for the sale of risk coverages, as part of managers' insurance policies, is expected to result in

a significant reduction in sales of managers' insurance. The Company is unable to estimate, at this stage, the implications of the change on sales of other pension products.

For additional details, see section 6.1.4.1 below.

2.5.6. Non-life insurance segment

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

During the years preceding the reporting year, the Authority promoted several significant reforms in the non-life insurance segment. In the compulsory motor insurance branch, a reform was implemented in which the compulsory motor insurance tariffs were updated, the effects of which began in 2016, and continued during the reporting year as well. For additional details, see section 7.1.1.1(c)(1) below.

Additionally, during the reporting year, an update was made to the range of the loading component rate which insurance companies participating in the residual insurance arrangement will be entitled to collect, for the purpose of financing the cost for residual insurance. For additional details, see section 7.1.1.1(b)(1) below. Additionally, within the framework of a legislative amendment, changes were made to the mechanism for settling of accounts between the National Insurance Institute and the insurance companies, regarding the National Insurance Institute's subrogation rights towards the insurance companies, in claims by virtue of compulsory motor policies. For additional details, see section 7.1.1.1(d)(1) below. These changes were not yet implemented during the reporting year.

2.5.6.2. **Discount rate for tort claims**

Further to the **Amendment to the National Insurance Regulations (Discounting), 1978**, which regulate, inter alia, the discount rate used to calculate subrogation claims submitted by National Insurance towards third parties, according to which, beginning in October 2017, the interest rate for the purpose of annual discounting of annuities will be 2%, instead of 3%, as specified in the Regulations prior to the amendment, and further to the Court's rulings, which addressed the indirect effects of the aforementioned amendment on the discount interest rate which should be used to calculate compensation with respect to future losses, even if not within the framework of subrogation claims of the National Insurance Institute, in compulsory and liabilities insurance, in January 2019, a report for public comments was filed with the Supreme Court (as part of a specific case being heard by the Court), which was published by the Inter-Ministerial Committee for Evaluation of the Discount Rate (hereinafter: "**Committee's Report for Public Comments**"), in which it was proposed to establish one average interest rate for the entire compensation period, at a rate of 3%, reflecting a low risk investment. It is also proposed to establish a "mobility band" around that interest rate, where any deviations therefrom are expected to activate an update mechanism. The Company estimated the total possible effect of the aforementioned changes in the discount rate, at this stage without addressing the committee's report for public comments, which has not yet been formulated as a final report, and regarding which the Court's ruling has not yet been given. The aforementioned effects included weight assigned to the uncertainty regarding the actual effects, and their manner of manifestation. For additional details, see section 7.1.1.1.(d)(2) below and Note 39(e)(e2)(4)(f) to the financial statements.

2.5.7. Health insurance segment

2.5.7.1. **Reforms in the segment**

During the reporting year, regulatory changes were published regarding claim settlement in long term care insurance, including, inter alia, restrictions in cases where the policyholder can be referred for the performance of functional assessment, and in cases where investigations can be conducted, as well as the method for conducting them. For additional details, see section 8.1.2.2 below.

2.5.8. 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 (see section 6 below)**

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 (see section 7 below)**

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.

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 (see section 8 below).**

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. 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.

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 respect to the Company's shares in the last two years<sup>6</sup>**

On November 8, 2018, Bank Hapoalim sold, in unconditional over the counter transactions, its holdings in the Company, which constituted approximately 9.47% of the Company's shares, while IDB Development engaged in a swap transaction with a banking institution in connection with approximately 5% of the Company's shares which were sold by Bank Hapoalim.

For details regarding the sale of 25% of the Company's control shares, which were held by the trustee, which was performed in 2017, 2018 and 2019, 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, including within the

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<sup>6</sup> 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.

framework of five swap transactions which were performed by IDB Development, see Note 1(b)(2)(i) to the financial statements. Additionally, on January 2, 2019, IDB Development sold shares in the Company which constitute approximately 4.5% of the Company's issued capital, which were held by the trustee, through an over the counter transaction. For details, see Note 1(b)(2)(i) to the financial statements.

As of March 6, 2019<sup>7</sup>, IDB Development holds, to the best of the Company's knowledge, mostly through a trustee, approximately 25.32% of the Company's shares (and approximately 25.15% at full dilution<sup>8</sup>)<sup>9</sup>.

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 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 equity requirements, as well as the Company's policy on the matter, and For details regarding the status of the permits for control of the Company and of its institutional entities as of the reporting date, and the restrictions thereunder, see Notes 1, 16(d) and 16(e) to the financial statements.

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<sup>7</sup> All of the figures refer to the holding rate in capital only, and not in voting rights.

<sup>8</sup> For details regarding the method used to calculate "full dilution", see footnote 3 above.

<sup>9</sup> It is noted that IDB Development pledged approximately 4.98% (approximately 4.94% 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.

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

### 6. Long term savings segment

On September 1, 2018, an organizational change was implemented in which the life insurance division and the pension and provident division were unified into a single division - the long term savings 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 (generally, 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.

Since 1995, new members are able to join 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 for the long term (such as provident funds for compensation and severance pay, and provident funds for savings), medium term (study funds) and capital savings for individual funds with independent status (provident funds for investment). Such funds do not generally have insurance coverage. A member is entitled to withdraw the amounts which have accrued in their favor in the

provident funds for compensation and severance pay, and in provident funds for savings, as 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.

Provident funds for investment (which were created in November 2016) are intended to allow a capital savings channel with independent status, which include an incentive to withdraw the funds which have accrued therein as an annuity during retirement. Funds which have been deposited in a provident fund for investment may be withdrawn as a one-time amount at any time, without tax benefits in the deposit, while paying capital gains tax only. Amounts which will be deposited in a provident fund for investment 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 total payments which a member will be entitled to deposit in a provident fund for investment will not exceed NIS 70,000 per year.

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.<sup>10</sup> Beginning in 2011, it is no longer possible to deposit funds in central provident funds for severance pay; however, funds may be transferred between central funds for severance pay.

In June 2017, an income tax circular was published regarding "accrued balances in central funds for severance pay" (which was updated in Mach 2018), which includes provisions regarding the use of funds which have accrued in central funds, 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, as well as provisions which are intended to incentivize the transfer of funds into the aforementioned personal funds.

According to the Company's estimate, the provisions of the circular regarding accrued balances in central funds for severance pay are expected to lead to significant withdrawals from central funds for severance pay, while increasing competition over the mobility of central funds between the entities, before they are eliminated in favor of personal funds. According to the Company's estimate, some of the aforementioned transfers will take place to personal funds which are managed by the Company's institutional entities. For details regarding the scope of managed assets in central provident funds which are managed by the Group, see Part B of the report - board of directors' report, section 3.2.1. The total management fees which are collected by Clal Pension and Provident Funds from the central funds for severance pay are of an immaterial scope.

**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 and the conduct of competing entities.**

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<sup>10</sup> 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:<sup>11</sup>

	<b>Life insurance</b>	<b>New comprehensive pension funds</b>	<b>Provident funds</b>
<b>Engagement type</b>	A <b>contractual undertaking</b> between the insurer and the policyholder. The undertaking cannot be changed other than in accordance with the provisions the policy.	The member is a member of a fund, which are operated and managed by the managing companies, in accordance with the provisions of <b>their regulations</b> . 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.	
<b>Insurance coverage</b> <sup>12</sup>	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. <sup>13</sup>
<b>Annuity factor</b> <sup>14</sup>	In all annuity-based policies which include an annuity factor, the annuity factor is protected against changes in life expectancy. Beginning in 2013, it is no longer possible sell policies with annuity factors which include a life expectancy guarantee (hereinafter: " <b>Guaranteed Annuity Factors</b> "), except to policyholders aged 60 or older. <sup>15</sup>	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
<b>Mutual insurance</b>	None	A mutual insurance fund. The members' rights are affected, inter alia, by demographic data of all	None

<sup>11</sup> 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.

<sup>12</sup> 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 deposits, insurance coverage to cover risks of death, 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.

<sup>13</sup> As of the reporting date, Clal Pension and Provident Funds does not market to active members of provident funds which are managed by it, the aforementioned insurance coverages.

<sup>14</sup> 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. In pension funds, the determined annuity factor may be updated also after the annuity has begun to be received, and in life insurance policies, it is guaranteed.

<sup>15</sup> Life insurance plans which were marketed until the end of 2012 by the insurance companies 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. In general, beginning in 2013, annuity policies with annuity factors which include a life expectancy guarantee can be purchased only from age 60, and beginning in December 2015, it is permitted under the regulations to market such policies to policyholders under age 60, who wish to transfer the aforementioned policies, provided that they purchased such policies between the years 1991 and 2013.

	<b>Life insurance</b>	<b>New comprehensive pension funds</b>	<b>Provident funds</b>
		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.	
<b>Designated bonds</b>	For details regarding HETZ bonds in 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 <sup>16</sup>
<b>Management fees</b> <sup>17</sup>	The rate of accrual and of the deposits <sup>18</sup> , for details regarding the scope of collected management fees, see Note 30 to the financial statements.	Rate of accrual and of deposits <sup>19</sup> , see details in section 6.1.2.2 below.	
<b>Beneficiaries</b>	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.
<b>Regulatory restriction on the deposit amount</b> <sup>20</sup>	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.

#### 6.1.1.2. Pension savings products differ from one another also in the way in which savings funds are invested

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

<sup>16</sup> Excluding a limited number of guaranteed return provident funds backed by Accountant General deposits.

<sup>17</sup> The above includes the possible regulatory management fees in currently sold products, and does not include management fees and expenses of various kinds which are collected in all or some of the products, for example, with respect to investment management expenses, policy factor or collection factor, etc.

<sup>18</sup> In traditional guaranteed-return policies, there are no management fees, and the Company's revenues come from the financial margin. In traditional policies and in policies of the "Preferred" (Meitav) type, there are no management fees as a rate of the deposits.

<sup>19</sup> Study funds and central funds do not have management fees as a rate of the deposits.

<sup>20</sup> 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.

- **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 or represented in a guaranteed insurance amount (“**Guaranteed Return Policies**”). The guaranteed returns changed according to the policy type and the policy issuance date. The commitment to guaranteed returns 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, 2018, the holding of the designated bonds constitutes approximately 75% of total assets held against liabilities with respect to guaranteed return policies. Over the years, the Group has redeemed some of the designated bonds, with the aim of achieving surplus returns, and it cannot repurchase designated bonds with respect to the part of the reserves which it redeemed. As a result, the Group's exposure in free investments has 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 up to a rate of 50% of total assets held against liabilities with respect to guaranteed return policies.

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

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

- **Provident funds**

Since the mid-1980's, designated bonds<sup>21</sup> 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.

- **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, which bear real interest at an annual rate of 4.86%, up to a maximum rate of 30% of the total assets. However, the rate of designated bonds relative to members in the new pension funds which, prior to January 1, 2004, were already eligible for a pension, will amount to 70% of total assets.

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 designated bonds of the “Meiron” type (5.57%) and the interest on the new designated bonds of the “Arad” type (4.86%), with respect to the part of the assets which are invested in new designated bonds.

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<sup>21</sup> Excluding a limited number of guaranteed return provident funds.

\_\_\_\_\_The Ministry of Finance also designates a security cushion for the old funds, in order to protect the members and retirees of those funds against volatility in returns.

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

#### Crediting of Returns in New Comprehensive Pension Funds Regulations

In July 2017, the Control of Financial Services Regulations (Provident Funds) (Crediting of Returns in New Comprehensive Pension Funds), 2016 (hereinafter: the "Crediting of Returns Regulations"), entered into effect, which includes provisions regarding the method for crediting returns to members and retirees in new comprehensive pension funds (the "Designated Bond Returns"), as 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.

Before the entry into effect of the Crediting of Returns Regulations, designated bond returns were credited on a uniform basis to all members and annuity recipients in the fund.

The Crediting of Returns Regulations establish a transitional provision according to which, until the end of 2023, designated bond returns will be credited both to members age 50 or older, and to other members, according to the method specified in section (c) above. It was further determined that the Commissioner will be entitled to increase the rate of crediting designated bond yields to annuity recipients in a certain 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.

It is noted that the Crediting of Returns Regulations do not change the rate of bonds which a managing company of a new comprehensive pension fund is entitled to acquire, which will remain as 30% of the total fund assets<sup>22</sup>.

The entry into effect of the Crediting of Returns Regulations, and the allocation of the designated bonds by age groups, created variability in the method for allocating designated bonds between members which belong to the same age group in the various pension funds. These regulations may, in the long term, create a preference for pension funds over other pension products, beginning from the stage near retirement age, and may also create a preference for joining or transferring to certain pension funds, according to the mix of ages of the fund's 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

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<sup>22</sup> 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.

conversion factors for new pension funds, as specified in section 6.2.2(h) below, the provisions of the circular regarding the discount on management fees for annuity recipients, and the provisions regarding a reduced management fee rate for annuity recipients in default funds (see sections 6.1.2.3 and 6.2.2(a) below). 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.

The Company's estimate in connection with the Crediting of Returns 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 Crediting of Returns Regulations and other regulatory provisions, including regarding the consolidation of inactive accounts in pension funds, the establishment of default funds (for details, see section 6.2.2(b) and 6.2.2(a) below) and the draft amendment to the fund transfer regulations (insofar as it is approved), regarding the possibility of transferring old age annuity recipients (for details, see section 6.2.2(c) below), and the conduct of competing entities, distributing entities and the choices of members and policyholders.

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

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

6.1.2.1. **Life insurance branch**

(A) **General**

The Group markets insurance to the self-employed and 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**

The collective insurance agreement is intended to provide insurance coverage in case of death, with optional additional coverage for accident, illness and disability risks, as well as loss of working capacity insurance coverage, providing coverage in case of an illness or an accident, which resulted in the policyholder losing

their capacity to work. The insurance policies do not include any savings component, for groups including over 50 policyholders which share ties<sup>23</sup>, and is marketed primarily to groups of employees.

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 was determined, inter alia, based on various indicators, including occupation, salary, age and gender.

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 a 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.

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.

For details regarding the provisions in connection with the provisions of the circular regarding the marketing of loss of working capacity plans, regarding addition to collective loss of working capacity insurance, see section 6.2.2(g)(2) below.

**(B) Details regarding the main insurance plans in the life insurance segment**

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

• **Insurance of the traditional type**

- **Policy of the traditional combined type** - A policy which includes two components, savings and risk. The premium is derived from the insurance amount, the policyholder's age, the insurance period, etc., and cannot be separated and attributed to the policy components. The insurance 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.
- **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, were determined on the policy issuance date.
- **Policy of the traditional savings type** - A policy in which all accrued premiums are paid as a one-time amount. The redemption value is determined on the policy issuance date, and is derived from the premiums.

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<sup>23</sup> The agreement is subject to the Control of Insurance Business Regulations (Collective Life Insurance), 1993, or the Control of Finance Services Regulations (Insurance) (Loss Of Working Capacity Insurance), 2006, as applicable, and is also subject to the Commissioner's circulars.

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 main characteristics of this product include:

- 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.
- 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.
- 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 in the life insurance branch from 1983 until the end of 2003. The policy was marketed as individual insurance, as compensation insurance for the self-employed and as managers insurance.

- **Insurance of the profile type**

- 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).

In 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 20(a) to the financial statements). Currently, Clal Insurance no longer markets policies which include guaranteed return tracks to new members.

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

- In 2013, Clal Insurance adjusted the managers' insurance policy and the self-employed insurance policy of the "profile" type, which were marketed by it, to changes in the management fees, in accordance with the Management Fees Regulations, as specified in section 6.1.2.3 below. Additionally, beginning in January 2013, a restriction was imposed on the possibility to sell new life insurance plans with annuity factors which include a life expectancy guarantee, to policyholders under age 60<sup>24</sup>. The circular regarding the mobility of guaranteed annuity factors included the determination of provisions which allow marketing, transferring and retaining investment-linked life insurance policies combined with savings which include guaranteed annuity factors, which were purchased from 1991 to December 31, 2013, regardless of policyholder age, while retaining the annuity factors which were guaranteed in the original policy.

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

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.

- 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

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<sup>24</sup> Excluding an exception which was permitted by the Commissioner for one year, subject to the determined conditions.

which include a life expectancy guarantee, and others without annuity factors which include a life expectancy guarantee. In general, beginning in 2009, the possibility was canceled of converting the accrued savings into an annuity with life expectancy guaranteed annuity factors in individual policies, and such conversion is possible in accordance with the annuity factors which will be known on the date of the request to convert the one-time savings amount into an annuity.

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 20 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 according to the interest rate determined in the policy, and the insurance benefits are paid to the irrevocable beneficiary, while the remainder, if any, is paid to the beneficiaries. In the past the Company allowed the purchase of 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 was with respect to death due to accident only, and in the subsequent period, with respect to death for any reason. Beginning in the last quarter of the reporting year, and in accordance with **Amendment No. 18 to the Equal Rights for Persons with Disabilities Law, 1998**, the Company allows the purchase of life insurance in case of death which is intended to cover the debt in the balance of a mortgage loan to people with life-shortening disabilities, with no requirement for an advance medical underwriting process, and subject to a qualification period of two and a half years. For additional details, see section 6.1.3 below.
- **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. In addition to the monthly compensation payments which are 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 ("**Release**"). 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. 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 6.2.2(g)(2) below.
- **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 on “guidelines regarding loss of working capacity insurance plans”, and a clarification which was published on the matter, see section 6.2.2(g)(2) below.

- **Critical illness insurance** - For details regarding the sale of critical illness insurance, see section 8.1.2.1(a) 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.

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	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 maximum 25% stocks <sup>25</sup>	253		
	CPI-linked bonds	124		
	NIS	592		
	Stocks	127		
	Short term NIS	128		
	Bonds	117		
Halacha Bonds maximum 15% stocks	1533			

<sup>25</sup> On March 1, 2018, the track's investment policy was changed from the “general” track to the combined specialized track “bonds maximum 25% stocks”. For details, see section 6.1.3(c) below.

Fund name	Investment tracks	Income tax authorization number	Fund type
Bar Gemulim fund	Bar A - guaranteed return	539	Guaranteed return provident fund
	Bar C	263	Personal provident fund for compensation and severance pay
Clal Study Fund	General	456	Study fund
	Short term NIS	1351	
	CPI-linked bonds	1348	
	Stocks	1350	
	Bonds	2115	
	Halacha Bonds maximum 15% stocks	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 <sup>26</sup>	892		Central fund for sick pay
Clal budgetary	1284	Central fund for participation in budgetary pension	

<sup>26</sup> In March 2019, a request to close the provident fund, in the absence of any members or assets in the fund, was submitted to the Commissioner.

**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 2018:**

		Managed assets as of December 31, 2018 (NIS in thousands)	Contributions in 2018 (NIS in thousands)	Net accrual in 2018 (NIS in thousands)	Average rate of management fees from assets in 2018	Average rate of management fees from deposits in 2018
<b>Pension Fund Atudot Havatika</b>		10,028,397	227,462	(90,503)	0.27%	3.43%
<b>New pension funds</b>	Clal Pension	54,363,827	5,646,940	4,095,901	0.22%	2.25%
	Clal Pension supplementary	1,633,395	243,751	191,769	0.43%	-
<b>Provident funds for compensation and severance pay and provident funds for savings</b>		22,436,655	452,670	(633,416)	0.48%	0.17%
<b>Provident fund for investment</b>		238,455	164,310	142,861	0.65%	-
<b>Study fund</b>		7,938,848	1,196,655	543,710	0.64%	-
<b>Other<sup>27</sup></b>		2,368,813	404	(532,444)	0.60%	-
<b>Total</b>		<b>99,008,390</b>	<b>7,932,192</b>	<b>3,717,878</b>		

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

<sup>27</sup> 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 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
<b>Pension Fund Atudot Havatika</b>		10,084,296	233,259	(52,399)	0.29%	3.32%
<b>New pension funds</b>	<b>Clal Pension</b>	50,178,494	5,454,538	3,157,107	0.25%	2.52%
	<b>Clal Pension supplementary</b>	1,486,009	247,747	194,924	0.48%	0%
<b>Provident funds for compensation and severance pay and provident funds for savings</b>		23,070,937	394,488	(2,079,758)	0.53%	0.16%
<b>Provident fund for investment</b>		101,810	102,536	99,216	0.57%	-
<b>Study fund</b>		7,510,248	1,103,161	(184,131)	0.71%	-
<b>Other<sup>28</sup></b>		2,936,741	1,439	(509,957)	0.59%	-
<b>Total</b>		<b>95,368,535</b>	<b>7,537,168</b>	<b>625,002</b>		

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

<sup>28</sup> Includes central provident funds for severance pay, central provident funds for participation in budgetary pension and provident funds 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
<b>Pension Fund Atudot Havatika</b>		9,330,327	241,656	316,912	0.29%	3.57%
<b>New pension funds</b>	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%	-
<b>Provident funds for compensation and severance pay and provident funds for savings</b>		23,642,290	513,214	(1,099,799)	0.57%	0.3%
<b>Study funds</b>		7,226,954	1,099,972	298,978	0.75%	-
<b>Other<sup>29</sup></b>		3,263,660	3,670	(405,723)	0.58%	-
<b>Total</b>		<b>88,081,080</b>	<b>7,253,730</b>	<b>4,581,455</b>		

\* 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 products<sup>30</sup>, in accordance with the legislative arrangement, including the Control of Finance Services Regulations (Provident Funds) (Management Fees), 2012 (hereinafter: the "**Management Fees Regulations**"):

<sup>29</sup> Includes central provident funds for severance pay, central provident funds for participation in budgetary pension and provident funds for sick pay.

<sup>30</sup> 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 <sup>31</sup>	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. <sup>32</sup>
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 a mix approved by the Commissioner - where the management fees from deposits are in the range from 0% to 13%).
Investment-linked life insurance plans which were marketed from August 2007 until the end of 2012, 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 <sup>33</sup>
Annuity recipients in general pension fund	Up to 0.6% of total assets held against the fund's liabilities to all annuity recipients <sup>34</sup>

<sup>31</sup> "Profile" policies which were sold until 2003 included a different pricing mechanism.

<sup>32</sup> See Note 3(n)3(a) to the financial statements.

<sup>33</sup> Excluding assets held against liabilities of the fund, to those who were entitled to an annuity or disability annuity before January 1, 2004.

<sup>34</sup> 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 funds**<sup>35</sup>

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.<sup>36</sup>
- The minimum annual management fees in the accounts of provident funds which are not insurance funds or comprehensive pension funds<sup>37</sup>, to which deposits were made before the 2008 tax year, will be no less than NIS 6 per month (CPI-linked), in all of the member's accounts.

Effectively, in some products, the institutional entities in the Group collect lower management fees than the maximum limits specified above, in accordance with specific agreements. The provisions of the legislative arrangement formalize 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 survivors).

In April 2018, an amendment to the circular regarding management fees in pension savings instruments entered into effect, 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 were expanded regarding the provision of the benefit and the increase of management fees.

In the short term, due to the fierce competitive conditions in the market, the circular regarding management fees in pension savings instruments did not have a significant impact on the rate of collected management fees, nor on the addition and retention of customers. However, over the long term, it is not possible to predict its effects, which depend, inter alia, on the development of the competitive conditions, and on the conduct of the competing institutional entities, license holders, employers and customers.

**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

<sup>35</sup> Excluding guaranteed return provident funds, in which the management fees are determined in accordance with the provisions of the regulations.

<sup>36</sup> 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%).

<sup>37</sup> Excluding additional products, as determined in the Management Fees Regulations.

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.

**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 2016 to 2018, see section 6.1.2.2 above, and Notes 20 and 30 to the financial statements.

## 2) Expenses in connection with investment management

In addition to the management fees, the institutional entities collect expenses in connection with investment management, subject to the provisions of the Control of Finance Services Regulations (Provident Funds) (Direct Expenses Due To Performance Of Transactions), 2008, which specify 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. For details in connection with the aforementioned regulations, see section 10.5.5.2 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 to insurance policies during the reporting year:**

- Further to the provisions of the circular "**guidelines regarding loss of working capacity insurance plans**" (hereinafter: the "Guidelines Circular") (for details, see section 6.2.2(g)(2) below), and regarding the adjustment of loss of working capacity insurance plans in managers' insurance according to provisions of the guidelines circular, during the reporting year, the Company received approval for a loss of working capacity product of the "income protection" product for release only, and completed the process of adjusting additional loss of working capacity products according to the provisions of the guidelines circular.
- In February 2018, the Company began marketing product packages in the managers and independent profile plan, under the names "unified active profile" and "unified profile", which allow transferring the customer's accrued funds in various insurance plans (at the Company or at other companies), into a single unified policy, with or without regular deposits to the policy, respectively.

- Further to the amendment to the **Equal Rights for Persons with Disabilities Law, 1998**, Clal Insurance launched a life insurance product in case of death for the repayment of housing (mortgage) loans for people with life-shortening disabilities, under the name "Shoham Accessible". The product is similar in nature to life insurance product in case of death for the repayment of housing loans to the general public, which is sold by the Company; however, the product is sold to individuals who have a "life-shortening disability", according to a mechanism specified in the law, and subject to a qualification period, during which the policyholder is not entitled to insurance benefits. The insurance amount which may be purchased is limited to NIS 500,000, or half of the balance of the loan which was taken by the borrower, whichever is lower.

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

#### **(A) Comprehensive pension fund - "Clal Pension"**

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

In January 2018, an amendment to the regulations entered into effect, in which a "basic investment track for annuity recipients" and a "religious investment track for annuity recipients" were added to the fund, which are intended for annuity recipients who began receiving an annuity as from January 1, 2018. In accordance with the provisions of the circular "**provisions regarding the management of new pension funds**", regarding the separate management of annuity recipients with respect to an eligible event after January 2018, and of annuity recipients with respect to an eligible event before January 2018. For details, see section 6.2.2(h) below.

In June 2018, the regulations of the comprehensive fund were amended according to the wording of the (uniform) standard regulations which were published by the Authority, see section 6.2.2(g)(1) below. The main changes which were established in the standard regulations, relative to the fund's previous regulations, pertain, inter alia, to the method used to calculate the guaranteed salary, and the method used to calculate the effective salary; the main changes which were determined in the standard regulations, relative to the fund's previous regulations, pertain, inter alia, to the method used to calculate the guaranteed salary, and the method used to calculate the effective salary; the creation of new insurance tracks; the possibility for members to choose the insurance end age, among several alternatives; determination of a qualification period with respect to additional cases which were determined; coverage for cancellation of the qualification period, for members who waived survivors insurance coverage (unless the member has chosen to waive such coverage); establishment of an insurance extension (temporary automatic risk) for a period of 5 consecutive months, regardless of the last period of continuous deposits preceding the discontinuation date of the deposits; determination of a possibility to convert a part of the accrued balance into an old age annuity, while continuing the deposits to the fund; 3 month retroactive cancellation of the possibility to receive an old age annuity; a change with respect to the period of guaranteed payments to widows; shortening of the prescription period for the submission of claims for the receipt of disability annuities for 3 years after the date of occurrence of the eligible event (instead of 7 years); transferring of contribution deposits which were paid with respect to fully disabled persons in the comprehensive fund for the supplementary fund; updates to the timetables for handling annuity claims, and requests to withdraw funds; as well as updates to the insurance coverage cost factors for disability and mortality risks, conversion factors and old age annuity discounting factors.

#### **(B) 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 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 6.2.2(h) below.

In June 2018, the insurance coverage cost factors for disability and mortality risks, and the discounting factors for old age annuities, were updated, in accordance with the provisions of the circular "**method for calculation of the actuarial balance and factors in pension fund regulations**".

**(C) 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:**

\_\_\_\_\_ In March 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 maximum 25% stocks".

\_\_\_\_\_ Subsequent to the reporting period, in March 2019, amendments were approved to the regulations of the provident fund "Clal Tamar", and to the regulations of the study fund "Clal Study Fund", in which a combined specialized investment track "bonds maximum 15% stocks" was added to each of the regulations.

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<sup>38</sup>, 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.

There are also deposits in the optional layer, which are due to employees' and employers' deposits 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.

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<sup>38</sup> An ordinance which expanded the general collective agreement (framework agreement) for comprehensive pension insurance in the market.

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%<sup>39</sup>, the determination of pension as a default product within the framework of the Compulsory Pension Ordinance and additional regulatory changes, including the cancellation of guaranteed annuity factors in insurance, except for customers aged 60 or higher.

During the reporting year, the scope of new members of life insurance products combined with savings increased significantly relative to the previous year. Additionally, during the reporting year, an increase occurred in sales of 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, 2018, amounted to approximately NIS 387.4 billion, of which NIS 315.1 billion were assets in the new life insurance portfolio (investment-linked policies), as compared with NIS 369.6 billion as of December 31, 2017, of which NIS 299 billion were assets in the new life insurance portfolio, i.e., an increase of approximately 4.8% in total assets, and an increase of approximately 5.4% in the assets of the investment-linked policies.

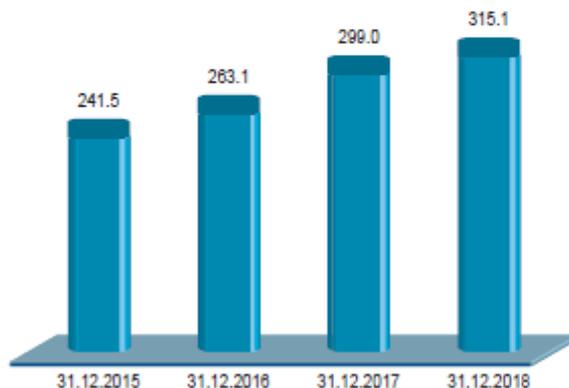
As of December 31, 2018, assets in the new life insurance portfolio which are managed by Clal Insurance amounted to approximately NIS 79.9 billion, of which approximately NIS 61.7 billion of assets in the new life insurance portfolio (investment-linked policies), as compared with approximately NIS 77.8 billion as of December 31, 2017, of which approximately NIS 60 billion of assets in the new life insurance portfolio. In other words, an increase of approximately 2.7% in total assets, and an increase of approximately 2.9% 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.

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<sup>39</sup> 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.

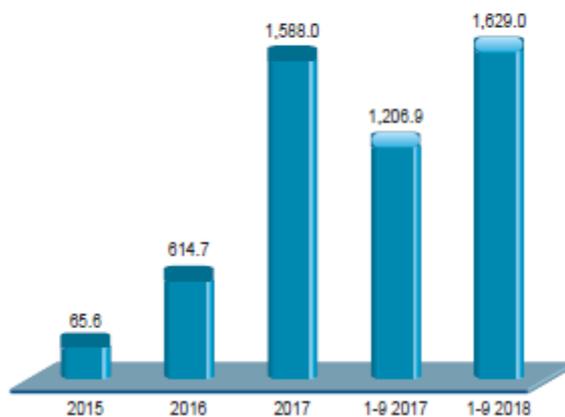
Development in the revenues in the market in the new life assurance portfolio (profit participating policies since 1991) in the years 2015 - 2018 in NIS billions



- 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 1,629 million, as compared with income of approximately NIS 1206.9 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 taxation in the years 2015 to September 2018 in NIS millions



The cumulative results of the insurance companies in the Israeli insurance market in the life insurance branch in the first nine months of 2018 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. The total management fees which were collected in the first nine months of 2018 decreased, due to the decline in the rate of management fees collected by the insurance companies relative to the corresponding period (due to the surplus returns in the corresponding period), which amounted to approximately NIS 2,368 million, as compared with a total of approximately NIS 2,648 million the corresponding period last year.

Significant changes in the capital market which occurred in the fourth quarter of 2018 significantly affected the Company's cumulative results in the life insurance branch during this period, relative to the first nine months of 2018. For additional details regarding the profitability of the life insurance branch in the fourth quarter of 2018, see Part B of the report - 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.

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 previous 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 life expectancy. The Company updates the provisions with respect to annuity recipients from time to time. For details regarding the management fees in the different products, see section 6.1.2.3 above.

In February 2019, the Capital Market Authority approved new tariffs for life insurance products in case of death (risk) of insurance companies in Israel, including a reduction of dozens of percent in the tariffs of risk products which will be sold from that date onwards (hereinbefore and hereinafter: the "**Risk Tariffs Approval**").

As part of the risk tariffs approval, the Authority determined that the insurance companies are required to implement a mechanism for reimbursement of commissions on cancellations of risk policies, such that the cancellation of the policies in the first years after their purchase will lead to a gradual reimbursement of one-time sale commissions (first year commissions) which will be paid by the insurance companies to the relevant agents. This mechanism may lead to increased retention in the risk insurance portfolio. The tariffs were approved for a period of two years, after which time the Authority will evaluate the implications of the new provisions on competition in the market, and the need for an additional update to the tariffs.

In light of the sale tariffs of risk products (after discounts) which were practiced in the market before the approval of the new tariffs, as stated above; in light of the uncertainty regarding the sale tariffs which will be practiced by the competing companies; and in light of the fact that the change is still in the initial stages of implementation, the Company is unable to estimate the full implications of the aforementioned change in tariffs on sales of risk products, including on the sales volume, the actual sale tariffs (after discounts), and the commissions which will be paid for them.

As of the publication date of the report, within the framework of the approval of the risk tariffs, the Company has not received approval (and to the best of its knowledge, nor have other companies) for tariffs for the sale of risk coverages in managers' insurance policies. In light of the above, the insurance companies discontinued marketing the risk coverages in managers' insurance policies.

According to the Company's estimate, the absence of approved tariffs for the sale of risk coverages in managers' insurance policies is expected to lead to a significant decline in sales of managers insurance, and may lead to an increase in sales of other pension products, primarily pension products, although the Company is unable to estimate the extent of the aforementioned implications.

**The Company's estimates in connection with the implications of the approval of risk tariffs 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 actual implications thereof, may differ from the forecast, due to the fact that the change is still in the initial stages of implementation; competition in the market; the conduct of the competing institutional entities and distributing entities; and the preferences of customers.**

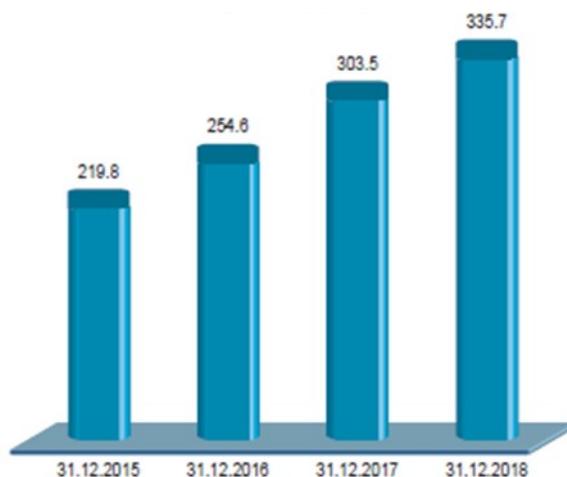
For the Company's financial information in the life insurance branch, see also Note 20 to the financial statements.

- **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:** Over the years, the State has encouraged pension savings in the annuity channel, inter alia, through partial backing of pension fund investments in designated bonds, through the Compulsory Pension Ordinance, in which it was determined that the default option, so long as the policyholder has not chosen otherwise, is addition to the pension fund, through restricting the possibility for insurers to sell new life insurance plans which include annuity factors which include a life expectancy guarantee, through the establishment of default funds (for details, see section 6.2.2(a) below), and through increasing the crediting of designated bond returns to annuity recipients in pension funds (for details, see section 6.1.2.2 above). All of the above have created a tendency among customers, in recent years, for the annuity product which is purchased in the pension fund, despite certain advantages of insurance over 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, 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, 2018 amounted to approximately NIS 335.7 billion, as compared with approximately NIS 303.5 billion in the corresponding period; i.e., an increase of approximately 10.6%. The increase in the scope of accrued assets was primarily due to the increase in the number of members and the increase in deposits, as well as the increase in 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, 2018, amounted to approximately 16.7%, as compared with 17.0% 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 31.8 billion, as compared with NIS 29.1 billion in the corresponding period.

The development in the assets in the provident funds market in the years 2015- 2018 in NIS 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 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. The creation of chosen default funds caused, and is continuing to cause, a decline in the average rate of management fees for new members and existing members. The cancellation of the collective arrangements in March 2019 is expected to intensify this trend. For details regarding provisions in connection with the increased competition in the pension savings market, and the implications thereof, see section 6.2.2 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 regarding the consolidation of inactive accounts, and the default fund circular (see sections 6.2.2(b) and 6.2.2(a) below), resulted in a significant decline in the profitability of the pension branch, including Clal Pension and Provident Funds.

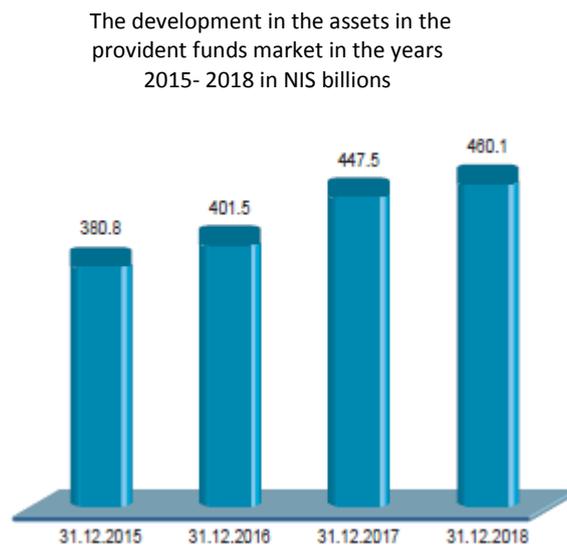
- **Customers:** During the reporting year, no material changes occurred in the mix of customers in the branch. For additional details, see section 6.4.3 below.
- In the old pension funds branch, no change occurred in supply and demand, in light of the fact that these funds are closed to the joining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

#### 6.1.4.3. Provident funds branch

- **Trends in supply and demand:** The demand for provident products, which are primarily savings products only, focused primarily on the transfer of existing accruals between the various institutional entities, through competition over management fees and returns. However, the creation of the provident funds for investment at the end of 2016 and in the beginning on 2017 resulted in the entry of new funds into the branch. For additional details, see section 6.1.1 above.
- **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, 2018 to approximately NIS 460.1

billion, as compared with approximately NIS 447.5 billion as of December 31, 2017, an increase of approximately 2.8%. This increase was due to the net positive accrual of approximately NIS 20.7 billion, which resulted (net of negative returns and collection of management fees) in an increase of approximately NIS 13 billion in the funds of provident funds in the market.

As of December 31, 2018, the scope of provident fund assets managed in the Group constitute approximately 7.2% of total assets in the provident fund market, as compared with approximately 7.5% as of December 31, 2017



- 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. For details, see Note 6(b)(1) 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 6.4.4 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 (for details, see section 6.2.1 below), the provisions in connection with default funds (for details, see section 6.2.2(a) below), and the existence of designated bonds (for details, see section 6.1.1.2 above). 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 fourth largest group in the pension market, and had a certain relative advantage, in light of the fact that it markets the entire variety of products in the segment.

#### 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. The Company is not aware of any expected material changes to its overall share in the life insurance branch, which depends, inter alia, on the conduct of competing institutional entities, on the preferences of policyholders and members, on the conduct of distributing entities, and on the effects of regulatory changes in the pension savings segment, with respect to managed assets and new sales.

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 may affect the share of the insurance branch in the pension savings market.

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 6.2.2(c) 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.

The absence of approved tariffs for insurance policies in case of death (risks) in managers insurance (for details, see section 6.1.4.1 above) is expected to result, in the short term, in an increased preference for the purchasing of pension products, instead of insurance products; however, Clal Insurance is unable to estimate the long term effects of the above, which depends, inter alia, on the sale discontinuation period, on the conduct of competitors, the preferences of customers and the distributing entities.

The impact of the absence of approved tariffs for risk sales in managers insurance, as stated above, may be intensified in light of the impact combined with the establishment of the scope of insurance coverage mechanism (risk and loss of working capacity) which may be sold to a policyholder, due to the restriction on the cost of insurance coverage relative to the compensation which is deposited on their behalf, which is expected to enter into effect in November 2019 (see section 6.2.2(g)(2) below and the provisions in connection with the explanatory obligation (see section 10.8.1.1(a) below).

#### 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.

As stated above, the Company's share in the pension branch is significantly affected, and is expected to continue being affected, by the default funds, in light of the rate of management fees which are collected therein, and their direct and indirect effects on competition in the market (for details, see section 6.2.2(a) below), and in light of the operational advantage of those funds, with there being no obligation to fill out a form in order to join them; transferring while joining by the transfer of funds from inactive accounts to active accounts in pension funds, as part of the process of transferring while joining (for details, section 6.2.2(b) below); by the conclusion of some of the collective arrangements during the reporting year (which resulted in decreased new business sales), and by the expected conclusion, in March 2019, of the collective arrangements of many employers, and the inherent advantages of default funds; 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 10.8.1.1 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. According to the Company's estimate, in light of the regulatory changes in recent years, which intensified during the reporting year, and in light of the intense competition in the segment, as 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, and in light of the expected conclusion, in March 2019, of the collective arrangements of many employers, and the inherent advantages of default funds, there is uncertainty, inter alia, regarding the market share of the chosen default funds, which is also expected to affect the Company's market share, particularly with respect to pension funds, and the rate of management fees that it will collect.

The absence of approved tariffs for the sale of risk coverages in managers' insurance, as specified above, may lead to an increase of pension products, although the Company is unable to estimate the extent of the aforementioned implications.

#### 6.1.5.3. **Provident funds branch -**

During the reporting year, the Group was the sixth 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 and investment houses, 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 is 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 creation of **provident funds for investment** constitutes an opportunity to increase the accrual of funds in 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 (similarly to the deposits at most competitors in the market).

The Company's share in the provident fund branch is expected to be affected, with respect to the study funds and the annuity-paying provident funds, also by the provisions of the default fund circular. In this regard, it is noted that expiration is scheduled, in March 2019, of collective arrangements for addition to study funds which were in effect on the publication date of the circular regarding default funds, and the addition of new members may take place through adding the member by signing a joining form, or by the institutional entity's winning of an employer's tender regarding the selection of a default study fund. According to the

Company's estimate, the average management fees for the addition of new members to study funds, and the retention of members, are expected to be significantly lower than the average management fees which are collected in the fund as of the reporting period. For details, see section 6.2.2(a) below. Furthermore, an institutional entity's winning of an employer's tender for the selection of a study fund may serve as a tool for that institutional entity's entry into the sale of the pension product at that employer.

**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. 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 from the Commissioner, 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. A managing company of provident funds which manages a pension fund is required to obtain an insurer license, which also constitutes a managing company license, for all provident funds under its management. 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.

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.

The Provident Funds Law prescribes 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 controlling shareholder of IDB Group<sup>40</sup> in the long term savings segment as of December 31, 2018 is approximately 13.6%. For details regarding the restriction

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<sup>40</sup> 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 DIC Group, which is controlled by the controlling shareholder of IDB Group.

which currently applies under the Concentration Law, on an increase of the Group's asset value, due to an acquisition or merger of a corporation or operation during the transition period, see Note 1(b)(4) 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.

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. Changes in pension deposits

Extension order regarding the increase of pension deposits

In accordance with the extension order, beginning in January 2017, the minimum rates of deposit for all employees and employers in the market are 6% for the employee's component, 6.5% for the employer's compensation component, and 6% for the severance pay component (hereinafter and hereinbefore: 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, which will be the salary for which deposits are made in accordance with the agreement with the employee, and no less the guaranteed salary in accordance with the extension order regarding compulsory pension. It was further determined in the extension order regarding the increase of pension deposits that the rate of the employer's deposits will be standard for all pension products.

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**").

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

Beginning in 2017, the self-employed are obligated to make payments to an annuity paying provident fund, according to the determined rates (on income exceeding one half of the average market salary, and not above

the average market salary), in accordance with their total income (hereinafter: the “**Compulsory Pension for the Self-Employed Law**”). 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.

The extension order regarding the increase of pension deposits resulted in increased deposits to insurance products and to pension funds, including to products which are managed by the Group's institutional entities. During the reporting year, as a result of the above, there was an accelerated increase in the scope of managed assets, and as a result, also an increase in management fees which are collected by the Group's institutional entities, in parallel with the increase in operating expenses. The positive effect of the aforementioned directive was moderated by the various directives which resulted in a reduction of the average management fees which are collected by the Company; for additional details, see section 6.2.2 below. During the reporting year, the Compulsory Pension for the Self-Employed Law did not result in any significant change in deposits to the pension funds which are managed by Clal Pension and Provident Funds; however, it is not possible to estimate the future implications of the law. 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.

**The information presented on all matters associated with the implications of the provisions pertaining to changes to pension deposits 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 the following factors, inter alia: the conduct of distributing entities, the conduct of competing institutional entities, and the preferences of members.**

#### 6.2.2. Increased competition in the pension savings market

In recent years, various directives and regulations were published which resulted in increased sophistication of the market, and in competition and transparency, inter alia, with the aim of allowing pension savers to better adjust the products to their particular needs, and to simplify their decision making process. Presented below are details regarding the main directives:

##### **A. Default funds**

As part of the circular “provisions regarding the selection of provident funds” (hereinafter: the “**Default Fund Circular**”), two pension funds were selected which will serve as default funds, to which members will be added who have not filled out a provident fund addition form, and whose employers have not chosen a default fund in a competitive process to be conducted by them, from November 2016 to October 2018. Further to the above, in October 2018, results were published of a process involving the selection of four competing pension funds, to serve as chosen default funds, for a period of three years, beginning in November 2018. The management fees which will be collected by the default funds are 1.49% of the deposits and 0.1% of the accrual in two funds; 2.49% of the deposits and 0.05% of the accrual in one fund; and 1.68% of the deposits and 0.0905% of the accrual in the fourth fund (the management fees which were collected from members who joined the default funds which were chosen until October 2018 were 1.31% of the deposits and 0.01% of the accrual in one fund; and 1.49% of the deposits and 0.001% of the accrual in the other fund).

Additionally, the management fees which will be collected by the managing company of the fund that was chosen as a default fund, from annuity recipients who retire during the winning period (even if they joined through methods other than the default), will not exceed a rate of 0.3% per year (as compared with a maximum rate of 0.5%, in accordance with the law).

The creation of the default funds, and the competitive advantages which are available to them, have a significant sector-wide impact on the pension fund market. The provisions of the default fund circular, including the provisions in connection with the determination of management fees as a primary criterion, resulted in a decrease of the average management fees which are collected in annuity-paying provident funds and in study funds, in a decline in new members of the pension fund of Clal Pension and Provident Funds, in increased transfers from the pension fund of Clal Pension and Provident Funds (including due to the entry of default funds for employers, against which Clal Pension and Provident Funds competes), in changes to the business model of the managing companies, in adverse effects on their profitability, and accordingly, also in changes to the market shares of the current competitors, including Clal Pension and Provident Funds. According to the assessment of the Group's institutional entities, this trend is expected to continue.

The demand for a discount on management fees for annuity recipients is expected to increase the competition between institutional entities, with respect to members who are near retirement age.

Additionally, the creation of default funds is also expected to continue affecting the activity and involvement of insurance agents in the market, in a manner which could impose difficulties on the pension marketing process and on offering service to members, and to obligate employers who are not interested in adding their employees to the default funds to find alternatives to these arrangements, and which could affect the institutional entities accordingly.

The aforementioned effect on the activities of insurance agents is intensified in light of the combined impact of the aforementioned provisions, together with the provisions regarding the automatic expiration of some of the collective arrangements in March 2018, which resulted in a decrease in the new business sales of Clal Pension and Provident Funds, and of the expiration, in March 2019, of the default arrangements which were in effect on the publication date of the circular regarding default funds, and with the clarification regarding the "pension marketing process", which determines that an insurance agent, when performing a transaction (including addition) with respect to a pension product, must perform a pension marketing process as a condition for the receipt of a distribution commission with respect to the aforementioned product, and is not entitled to a distribution commission in case of members who have not filled out a provident fund addition form (addition by way of an "arrangement for many") (see section 10.8.1.1 below).

**The information presented on all matters associated with the possible implications of the provisions regarding the creation and selection of default funds 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 significantly dependent on the following factors: the steps which will be taken by the member companies in the Group, including as regards dealing with the increasing competition in the market, and changes in the market shares and revenues of the Group's institutional entities; the institutional entities' relationships with employers and distributing entities; the conduct of the competing institutional entities; the preferences of members and policyholders and their conduct with respect to their products; the conduct of employers and operating entities on their behalf; Implications of other regulatory changes in the segment, and their impact combined with the abovereferenced directives.**

#### **B. 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 (hereinafter: "**Transferring While Joining**"). 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 years 2017 and 2018.

The process of transferring funds as inactive inventory to inactive in pension funds concluded, and resulted in a net decrease of the assets managed by the pension funds of Clal Pension and Provident Funds (although, during the reporting year, it resulted in a negligible net increase of the assets), in an immaterial scope relative to the total assets in the funds, along with an increase in managed funds in its managed active accounts. 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 management fees which were collected with respect to the funds which were transferred from it. The provisions regarding transferring while joining also resulted in a net decrease of assets managed by the pension funds of Clal Pension and Provident Funds, and in a decrease of the Company's income from management fees.

The directives regarding transferring while joining 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 there joining, the savings funds which are available to them will be transferred from inactive accounts to other new pension funds.

According to the assessment of the Group's institutional entities, the combination of the provisions regarding the consolidation of inactive accounts in pension funds, with respect to members who joined in the past, and who will join pension funds in the future, together with the establishment of default funds, resulted, and are expected to continue to result, in a significant increase in the scope of assets of the default funds, at the expense of other entities in the market, and will continue affecting market shares and the rates of collected management fees.

**The information presented on all matters associated with the possible implications of the provisions regarding the consolidation of inactive accounts in pension funds 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 significantly dependent on the following factors: the steps which will be taken by the member companies in the Group, including as regards dealing with the increasing competition in the market, and changes in the market shares; the conduct of the competing institutional entities; the preferences of members and policyholders and their conduct with respect to their products; the implications of other regulatory changes in the segment, and first and foremost the establishment of default funds, and their impact combined with the aforementioned directives.**

### **C. Reduction of restrictions on transfer of funds between provident funds**

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; Cancellation of the currently available possibility of canceling the transfer of funds after a detailed, signed and completed application has been submitted to the receiving fund.

According to the Company's estimate, the entry into effect of the draft amendment to the Transfer of Funds Regulations, insofar as it is 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 transfer of funds circular, insofar as it will be approved, is expected to result in a reduction of the management fees which are collected from assets held against liabilities to recipients of 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 draft's entry into effect, as stated above, in combination with the provisions regarding the provision of full explanation during retention activities, in accordance with the provisions of the explanatory document circular (for details, see section 10.8.1.1(a) below), is expected to impose difficulties on the performance of retention activities by institutional entities.

**The information presented on all matters associated with the possible implications of the draft amendment to the Transfer of Funds Regulations reform 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 significantly dependent on the final wording of the published directive, and on the following factors: the steps which will be taken by the member companies in the Group, including as regards dealing with the increasing competition with respect to the annuity recipients; the conduct of the competing institutional entities; the preferences of members and policyholders and their conduct with respect to their products; the implications of other legal provisions in the segment; and their combined impact, together with the aforementioned provisions.**

#### **D. Lifting of operational barriers**

Over the years, the Authority 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**"). The pension clearing house is used to transfer information between the various entities in the market (institutional entities, license holders, employers, policyholders and members), and to perform a series of actions (some of which must be performed through the pension clearing house only). Since the establishment of the pension clearing house, provisions were added and updated with respect to the information which must be transferred to the pension clearing house, and the activities which are performed through it.

For the purpose of implementing the provisions pertaining to the transfer of information through the pension clearing house, a circular gradually entered into effect which determines the structure of a standard record, which is intended for use by the institutional entities, license holders and other consumers of information in the pension savings segment, as part of the various business activities which are performed between them (hereinafter: the "**Standard Structure Circular**").

The standard structure circular includes the holdings interface<sup>41</sup>, the events interface through which requests are transferred<sup>42</sup>, and the severance pay balances interface<sup>43</sup> and feedback through which responses are sent to inquirers.

During the reporting year, the following changes were made to the pension clearing house:

- In accordance with the standard structure circular, in November 2018, the severance pay balances interface was expanded to apply to policyholders and members as well, in a manner which will allow them to obtain information regarding severance pay balances with respect to a specific employer.
- Additionally, in accordance with the update to the standard structure circular from December 2017, 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.<sup>44</sup>In accordance with the update from February 2019, the mobility interface will be launched in September 2019.
- In September 2018, a circular regarding the handling of information quality inquiries entered into effect, which set 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.
- 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.

## (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 prescribe rules regarding the manner and timing of execution of employers' payments to pension products on behalf of their employees, as well as provisions regarding the method for reporting by the employer, and the obligation for the institutional entity to provide feedback.

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<sup>41</sup> The holdings interface is an interface which includes data regarding the pension products of policyholders and members, which an institutional entity is required to submit to a license holder further to their request to transfer information regarding the customer.

<sup>42</sup> The events interface is an interface which expresses all of the requests that are received by the Company from the clearing house, whether these are requests for information, or requests to perform actions.

<sup>43</sup> The severance pay balances interface is an interface for the provision of information regarding severance pay balances, to employers with respect to their employees, or to policyholders with respect to their periods of employment at employers.

<sup>44</sup> The mobility interface formalizes the processes of transferring funds between institutional entities and different products.

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 Regulations<sup>45</sup>, under which provisions of the Payment Regulations were enacted, inter alia, with respect to the expansion of the reporting requirement which applies to employers; Cancellation of the possibility to receive funds through checks; Establishment of 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; 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 10 or more employees. The provisions regarding the employers interface, with respect to employers of up to 10 employees, was postponed to February 2020. 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.

The institutional entities in the Group have prepared, and are continuing to prepare, in operational terms, to implement the arrangements which were determined for the purpose of operating the clearing house, including in connection with the Payment Regulations. The required preparations for the implementation of the transfer interface involves significant operational complexity, inter alia, in light of the need to classify the funds in an automated manner, in accordance with the layers of the various regulatory directives over the years. For additional details, see section 6.2.3 below regarding the cleansing of members' rights data in institutional entities.

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 facilitates the joining of members and collection, and therefore, it is expected to result, over the long term, in increased efficiency and increased competition, and in reduced dependence on marketing entities.

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**, 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 with respect to deposits which will be made beginning from the application date of the Regulation, 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 delays in fund intake processes, delays in the distribution of some of the deposits, particularly due to inconsistencies between the reports of employers and the policy data, and indicated specific inconsistencies whose cumulative implications cannot be predicted, at this stage, with respect to the relevant periods. The process of implementing the handling of the issue in the systems of the institutional entities during the reporting year resulted in 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. The implementation of the Payment Regulations also resulted in possible temporary delays in reporting to members, in difficulties in identifying arrears, for the purpose of making direct contact with employers and operating entities, and in an increase of operating and automation expenses. The Group's institutional entities are still in the process of implementing and handling the issues which come up during the implementation of the Payment Regulations, and are working to reduce the aforementioned gaps, including through improvements in the automation system and in the work processes. However, the entry into effect of the

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<sup>45</sup> 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.

directive regarding the reporting requirement on the level of the policyholder, as part of the employers interface (as opposed to 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.

Following Authority's audit report, which was received by Clal Insurance and which noted deficiencies, mostly pertaining to the manner of implementation of the Payment Regulations, Clal Insurance submitted to the Commissioner a response to address the findings of the report, which, subject to the Commissioner's satisfaction, will allow the continued marketing of pension products by Clal Insurance. Clal Insurance began implementing work plan, as part of the timetables which were formulated for its implementation. Clal Insurance is currently discussing the implementation of the plan with the Authority.

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 and implementation of the provisions of the law. The responsibility of the Group's institutional entities to collect employers' debts to such funds creates exposure in case of deficiencies in the collection process.

**The information presented on all matters associated with the possible implications of the legal provisions regarding the removal of operational barriers constitutes forward looking information, which is based on the Group's estimates and assumptions as of the publication date of the report, and in light of the fact that the aforementioned arrangements involve various entities. Actual implementation may differ significantly from the forecast. The implications of the aforementioned provisions of the law are largely dependent upon the institutional entities' continued preparation for the provisions of the law, and on the conduct of employers and operating entities on their behalf; the conduct and preferences of license holders; the preferences of members and policyholders and their conduct with respect to their products; and the complexity of the operational preparations with respect to the various provisions.**

#### **E. Prohibition against conditions in pension arrangements**

In July 2018, an amendment was published to the circular regarding conditions in pension arrangements which include insurance coverages, in which a prohibition was established against the provision of benefits in connection with the purchasing of pension products which are conditional upon the purchase of insurance coverage (in addition to the prohibition which applied to discounts on management fees); as well as a prohibition on making a discount or benefit (either in cash or cash equivalent) on insurance coverage, conditional on the policyholder's purchase of a pension product from the same institutional entity.

The amendment applies to institutional entities with respect to individual and collective loss of working capacity or life insurance policies, which will be marketed or renewed, or the benefit for which will be renewed, after the date of the circular's entry into effect.

The amendment to the circular regarding conditions in pension arrangements which include insurance coverage may affect the engagement structure of institutional entities, including engagements with employers with respect to pension arrangements, in a manner which is intended to increase competition in the segment.

**The information presented on all matters associated with the possible implications of the amendment to the circular regarding conditions in pension arrangements which include insurance coverage 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 employers, customers and competing entities.**

#### **F. 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**"); 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 10.8.1.1 below.

#### **G. Changes to products - unification of products, transparency and tariff intervention**

Over the years, the Authority 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**

In June 2018, the regulations of the pension fund "Clal Pension" entered into effect, in accordance with the provisions of the circular regarding members' rights and obligations in the regulations of a new comprehensive pension fund, in which it was determined that a managing company will determine the wording of the comprehensive pension fund regulations which it manages, in accordance with a standard wording which was attached to the circular as an annex, unless it has received the Commissioner's approval to deviate from such wording.

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

The trend of unifying long term savings products, as reflected in the establishment of standard regulations for pension funds and for provident funds, has contributed to increased transparency, and to increased sophistication and intensification of competition in the segment, while focusing the competition on management fees, returns, service and operations.

##### **(2) Guidelines for loss of working capacity**

Further to the circular which was published in September 2016, regarding "**guidelines with respect to loss of working capacity insurance plans**" (hereinafter: the "**Guidelines Circular**"), which determines a standard and modular structure for loss of working capacity insurance plans, to which the policyholder is entitled to attach riders which allow expansion of the basic coverage, in November 2017, the Company began marketing a loss of working capacity insurance plan, as stated above, under managers insurance, under the name "income protection", with tariffs which were approved by the Authority.

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, except for supplementary coverage to cover the disability of a member of the pension fund (hereinafter: the "**Pension Fund Umbrella**"). Further to the above, in May 2018, an amendment was published to the guidelines circular, which included supplementary provisions regarding the scope of coverage which will be included in the pension fund umbrella, and the extensions which can be offered thereunder. In accordance with the amendment, the provision regarding the pension fund umbrella will not apply to members of old pension funds.

As of the present date, Clal Insurance does not market a pension fund umbrella product.

Additionally, in Additionally 2018, the primary provisions of the **circular regarding the marketing of loss of working capacity insurance plans** (hereinafter: the "**Circular Regarding The Marketing Of Loss Of Working Capacity Insurance Plans**") entered into effect, which determined that an institutional entity, license holder or insurance agent are obligated to identify, before selling loss of working capacity insurance plans, including the sale of collective insurance plan, and excluding the determined exceptions, through the clearing house, whether the applicant already has loss of working capacity coverage, and to issue a recommendation in connection with the purchase of the loss of working capacity insurance plan in question (an obligation which did not apply in the past when joining a collective loss of working capacity insurance, and which will apply to policyholders who join collective loss of working capacity insurance beginning in 2019). Provisions were also determined regarding the provision of information to customers, as well as a restriction limiting the sale of loss of working capacity insurance coverage only to policyholders who have income which is not already covered by existing loss of working capacity insurance coverage. The implementation of the marketing of loss of working capacity insurance plans circular includes a change, which is expected to enter into effect in November 2019, to the mechanism for determining the scope of insurance coverage (risk and loss of working capacity) which can be sold to the policyholder, due to the restriction on the cost of insurance coverage, relative to the compensation which is deposited on their behalf. The established mechanism restricts, in certain circumstances, the sale of insurance coverage in managers' insurance policies and compensation for the self-employed, and may result in a decrease in the sales of such policies, and in a reduction of the insurance coverage which is sold thereunder.

At this stage, in light of the fact that these products were launched in late 2017, and are long term products, it is not possible to estimate the full implications of the guidelines circular, and the additional provisions on the matter, specified above. These effects may only be identified over time, and will be affected, inter alia, by the scope of insurance coverage which was extended relative to the preceding product, and the pricing method thereof, by the effect of the provisions regarding the coverage of the pension fund umbrella, relative to the extended coverage for loss of working capacity which pension fund members could acquire previously, and the pricing thereof, the effect of the entire series of aforementioned changes on claim settlement expenses, and on the number of new members, including by way of cancellation and replacement of previous products, and the effect on the product's total profitability, inter alia, in consideration of the reinsurance which was extended for the purpose of hedging these risks, and also in consideration of the product's effect on the economic capital ratio of Clal Insurance.

### **(3) New tariffs for life insurance products in case of death (risk)**

For details regarding new tariffs for life insurance products in case of death (risks), which were approved by the Authority in February 2019, and the absence of approved tariffs for the sale of risk coverages as part of managers' insurance, and the implications of the said tariffs, see section 6.1.4.1 above.

## **H. Assumed returns in annuity conversion factors of new pension funds**

In May 2017, amendments were published to the **circular including provisions regarding the management of new funds**, to the **circular including provisions regarding the management of new general funds**, and to the **circular including provisions regarding financial reporting for new pension funds**. As part of the aforementioned amendments, changes were made, inter alia, to the mechanism for the calculation and

updating of annuities which are paid from new pension funds to annuity recipients, beginning in January 2018, such that the annuities will be updated, including in accordance with the deviations between the returns which will be achieved in practice on the free investments, and an annual rate of 3.36%, in a manner whereby the deficit with respect to members who leave will not be imposed on all of the fund's members. In light of the aforementioned change to the mechanism for the calculation and updating of annuities, the Company adjusted, in 2017, the investment policy for the various groups of annuity recipients.

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

The Company believes that the aforementioned amendments may in the future lead to 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.

**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.**

#### **Implications of provisions pertaining to increased competition in the pension savings segment**

The entry into effect of the arrangements as part of the regulatory changes pertaining to the increased competition in the pension savings segment (sections A to H above) have aggregate implications, and affect, and may continue to affect, the Group's activities on a cumulative basis, 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, and Note 6 to the financial statements.

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 with respect to the loss of working capacity and risk of death 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 transferring while joining; Provisions in connection with the unification of products; the clarification regarding the pension marketing process when marketing a pension product; and the reduction of risk tariffs, which may result in the replacement of current risk insurance products with cheaper insurance products. The following draft directives, insofar as they are published as binding directives, may also lead to a continuation of the trend of lower profitability: the provisions of the circular regarding the mobility of guaranteed annuity factors; 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 10.8.1.1(b) below). 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.

For the possible implications of the draft distribution commission regulations, see section 10.8.1.1(b) below.

- **Competition** - The creation of the default funds, the entry and strengthened position of new market players, the increased transparency, the removal of 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, have 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.

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 the competing institutional entities, following the legislative amendments; 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 legal provisions in the segment, and their combined impact, together with the provisions pertaining to increased competition; and the complexity of the operational preparations with respect to the various provisions.

### 6.2.3. Other

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

**Further to the provisions of the circular regarding data cleansing with respect to members' rights in institutional entities**, which was published in November 2012, regarding data cleansing with respect to members' rights (institutional entities circular 2014-9-13) (the "**Circular**"), which obligated the institutional entity to cleanse the data which confer rights upon members, in order to ensure that the recording of members' rights in the information systems is as reliable, complete, accessible and retrievable as possible, by mid-2016. The Group's institutional entities conducted, after the publication of the circular, in 2013, a gap survey with respect to members and policyholders which 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 in the systems of the long term savings segment. In general, as of the publication date of the report, most of the tasks involving the cleansing of data regarding accrued balances of policyholders have been completed. The Group's institutional entities are continuing their data cleansing activities with respect to members and policyholders, including with reference to additional gaps which are identified from time to time, including as regards the automation of classification of funds, in accordance with the layers of the regulatory directives, over the years, and these are in the final stages of handling. At this stage, the institutional entities in the Group are unable to estimate the scope, cost, and full implications of the aforementioned activities, or the scope of the future gaps in data cleansing, which may result from regulatory changes, due, inter alia, to the complexity of the products, the fact that they are long term products, and due to the multiplicity of automation systems in the segment, and their limitations. The Group's institutional entities update their insurance liabilities from time to time, as required.

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 10.17.2(b) below.

- **Prohibition on money laundering**

In March 2018, the **Prohibition on Money Laundering Order (Identification, Reporting and Record Keeping Obligations of insurers, Insurance Agents and Managing Companies for the Prevention of Money Laundering and Terrorism Financing), 2017** (hereinafter: the "**Prohibition on Money Laundering Order**") entered into effect, which unified, under a single framework, previous ordinances pertaining to the obligations of insurers, provident funds, managing companies and insurance agents, as well as supplementary directives of the Capital Market Authority. The Prohibition on Money Laundering Order applies, inter alia, to accounts and policies of independent members and policyholders in life insurance products, provident funds and new general funds, as well as individual products. The ordinance also includes updated provisions in connection with the threshold for activities according to the ordinance, and the establishment of an obligation to conduct a "know your customer" process when engaging in a life insurance contract or opening a provident fund.

Upon the entry into effect of the Prohibition on Money Laundering Order, a circular also entered into effect on the subject of 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. Additionally, a directive was published which postponed the commencement date of the obligation to conduct a "know your customer" process with respect to customers who joined a pension product through pension advice made by a banking entity, to July 2019.

- **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 (excluding the account of a member with whom contact has been lost), a check by mail, and provisions were established 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 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 of an immaterial scope.

**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.**

- **Method for withdrawal of funds from the upon the conclusion of upon conclusion of the work relationship**

In July 2018, Amendment 21 to the Provident Funds Law was published, in which it was determined that an employer will be entitled to withdraw deposits which it has made for its employee, to the severance pay component, within 4 months after the end of the employee's period of employment at that employer, provided that the employer has submitted, to the institutional entity where the severance pay funds are held, one of the following: (1) A declaratory ruling determining its right to severance pay, or a reference confirming the initiation of such legal proceedings; (2) References confirming the existence of legal proceedings, in which a final determination was given regarding the employer's entitlement to severance pay, or revocation of the employee's entitlement to severance pay; or (3) Notice by the employer and employee confirming that the funds can be returned to the employer. It was further determined that insofar as the employer has not submitted to the managing company the aforementioned documents within the specified period, and the employee has withdrawn the severance pay, the employer will be estopped from bringing claims against the managing company. An employer will be entitled to withdraw deposits which it has performed on behalf of its employees to the severance pay component 4 months after the end of the employee's period of employment at that employer, only if it has submitted to the institutional entity a declaratory ruling determining its entitlement to severance pay, and the employee has not yet withdrawn the severance pay as of the date when the aforementioned ruling is given.

The aforementioned amendment includes transitional provisions for 4 months, which concluded in November 2018, during which time the employer could object to the transfer of severance pay funds of employees whose employment concluded before the amendment entered into effect.

As of the publication date of this report, no significant change has been made in the scope of withdrawals of severance pay funds managed by the Group. However, the Company is unable to estimate, at this stage, the full future implications of the aforementioned directive.

**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. 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, the guaranteed returns on some of the assets in the pension funds, and the creation of default funds, pension funds are the main product which is being marketed to the general public. For details regarding trends in supply and demand during the reporting year, see section 6.1.4 above.

Insurance products which do not receive tax benefits, such as individual policies or pension savings funds which became liquid, as well as provident funds for investment (the investment in which has a tax advantage, insofar as the funds are withdrawn upon the saver's retirement, see section 6.1.1 above), are products which

also compete amongst themselves and against other investment products which are also marketed by financial entities that are not entities overseen by the Commissioner, mostly including banks, portfolio managers and mutual funds.

The competition in the segment is focused on returns, including the existence or absence of annuity or guaranteed return factors, the amount of the management fees, the insurance coverages, the service level, and supplementary insurance solutions.

In accordance with the Commissioner's publications, as of December 31, 2018, the Group is the fourth largest in the life insurance branch, the third largest in the pension fund branch, and the sixth largest in the provident fund branch, and in total, the Group is the fourth largest in the pension market, in accordance with the scope of managed assets, as defined by the Commissioner. It is noted that, in recent years, preference has been given for the entry and bolstering of small players in the pension market, as reflected in the default fund selection process.

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 6.2.2(g)(2) above, and the provisions regarding the determination of tariffs in risk, in section 6.1.4.1 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. Additionally, pension funds which include survivors insurance (in case of the member's death) also constitute competition to the risk products, as a supplementary product to managers insurance.

The combined impact of regulatory changes which were made in recent years, including the creation of default pension funds (including cancellation of the collective arrangements which applied) (for details, see section 6.2.2(a) above), and the increased trend of interchangeability between products of the same type of the different institutional entities, the trend of unification between the different products, the creation of the pension clearing house (see section 6.2.2(d)(1) above), the addition to insurance circular (for details, see section 10.2.5 below), the publication of comparative benchmarks<sup>46</sup> and the removal of mobility barriers, have resulted in intensified competition between the products in the segment, and between the institutional entities. For details regarding additional directives which have affected and continue to affect the competition and profitability in the segment, see section 6.2.2 above.

The competitive conditions described above affect the mobility of the pension products which are managed by the Group's institutional entities. For details regarding the transfer of funds from and to the Group's institutional entities in long term savings branches branch-specific 2016 to 2018, see section 6.4.5 below.

The competition over the aforementioned products was reflected, inter alia, in the retention ability and in the amount of collected management fees. For additional details, see Part B - board of directors' report, section 3.1.1.

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.

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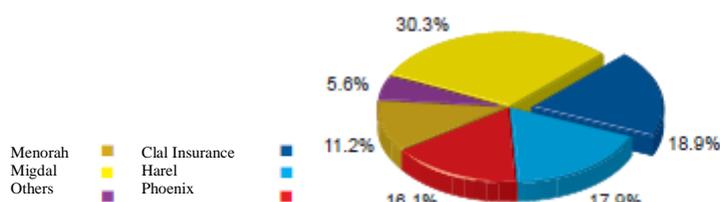
<sup>46</sup> The Authority publishes, on the Ministry of Finance website, comparative figures with respect to returns and the risk indicators of provident funds, pension funds and insurance funds, information regarding the composition of investment assets and expenses which are deducted from members' 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.

**1) Life insurance branch**

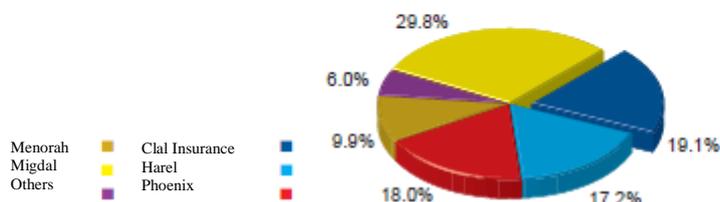
Approximately 94.0% of the life insurance market, in terms of gross premiums earned, is controlled by the five large insurance companies (Clal Insurance, Migdal, Harel, Menorah and Phoenix). According to the Group's estimate, Clal Insurance primarily competes against these insurers, against pension funds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

The decline in market share was primarily due to redemptions and transfers from the Company's insurance funds at a higher rate than its share in the managers' insurance market.

The spread of the premiums between the insurance groups and companies in Israel as a percentage as at 30.9.2018



The spread of the premiums between the insurance groups and companies in Israel as a percentage as at 30.9.2017



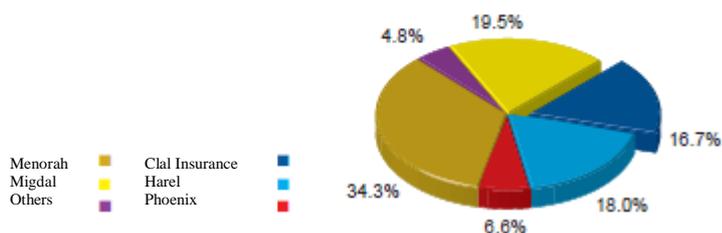
\* The scope of premiums in the life insurance branch reflects the premiums which are paid with respect to all policies which are in effect and which were sold over the years, and changes therein do not necessarily indicate a change in supply and demand during the reporting year. The scope of premiums also does not take into account the effects of the absence of approved tariffs for the sale of risks in managers insurance, which began in the period after the reporting period (see section 6.1.4.1 above).

**2) Pension funds branch**

According to the Group's estimate, Clal Pension and Provident Funds primarily competes against the chosen default funds and the large funds, Mivtachim (Menorah) and Makefet (Migdal), and Harel Group.

The decrease in the Company's market share was due to the increased competition in the market, and the strengthened position of the chosen default funds.

The spread of the assets in the new pension funds between the insurance groups and companies in Israel as a percentage as at 31.12.2018

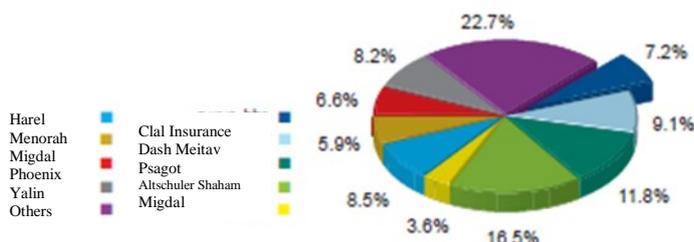


### 3) Provident funds branch

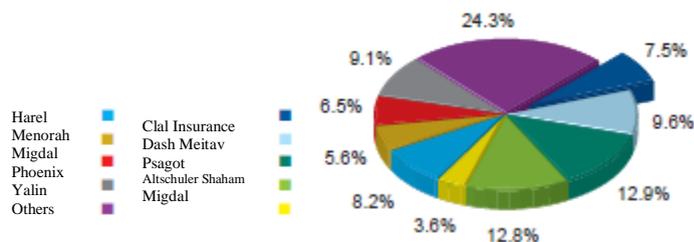
As of the reporting year, the competition in the branch takes place primarily against the other provident funds for savings. According to the Group's estimate, its main competitors are Psagot, Meitav DS, Altschuler Shaham, Harel, Phoenix, Menorah and Migdal.

The decrease in the Company's market share was due to the continued redemptions and transfers from the Company's provident funds, due to the competition in the market.

The spread of the assets in the provident funds between private bodies and insurance groups in Israel as a percentage as at 31.12.2018



The spread of the assets in the provident funds between private bodies and insurance groups in Israel as a percentage as at 31.12.2017



### 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.
- The use of regulatory changes, in order to receive exposure to potential new customers, and to add them as customers.
- Increased operational efficiency - through the improvement of work methods and the improvement of automation systems. For details regarding the improvement of automation and digitization systems, see section 10.10.3.2 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.
- Competitive tariffs.

**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 2.5.4 above.
- Competitive barriers - for details regarding the lifting of barriers to entry to the market and to the entry of competitors, 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 2018. 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.<sup>47</sup>

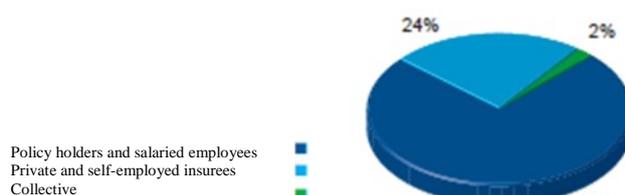
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<sup>47</sup> With respect to the reporting year, the evaluation also included Mr. Moshe Terry, who serves as the trustee for IDB Development for the purpose of exercising the authorities which are vested in him by virtue of the means of control.

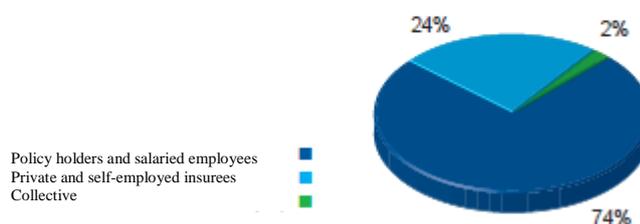
6.4.1. Distribution of Company customers in the life insurance branch by premiums in the years 2018 and 2017

Customer type	2018		2017	
	Gross premiums (NIS in thousands)	Proportion of total sales	Gross premiums (NIS in thousands)	Proportion of total sales
Members and salaried employees	4,342,883	74%	4,109,823	74%
Private and independent policyholders	1,422,239	24%	1,334,622	24%
Collectives	81,573	2%	90,058	2%
<b>Total</b>	<b>5,846,695</b>	<b>100%</b>	<b>5,534,503</b>	<b>100%</b>

The spread of the customers in the life assurance sector according to the gross premiums in the year 2018



The spread of the customers in the life assurance sector according to the gross premiums in the year 2017



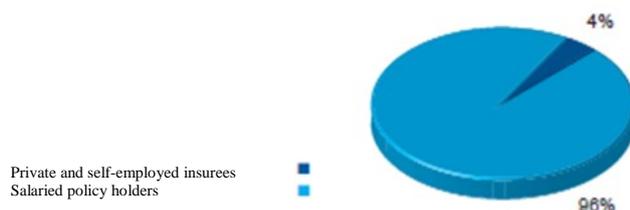
6.4.2. Redemptions in the life insurance branch

In the life insurance branch, the redemption rate from the average reserve during the reporting year was 2.0%, as compared with 2.1 in 2017.

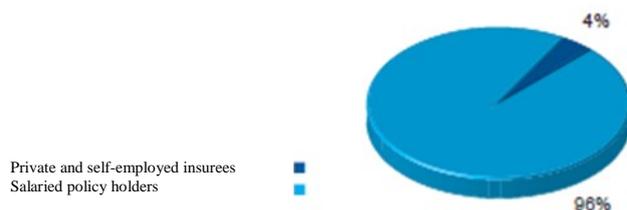
6.4.3. Distribution of the Company's customers in the pension funds branch by contributions for the years 2018 and 2017

Customer type	2018		2017	
	Contributions (NIS in thousands)	Proportion of total sales	Contributions (NIS in thousands)	Proportion of total sales
Salaried employee members	5,634,844	96%	5,449,412	96%
Individual and self-employed policyholders	255,847	4%	252,873	4%
<b>Total</b>	<b>5,890,691</b>	<b>100%</b>	<b>5,702,285</b>	<b>100%</b>

The spread of the customers in the pensions funds sector according to the contributions paid in the year 2018



The spread of the customers in the pensions funds sector according to the contributions paid in the year 2017



6.4.4. Distribution of the Company's customers in the provident funds branch according to contributions in 2018 and 2017

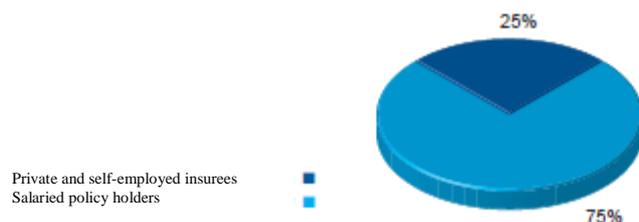
2018

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	278,125	404	1,081,578	-	1,360,107	75%
Individual and self-employed policyholders	174,545	-	115,077	164,310	453,932	25%
<b>Total</b>	<b>452,670</b>	<b>404</b>	<b>1,196,655</b>	<b>164,310</b>	<b>1,814,039</b>	<b>100.00%</b>

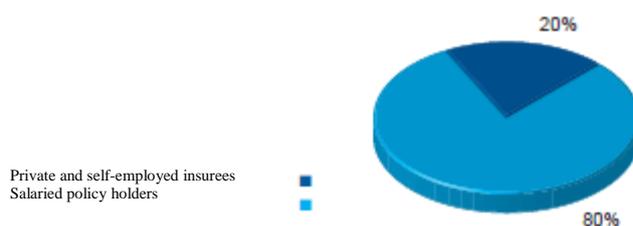
2017

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%
<b>Total</b>	<b>394,488</b>	<b>1,439</b>	<b>1,103,161</b>	<b>102,535</b>	<b>1,601,624</b>	<b>100%</b>

The spread of the customers in the provident funds sector according to the contributions paid in the year 2018



The spread of the customers in the provident funds sector according to the contributions paid in the year 2017



6.4.5. Information regarding the transfer of funds from and to the Group's institutional entities in the long term savings branch during the years 2016 to 2018:

2018

NIS in thousands	Company operation			Total
	Life insurance	Provident funds	Pension	
<b>Transfers to the Company from other entities</b>				
Transfers from other insurance companies	65,438	3,912	55,196	124,546
Transfers from pension funds	99,563	32,064	1,779,639	1,911,266
Transfers from provident funds	37,338	1,147,050	9,748	1,194,136
<b>Total transfers to the Company</b>	<b>202,339</b>	<b>1,183,026</b>	<b>1,844,583</b>	<b>3,229,948</b>
<b>Transfers from the Company to other entities</b>				
Transfers to other insurance companies	210,484	77,282	175,338	463,104
Transfers to pension funds	149,574	7,121	2,231,492	2,388,187
Transfers to provident funds	352,151	1,722,270	39,269	2,113,690
<b>Total transfers from the Company</b>	<b>712,209</b>	<b>1,806,673</b>	<b>2,446,099</b>	<b>4,964,981</b>
<b>Net transfers</b>	<b>(509,870)</b>	<b>(623,647)</b>	<b>(601,516)</b>	<b>(1,735,033)</b>

2017

NIS in thousands	Company operation			Total
	Life insurance	Provident funds	Pension	
<b>Transfers to the Company from other entities</b>				
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
<b>Total transfers to the Company</b>	<b>38,772</b>	<b>765,778</b>	<b>1,725,991</b>	<b>2,530,541</b>
<b>Transfers from the Company to other entities</b>				
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	271,015	3,077,022	62,139	3,410,176
<b>Total transfers from the Company</b>	<b>557,982</b>	<b>3,183,360</b>	<b>2,894,703</b>	<b>6,636,045</b>
<b>Net transfers</b>	<b>(519,210)</b>	<b>(2,417,582)</b>	<b>(1,168,712)</b>	<b>(4,105,504)</b>

2016

NIS in thousands	Company operation			Total
	Life insurance	Provident funds	Pension	
<b>Transfers to the Company from other entities</b>				
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
<b>Total transfers to the Company</b>	<b>22,464</b>	<b>1,073,952</b>	<b>935,705</b>	<b>2,032,121</b>
<b>Transfers from the Company to other entities</b>				
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
<b>Total transfers from the Company</b>	<b>370,907</b>	<b>1,915,196</b>	<b>866,722</b>	<b>3,152,825</b>
<b>Net transfers</b>	<b>(348,443)</b>	<b>(841,244)</b>	<b>68,983</b>	<b>(1,120,704)</b>

7. **Non-life insurance segment**

7.1. **Products and services**

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

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

Operations in property insurance are considered characterized by "short tail claims", due to the fact that the obsolescence period is only three years after the occurrence of the insurance event, and due to the fact that these claims are submitted, in most cases, during the insurance period. On the other hand, compulsory insurance and liability insurance are considered characterized as "long tail claims", due to the fact that the obsolescence period is seven years after the occurrence of the insurance event, 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. 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). Following the reduction of the tariffs of the Pool, as part of the 2016 and 2017 amendments to the compulsory motor insurance circular (see below in section 7.1.1.1(c)(1)), the sales volume increased of insurance for private and commercial vehicles of up to 3.5 tons through the Pool, which became a competitor. 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 2018 underwriting year amounted to a total of approximately 9.12%<sup>48</sup>, as compared with a rate of approximately 9.26% in the 2017 underwriting year.

The insurance companies finance their share in the residual insurance arrangement (within the framework of the “pool”) 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 July 2018, the **Law in Amendment of the Motor Vehicle Ordinance (No. 23), 2018**, was published, which updated the legislative arrangement with respect to the loading component (hereinafter: the “**Amendment to the Loading Component Range**”) which the insurance companies participating in the residual insurance arrangement are entitled to collect for the purpose of financing the cost for residual insurance, such that the loading component, until July 2020, will be in the range from 5.5% to 8.5% of the cost of pure risk<sup>49</sup> of the insurer's compulsory insurance which are not under residual insurance, and after July 2020, it will be in the range from 5.5% to 8%.

**At this preliminary stage, it is not possible to predict the full impact of the amendment, which depends, inter alia, on the business results and competitive conditions in the market, which are affected, inter alia, by the method for updating 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 decisions which will be reached regarding changes to the discount rate (see section 7.1.1.1(d)2 below).**

## (2) Karnit Road Accident Victims Compensation Fund

Karnit Road Accident Victims Compensation Fund (“**Karnit**”) is a corporation which was established in accordance with the RAVC law, for the purpose of paying compensation to eligible individuals in accordance with the RAVC law, who are unable to claim compensation from an insurance company, due to one of the following cases: (1) Injury 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 fund is financed by loading a rate of 1% of net premiums<sup>50</sup> on the holders of compulsory motor insurance policies. This amount is transferred by the insurance companies to Karnit.

<sup>48</sup> The specified rate is a temporary rate which is based on the data for September 2018, as published by the Pool.

<sup>49</sup> “Cost of pure risk “ - The part of an insurance tariff which does not include profit, expenses and service provision costs, excluding claim settlement costs. The cost of pure risk is based on the past claims experience in the insurance branch for motor vehicles subject to compulsory insurance, plus an estimate of future payments with respect to those claims, and in consideration of the trends which affect the prevalence and cost of claims, in accordance with section 7a of the Motor Vehicle Insurance Ordinance (New Version), 1970.

<sup>50</sup> Net (insurance) premiums - premiums which reflect the cost of risk, without external loading, such as expenses and commissions.

(3) **Liability regarding the provision of medical services -**

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

**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.

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 us of additional variables which were previously not used by the "Pool".

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, in 2016 and 2017 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 to 2018, 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 have a substantially adverse effect on 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 typically has long tail claims, and in light of the uncertainty regarding the changes to the discount rate and their effects on the business results in the branch, and on the tariffs specified therein, 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, the impact of the Discounting Regulations, and the changes to the discount rate, as specified in section 7.1.1.1(d)(2) below.

(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 operates which is used to estimate the cost of risks in the compulsory motor insurance branch, and which was created by virtue of the **Motor Vehicle Insurance Regulations (Residual Insurance Arrangement and Tariff Determination Mechanism), 2001**.

The statistical database and the insurance fraud handling database, as specified in this section below, 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 from insurers in the insurance branch, and to use it to determine the cost of pure risk (the "**Risk Tariff**"). 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. For details regarding the residual insurance arrangement, see section 7.1.1.1(b)(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.

The legislative arrangement in connection with claims settled by Clal Insurance, including by way of ruling, settlement or other payment, and regarding which the National Insurance Institute has subrogation claims (hereinafter: "**National Insurance Subrogation Claims**"), has resulted and will continue to result in an increase of subrogation claims from the National Insurance Institute, with respect to claims in the compulsory motor insurance branch and in the liabilities branches, which were have been repaid by Clal Insurance in the past. However, the above is not expected to have an effect on profitability, insofar as a correlation arises between the scopes of actual deductions made by Clal Insurance from the insurance benefits of policyholders, and the payment to National Insurance within the framework of the subrogation claims.

The Company's estimate in connection with National Insurance subrogation claims 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, depending, inter alia, on the manner of development of National Insurance subrogation claims on the one hand, and on the deductions which will be made by Clal Insurance on the other hand.**

In March 2018, the Economic Efficiency Law (Legislative Amendments to Achieve Budgetary Goals for 2019), 2018 (hereinafter: the "**Economic Efficiency Law**") was published, in which changes were made to 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. In accordance with the legislative amendment, the current specific subrogation arrangement mechanism was canceled, according to which the settling of accounts is performed separately with respect to each claim, and instead it was determined 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 “**Fixed Amount**”). It was further determined that an insurer will be required to transfer the fixed amount each year, in accordance with a distribution which will be determined with respect to that year as compensation, and that the Minister of Finance, with the approval of the Labor and Welfare Committee, and after having given the insurers an opportunity to present their claims, will establish provisions in the regulations regarding the method used to determine the fixed amount, the method for updating it, rules for the distribution of the total amount among the insurers, which will be used to calculate the fixed amount for each insurer, and the date when the insurance companies will pay the fixed amount to the Institute. The fixed 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 and considerations which are prescribed in the Economic Efficiency Law, including, inter alia, updates and considerations regarding the discount rates, actuarial tables which are published by the National Insurance Institute, insurance risk in the compulsory motor branch, compulsory insurance premiums in the compulsory motor branch which were actually collected by the entire branch from 2010 to 2017, in accordance with the Authority's figures, the expected effect of the fixed amount on future compulsory insurance premiums, and the retirement amounts which are paid by the National Insurance Institute pursuant to the National Insurance Law (hereinafter: the “**New Subrogation Arrangement Regulations**”). In accordance with the Economic Efficiency Law, it will enter into effect on the publication date of the new subrogation arrangement regulations. It was further determined that the provisions of the law will also apply to road accidents which occurred from January 2014 until the date of the law's entry into effect, provided that a claim or demand has not been submitted regarding them by the National Insurance Institute.

The new subrogation arrangement regulations were scheduled for publication within 30 days after the publication date of the law; however, as of the publication date of the report, they have not yet been published, and therefore, at this stage, Clal Insurance is continuing to act vis-à-vis the National Insurance Institute in accordance with the currently existing agreement between them.

At this preliminary stage, before the determination of the fixed amount, it is not possible to estimate the effect of the new subrogation arrangement, which depends, inter alia, on the wording of the new subrogation arrangement regulations, and on the date of their entry into effect, on the amount which will be determined as the fixed amount, on the mechanism which will be determined regarding the distribution of the fixed amount among the insurance companies, and on the impact of possible increased operational efficiency, due to the aforementioned mechanism.

## (2) Interest rate for discounting 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 led to an evaluation of indirect effects on court rulings regarding the discount interest rate which should be used to calculate compensation for future losses, including outside of the framework of National Insurance subrogation claims, in compulsory and liabilities insurance. 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, 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, while evaluating the manner in which the committee's recommended arrangement will be implemented.

In January 2019, the Inter-Ministerial Committee for Evaluation of the Discount Rate, led by Erez Kaminetz, Deputy Attorney General of Israel, published a report for public comments (hereinafter: the "**Kaminetz Committee's Report for Public Comments**"). According to the Kaminetz report for public comments, the committee supports the "standard discounting method", according to which one single average interest rate will be determined for the entire compensation period, reflecting a low risk investment. It is also proposed to establish a "mobility band" of 3% around the interest rate, whereby the width of the mobility band will be one percentage point in each direction. Any deviation from the mobility band will activate a near-automatic update to the discount rate, in accordance with the method used to determine the original interest rate (interest at a standard rate of low risk investment), whereby only in highly extraordinary circumstances will the Accountant General have the discretion not to activate the update, after having consulted with various entities involved in the matter, and after having evaluated whether they believe that the automatic update should not be activated, due to the aforementioned circumstances. For the purpose of evaluating what will constitute a deviation from the mobility band, the yield obtained by investing in AA-rated corporate bonds, over a period of 25 years, will be measured. The measurement of such deviation will be performed once every two years, whereby the update mechanism will be activated if, during the half year preceding the evaluation date, the yield deviates by a rate exceeding one percent, i.e., the yield falls below a rate of 2%, or exceeds a rate of 4%, respectively.

The Kaminetz committee's report for public comments also determined that the committee would not recommend to obligate or to incentivize periodic payments by the damager, or by the insurance company which has taken their place. With respect to the triangular relationship among the injured party - National Insurance - the insurer, it was determined that it is preferable for the discount interest rates in the triangular relationship to be standard, or at least similar; however, there is no obligation for the discount rate to be identical between the discounted annuities which are paid by National Insurance to its insureds, and the discount rate in tort cases and the indemnification and deduction interest rate, which should be compared to the tort indemnification interest rate which reflects a low risk investment (hereinafter, jointly: "**Changes to the Discount Rate**"). For additional details regarding the Kaminetz Committee's report for public comments, see Note 39(f) to the financial statements.

The Company estimated the total possible impact due to the aforementioned changes in the discount rate, at this stage without taking into account the Kaminetz Committee's report for public comments, which has not yet been formulated as a final report, and regarding which a court ruling has not yet been given. As part of the aforementioned effects, weight was given to the uncertainty with respect to the actual impact and the manner in which it will materialize, as specified in Note 39(f) to the financial statements.

At this stage, before a final determination has been made regarding the changes to the discount rate, before the Kaminetz Committee's submission of a final report, before the Attorney General's submission of an updated position regarding the case of the Pool to the Supreme Court, and before the Court's determination regarding the matter of the discount rate in tort compensation, it is not possible to predict the effects on insurance liabilities.

**In light of the foregoing, the Company's estimate on all matters associated with changes to the discount rate constitutes forward looking information, which is based on the information which is available to the Company as of the reporting date, and regarding which, in light of the circumstances specified above, there is no certainty that it will take place.**

#### **E. Outline regarding light-heavy clearing**

In accordance with the RAVC law, each insurer is required to compensate the passengers who were riding in a vehicle which was insured by it. The RAVC law further provides that, with respect to any person who was injured in an accident outside of the insured vehicles, in an accident in which several vehicles were involved, the various insurers will be liable (without proof of guilt), jointly and severally, and amongst themselves the insurers will bear the burden, in equal parts. 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.

#### **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 adjusters<sup>51</sup> (the “**List of External Loss Adjusters**”), at the policyholder’s 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. The policyholder has the possibility to agree, when signing the agreement, that in case of an insurance event, the vehicle will be repaired at an arrangement garage, and in exchange, the policyholder will also receive a discount on premiums, and other benefits upon the occurrence of the insurance event (hereinafter: the “**Select Garages Policy**”). Clal Insurance also offers a unique insurance track called “Clal Protect”, in which the policyholder receives a road camera for installation in their vehicle, which they then connect to the application “Nexar”. The application allows the submission of real time reports, and therefore, allows representatives of Clal Insurance to support the policyholder upon the occurrence of an insurance event, and to assist them, as required, inter alia, in ordering towing services, in ordering a taxi home, providing an alternative vehicle, and rescue services for the injured (hereinafter: “**Clal Protect**”).

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<sup>51</sup> 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 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.

**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 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 of a garage 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; and additional issues will also be evaluated, 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, and to the timing of the loss adjustment process (before the vehicle has been repaired).
- (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 regarding an “**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, 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 be such that the average price of a work hour actually collected by the garage from its customers 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.

Clal Insurance is unable to predict the overall impact of the draft circular regarding garages and loss adjusters and the draft vehicle licensing services regulations - loss adjustment, insofar as they are published as binding circulars, due, inter alia, to the fact the directives are currently in regulatory processes which have not yet been completed, 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 insurance companies which provide motor property insurance in Israel, including Clal Insurance.<sup>52</sup> Any insurer can join the arrangement (i.e., to submit data to the database, and to submit queries), or leave the arrangement, once per year, by giving notice 90 days advance notice.

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 August 2018, an amendment was published to the circular regarding the "Insurance Mountain" online interface for the identification of insurance products, in which it was determined, beginning with the report for March 2019, 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 "**Addition of Motor Property Claims Report Data to the Insurance Mountain**").

According to the assessment of Clal Insurance, the addition of report data with respect to motor property claims to the "Insurance Mountain" is expected 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 aforementioned amendment has entered into effect, it is not possible to estimate and predict all of its implications, which depend, inter alia, 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:

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

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<sup>52</sup> Excluding two new insurance companies, which received a license during the reporting year, and which will begin reporting to the database in 2019.

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

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

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

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

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

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

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

- For details regarding the draft circular regarding certificates of insurance, see section 7.4.1 below.

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

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

**A. Apartment insurance sub-branch**

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

According to the Company's estimate, the amendment to the circular regarding water damages resulted in a change to 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. **However, in light of the preliminary stage of the arrangement's implementation, it is not possible to estimate its full implications, which will be affected, will be affected, by the conduct of service providers, competing entities, distributors and customers, and also depending on the manner of development of actual claim settlement costs, and the policy prices which will be determined.**

#### **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 mostly 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 mostly 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 temporary 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.

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

**The Company is preparing for the implementation of the provisions of the circular regarding disclosure and reporting in health insurance, with respect to short-term collective personal accidents policies, inter alia, through operational preparations, focusing and reduction of market segments, and adjustment of the scope of insurance coverage. At this preliminary stage, it is not possible to estimate the full impact of the circular regarding disclosure and reporting in health insurance, which, in light of the scope of activities, appear to be immaterial.**

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 engagement with the policyholder is made through a basic insurance policy which constitutes the framework for the engagement between the parties. Under the basic policy, the Company approved credit ceilings for the policyholder in varying amounts and conditions, in a specific underwriting process for each individual buyer of the policyholder. The maximum scope of coverage is specified in the policy list. 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 renewable periodically, see section 10.17.3 below.

7.1.2. Details regarding the primary products and services included in the operating segment

Presented below is a description of the main coverages:

**A. Compulsory motor insurance branch**

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

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

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

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

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

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

**B. Motor property insurance branch**

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

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

Motor property insurance provides a basket of insurance coverages, including: theft, fire, accidental collision, overturn and accidents of any kind whatsoever, damages caused with malicious intent, and the policyholder's

liability due to damage which may be caused to third party property as a result of the use of the vehicle during the insurance period (“**Third Party Insurance**”). During the insurance proposal stage, the policyholder is entitled to choose coverage through one of the following alternatives: (1) Comprehensive insurance; (2) Comprehensive insurance without theft coverage; (3) Comprehensive insurance without accident coverage; and (4) Third party insurance only.

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

### **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 contract works insurance policies.

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 corporate officers' liability:** This insurance is intended to cover the legal liability of directors and corporate 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 -**

**Mostly 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. In some of the cases where the Company sells policies pursuant to the Sales Law, it also provides, in parallel, financing to the entrepreneur for the purpose of building the project.

#### **Accident, illness and disability insurance sub-branch -**

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

In general, 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.

#### **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.

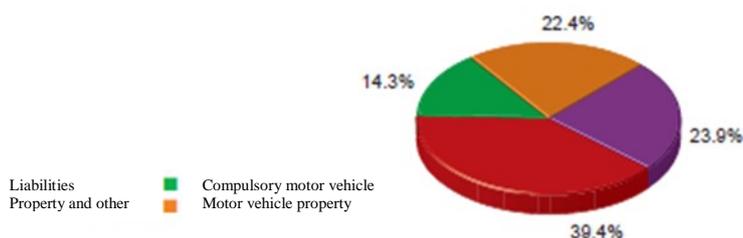
In accordance with the Commissioner's publications, as of September 30, 2018, gross premiums in the non-life insurance segment in Israel amounted, in the first nine months of 2018, to approximately NIS 17.7 billion, as compared with approximately NIS 16.9 billion in the corresponding period last year, i.e., an increase of approximately 4.7%, as compared with an increase of approximately 4.1% relative to the corresponding period last year. 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 additional details regarding the data for Clal Insurance, see Part B of the report - board of directors' report, section 3.1.2.

Developments in the gross premiums in the general insurance field in the years 2015 to 2017 and in the periods from January 1 to September in the years 2017 and 2018 in .NIS billions

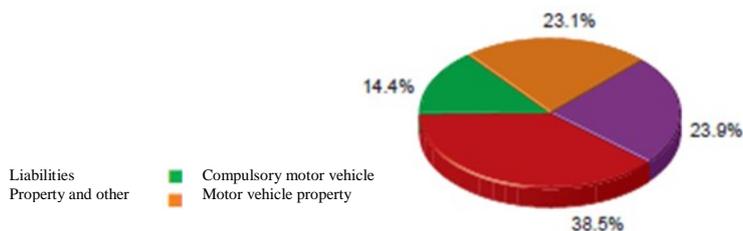


Presented below the distribution of gross premiums in the non-life insurance market in Israel, by non-life insurance branches, as described in this segment (excluding the short term illness and hospitalization branch, as described in the section regarding health insurance (section 8 below), with variability between the companies regarding its inclusion in the health segment or in the non-life insurance segment), in January to September of 2017 and 2018:

Distribution of the gross premiums in the insurance market in Israel by general insurance branch January – September 2018



Distribution of the gross premiums in the insurance market in Israel by general insurance branch January – September 2017

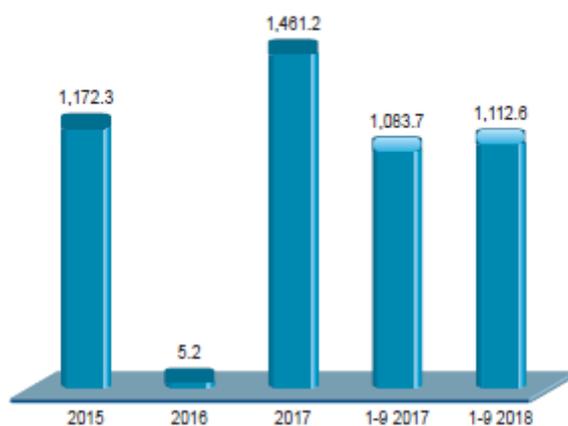


The data for 2017 were restated.

In accordance with the Commissioner's publications, as of September 30, 2018, profit in the non-life insurance segment in Israel in the first nine months of 2018 amounted to approximately NIS 1.11 billion, as compared with income of approximately NIS 1.08 billion in the corresponding period last year. The changes

in profitability were primarily affected by the decrease in investment gains, along with the profit from improved 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.

Developments in the comprehensive pre-tax profit in the general insurance field in the years 2015 to 2018 in NIS millions



#### **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 insurance tariffs, and the changes to the discount rate, 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**

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.

The profitability in this branch may be affected, inter alia, by various changes to the components, including the underwriting policy, 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 7.1.1.2(b) above.

For details regarding expected regulatory changes in the motor property insurance branch which may affect the profitability in this branch, see section 7.1.1.2(b) 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 National Insurance Institute's subrogation rights, and regarding changes to the discount rate, 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 7.1.2(d) 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 data which are published on the Commissioner's website, the Group is the fifth largest group in the non-life insurance segment.

According to the Company's estimate, Clal Insurance's share in the markets will be affected by the intense competition in the segment, which will remain focused on the amount of premiums and on the provision of services to policyholders, and also by the entry of new competitors which operate digitally. For details on this matter, see section 7.2.1 below. The competition in the compulsory and liabilities branches may also be affected by the changes to the discount rate, which affect the tariffs in these branches (see section 7.1.1.1(d)(2) above). Clal Insurance works towards moderate business growth, particularly in individual business operations, following the business optimization process of several years, which emphasized profitability considerations over market share. Additionally, changes to arrangements vis-à-vis providers (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 7.1.1.2(b3)(4) 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, 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 circular which established an 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, the impact on tariffs and the changes to the discount rate.**

**7.1.5. New products**

During the reporting year, no significant new products were marketed by the Group in this segment. However, the Company also worked during the reporting year to amend and improve various products.

**7.2. Competition****7.2.1. Factors encouraging competition**

According to the Company's estimate, the competition in the branch will continue to increase in the coming years as well, due to the entry into the market of new insurance companies, which are engaged in the non-life insurance segment, due to the effect of regulatory reforms which are unique to the segment, as specified above and below, and due to the industry-wide regulatory directives.

**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 continued in the coming years, the non-life insurance segment, and the profitability thereof. For additional details regarding section 2.5.4 above, and for details regarding the 2017 amendment to the compulsory motor insurance circular, see section 7.1.1.1(c)(1) above.

- **Availability of data by digital means** - In recent years, the Commissioner has promoted various provisions on the subject of the transfer of information by digital means. As part of the above, an amendment to the addition to insurance circular entered into effect during the reporting year, which obligates the marketing entity, when making inquiries regarding an insurance applicant's needs, to check at the Insurance Mountain (a platform concentrating information with respect to all of a policyholder's insurance products at the insurance companies) whether the insurance applicant already has similar insurance products, which increases competition in the market. For details regarding the amendment to the addition to insurance circular, see section 10.2.5 above.

For details regarding the use of a digital platform for marketing and distribution, see section 10.8.1.2(b) below.

For additional details regarding the addition to insurance circular, see section 10.2.5 below.

- **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.

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.

#### **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 also addresses 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 decisions of Clal Insurance, price competition and the conduct of the competing players in the market, distributing entities and customers.

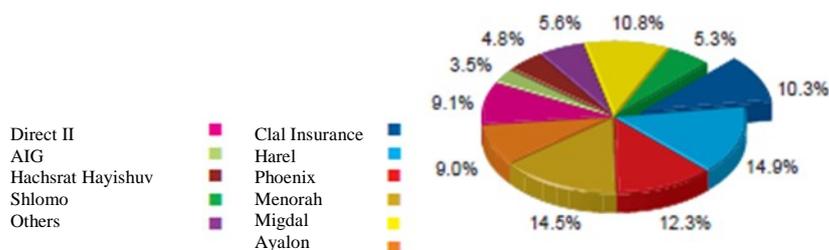
**Clal Insurance's estimate in connection with the competing entities, as specified above, partially constitutes forward looking information, which is based on the information which is available to the Group as of the reporting date. Actual results may differ materially from the estimated results, due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

7.2.2. Competitive conditions in the operating segment

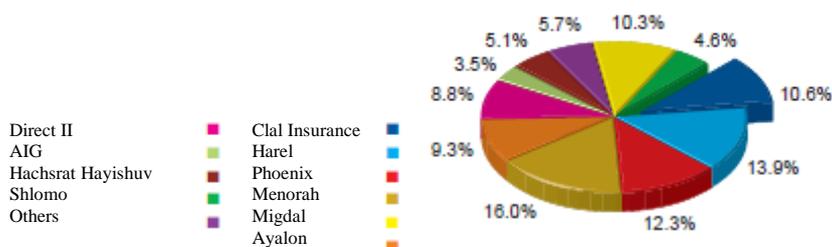
Most of the insurance companies in Israel are engaged in this segment.

Total gross premiums in the non-life insurance segment in the Group amounted, as of September 30, 2018, to approximately NIS 1,827 million, and constituted, according to the data in the financial statements of the insurance companies as of September 30, 2018, which are published on the website of the Capital Markets, Insurance and Savings Authority, approximately 10.3% of the activity in the non-life insurance segment. In the first nine months of 2017, gross premiums in non-life insurance in the Group amounted to approximately NIS 1,797 million, and constituted approximately 10.6% of the activities in the non-life insurance segment.

Spread of the premiums in the general insurance field between the insurance groups and companies as at September 2018



Spread of the premiums in the general insurance field between the insurance groups and companies as at September 2017



**A. Individual branches**

Most of the insurance companies sell most of the products in the segment in individual insurance branches (compulsory motor insurance, motor property insurance and apartment insurance). Some only through agents, others only through direct sale channels, and others through both channels. The market in the individual insurance branches involves significant competition.

Additionally, due to 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.

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, and on the Insurance Mountain website. 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 62.8% of the market share in non-life insurance as of September 30, 2018, in accordance with the data which are published on the website of the Capital Markets, Insurance and Savings Authority, as well as IDI Direct where the Group alone holds approximately 10.3% of the aforementioned market share. There is also a trend in the individual branches of increasing market share of the direct insurance companies, and of the small insurance companies.

In certain branches in the non-life insurance segment in Israel, there are significant competitors in the same branch. 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.

**Improved service to customers and agents** - Inter alia, by activating systems for the issuance of policies at agents' offices, technological improvements to interfaces vis-à-vis agents (such as a system for direct printing and mailing of policies, tablets for agents designed to provide a complete and accessible picture of the customer, and a claims opening system), and the provision of digital services.

**Operational improvements** - for the purpose of complying with the 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, 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. The Company operates a digital platform for the marketing of compulsory motor and motor property products. The Company also markets unique tracks in the comprehensive policy, called "Select Garages" and "Clal Protect" (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.

### 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 (short term) 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 2017 and 2018

#### **A. Compulsory motor insurance branch**

Customer type	2018		2017	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders (non-fleets or collectives)	359,378	77%	366,867	78%
Fleet - collective	107,347	23%	105,680	22%
<b>Total</b>	<b>466,725</b>	<b>100%</b>	<b>472,547</b>	<b>100%</b>

Spread of the customers in the compulsory motor vehicle insurance branch according to premiums in the year 2018



Spread of the customers in the compulsory motor vehicle insurance branch according to premiums in the year 2017



**B. Motor property insurance branch**

Customer type	2018		2017	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders (non-fleets or collectives)	587,149	82%	588,958	81%
Fleet - collective	126,149	18%	137,882	19%
<b>Total</b>	<b>713,298</b>	<b>100%</b>	<b>726,840</b>	<b>100%</b>

Spread of the customers in the compulsory motor vehicle insurance branch according to premiums in the year 2018



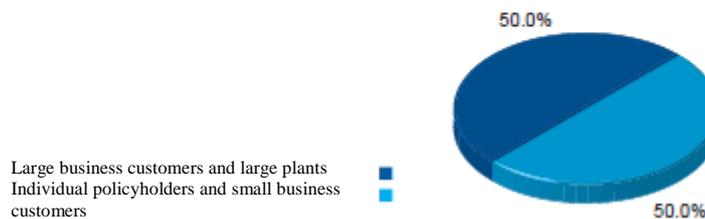
Spread of the customers in the compulsory motor vehicle insurance branch according to premiums in the year 2017



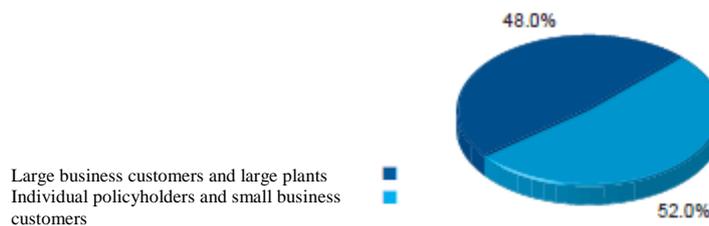
**C. Liabilities insurance branch**

Customer type	2018		2017	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
Individual policyholders and small business customers	168,381	50%	168,590	52%
Large business customers and large plants	165,516	50%	155,245	48%
<b>Total</b>	<b>333,897</b>	<b>100%</b>	<b>323,835</b>	<b>100%</b>

Spread of the customers in the liabilities insurance branch according to premiums in the year 2018



Spread of the customers in the liabilities insurance branch according to premiums in the year 2017

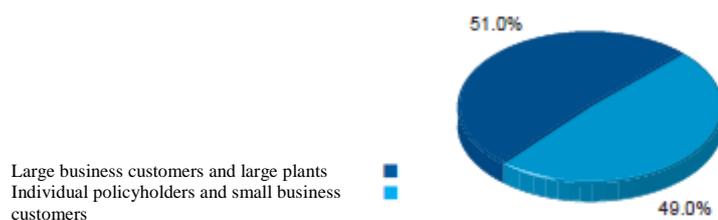


**D. Other property and others insurance branch**

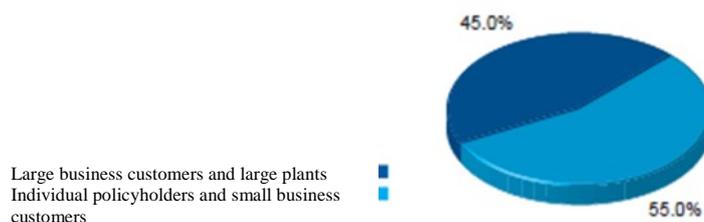
Customer type	2018	2017
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	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands <sup>53</sup>	Proportion of total sales
<b>Individual policyholders and small business customers</b>	359,153	49%	366,856	55%
<b>Large business customers and large plants</b>	368,520	51%	297,193	45%
<b>Total</b>	<b>727,673</b>	<b>100%</b>	<b>664,049</b>	<b>100%</b>

Spread of the customers in the other property and others insurance branch according to premiums in the year 2018



Spread of the customers in the other property and others insurance branch according to premiums in the year 2017

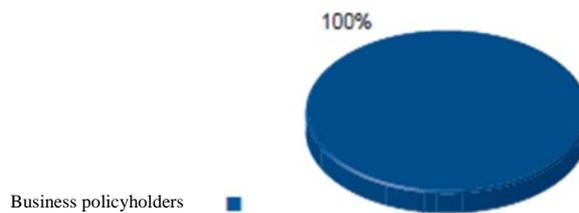


#### E. Credit insurance branch

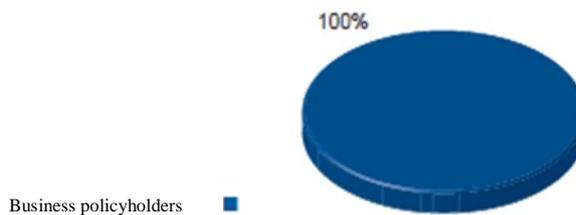
Customer type	2018		2017	
	Premiums, NIS in thousands	Proportion of total sales	Premiums, NIS in thousands	Proportion of total sales
<b>Business policyholders</b>	109,793	100%	110,188	100%
<b>Total</b>	<b>109,793</b>	<b>100%</b>	<b>110,188</b>	<b>100%</b>

<sup>53</sup> The data for 2017 were restated.

Spread of the customers in the credit insurance branch according to premiums in the year 2018



Spread of the customers in the credit insurance branch according to premiums in the year 2017



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

- In the non-life insurance segment, the Group is not dependent on any individual customer or on a limited number of customers.
- The Group does not have any individual customer whose income in the segment constitutes 10% or more of the Company's total income in the consolidated reports.
- The Group insures, from time to time and in the ordinary course of business, member companies of the IDB Group. The Group's total income in the non-life insurance segment from member companies of the IDB Group, from premiums in the ordinary course of business, did not exceed 5% of the Company's income in the segment in 2018. 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.<sup>54</sup>
- The rate of individual policyholders who purchased compulsory motor insurance together with motor property insurance in 2018, out of the total customers who purchased compulsory motor insurance in the Group, amounts to approximately 69%. The rate of individual policyholders who purchased compulsory motor insurance together with motor property insurance in 2018, out of the total customers who purchased motor property insurance in the Group, amounts to approximately 90%.
- 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 2018, 2017 and 2016 out of the total insurance fees in respect of policies

<sup>54</sup> 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.

that terminated in 2018, 2017 and 2016, respectively, which are affected, inter alia, by business optimization processes which were implemented by Clal Insurance in recent years:<sup>55</sup>

Branch	Rate of renewals from total premiums with respect to policies whose conclusion date is in 2018	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
Compulsory motor insurance	69.7%	69.0%	63.8%
Motor property insurance	70.1%	73.9%	68.4%
Apartment insurance	86.2%	83.3%	79.2%

- 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**<sup>56</sup>:

Number of insurance years (years of seniority)	Premiums, NIS in thousands			Proportion of total sales		
	2018	2017	2016	2018	2017	2016
First insurance year (no seniority)	154,759	206,078	168,748	33.16%	43.61%	38.50%
Second insurance year (one year of seniority)	133,060	90,540	84,023	28.51%	19.16%	19.17%
Third insurance year (two years of seniority)	59,218	53,114	61,275	12.69%	11.24%	13.98%
Over three years of seniority	119,688	122,815	124,260	25.64%	25.99%	28.35%
<b>Total</b>	<b>466,725</b>	<b>472,547</b>	<b>438,306</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

- 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		
	2018	2017	2016	2018	2017	2016
First insurance year (no seniority)	246,109	289,064	225,568	34.50%	39.77%	35.55%
Second insurance year (one year of seniority)	168,252	149,220	120,239	23.59%	20.53%	18.95%
Third insurance year (two years of seniority)	96,235	79,226	89,339	13.49%	10.90%	14.08%
Over three years of	202,703	209,330	199,362	28.42%	28.80%	31.42%

<sup>55</sup> The rates are presented in terms of gross premiums.

<sup>56</sup> For details regarding premiums which were collected by Clal Insurance in the non-life insurance segment during the reporting year, see Note 5(d) to the financial statements.

seniority						
<b>Total</b>	<b>713,299</b>	<b>726,840</b>	<b>634,508</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

- 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		
	2018	2017	2016	2018	2017	2016
<b>First insurance year (no seniority)</b>	39,805	38,693	34,835	14.77%	14.27%	11.98%
<b>Second insurance year (one year of seniority)</b>	26,402	27,603	31,229	9.79%	10.18%	10.74%
<b>Third insurance year (two years of seniority)</b>	24,150	24,838	35,766	8.96%	9.16%	12.30%
<b>Over three years of seniority</b>	179,216	180,018	188,947	66.48%	66.39%	64.98%
<b>Total</b>	<b>269,573</b>	<b>271,152</b>	<b>290,777</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\* 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.

#### 7.4. **Other**

##### 7.4.1. **Draft circular regarding certificates of insurance**

In August 2018, a second draft of the circular regarding certificates of insurance (hereinafter: the “**Draft Circular Regarding Certificates of Insurance**”) was published, 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 regarding certificates of insurance 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.

According to the Company's estimate, the draft circular regarding certificates of insurance, insofar as it will be approved as a binding circular, may result in increased operational efficiency on all matters associated with the issuance of certificates of insurance, and lead to standardization and certainty on all matters associated with the scope of insurance coverage.

**The Company's estimate 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 circular regarding certificates of insurance, and the conduct of policyholders, entities requesting approval and competitors.**

##### 7.4.2. **Amendment to the circular regarding the implementation and marketing of service letters**

For details regarding the circular on the implementation and marketing of service letters, see section 10.2.6 below.

8. **Health insurance segment**

8.1. **Products and services**

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

8.1.1.1. **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 primary sub-branches which are proposed by the Company:

- o Illness and hospitalization insurance.
- o International travel insurance.
- o Personal accidents insurance.

8.1.1.2. **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 (currently mostly for health fund members), 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 coverages:

8.1.2.1. **Illness and hospitalization branch**

In the illness and hospitalization branch, Clal Insurance markets individual insurance and collective insurance.

- 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**"). An insurance company is obligated to notify all policyholders of the change around two months before the date, and to obtain their consent if the monthly premiums have increased, or if the scope of insurance coverage has been reduced, as an alternative to raising the premiums, as stated above, according to the cases and conditions which were determined by the Commissioner (hereinafter: the "**Policy Pricing Reform**").

It is difficult to estimate the impact of the policy pricing reform over the long term; however, in the short term, the update to the policies in accordance with the aforementioned reform resulted in a reduction of tariffs in Clal Insurance relative to the coverages which are included in the reform. 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 standard policy regulations, as defined below.**

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 of the plans.

- 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 Directives (Insurance) (Collective Health Insurance), 2009** (hereinafter: the “**Collective Health Regulations**”), 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 directives, 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 directives, unless the policyholder's express consent has been received.

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:
  - **Alternative insurance** - Insurance coverage which constitutes an alternative to the services which are given in the basic basket and/or for additional services.
  - **Additional insurance** – Coverage for services which, at their date of sale, are not included in the basic basket or in the additional services.
  - **Supplementary insurance** - Coverage which expands coverage given in the basic basket and/or in the additional services.
- **The basic insurance coverages in this sub-branch include:**
  - **Insurance for surgeries, transplants and special treatments** - Provides coverage to the policyholder with respect to private medical services. Within this framework, the 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 in general, except for an exclusion which was established with respect to insurers with low market shares (hereinafter: “**Insurers With Low Market Shares**”), 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 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.

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, 2015. 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 accordance with the Court's decision, in light of the fact that this is a new arrangement, and the consequences of its implementation are not yet known, the Ministry of Health is required to submit periodic updates to the Court, after which the continued handling of the case will be considered.

In accordance with the decision of the Price Committee from February 2018, and the application of Chapter F (Reporting of Prices and Profitability) of the Supervision of Products and Services Law, 1996, to the prices of privately funded surgeries, through the Supervision of Products and Services Pricing Ordinance, an obligation was imposed on the health fund and insurance companies which provide medical insurance, as well as surgical hospitals and clinics as the service providers, to submit data to the Ministry of Health regarding privately funded surgeries, in a predetermined format, for two years.

At this preliminary stage, the Company is unable to estimate the impact of the aforementioned report and the ensuing decisions.

- **Critical illness insurance** - Insurance coverage in which the policyholder, in case of the diagnosis of a critical illness insurance, is entitled to receive monetary compensation in a one-time amount.
- **Drugs insurance** - Insurance coverage for purchasing drugs which are not included in the national health basket.
- There are also additional coverages, which do not constitute basic plans, such as **ambulatory services** - services which provide medical treatment, in a hospital or a clinic, with no need for hospitalization.

## **B. International travel insurance**

International travel insurance is comprised of a basket of insurance coverages which are intended for policyholders during their time spent abroad, including, inter alia, base coverage which primarily includes

medical expenses that allows the purchase of various extensions (such as travel cancellation, travel shortening, pregnancy, personal accidents, baggage, winter sports). The insurance period in an international travel policy is specified in days, according to the period of the policyholder's stay abroad, or for the duration of all travel days in a single calendar year. International travel policies are sold by insurance agents, and mostly sold by the direct sales unit. The Company is working to increase sales in the international travel segment by marketing through insurance agents and digital means, and in parallel, the Company is working to extend the engagement with the health funds, the agreement with whom is set to expire. The profitability in international travel policies is also affected by changes in exchange rates.

### 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 - volume 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, with respect to the period from September 2018 to September 2020, 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. The requirement to send monthly text messages, as stated above, resulted, during the period from the application date of the aforementioned obligation until the publication date of the report, in increased cancellation rates; however, at this stage, inter alia, in light of the preliminary phase of implementation, it is not possible to estimate the development of the consequences described above.

For details regarding the determination with respect to the marketing of personal accidents policies, see Note 42(d)(1) to the financial statements.

#### 8.1.2.2. 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 November 2018, an **“amendment to the provisions of the consolidated circular - volume 6, part 3 - long term care insurance”** (hereinafter: the **“Circular”** or the **“long term Care Claims Settlement Circular”**) was published, which includes provisions regarding claim settlement in long term care insurance, which are intended to ensure a claim settlement process which is as fast as possible, fair, and involving minimum hassle for policyholders.

The circular established, inter alia, provisions with respect to the order of actions and timetables which will apply to the insurer in the claim settlement process; Imposition of an obligation on the insurer to appoint a representative on its behalf, to serve as the contact person vis-à-vis the policyholder; And the establishment of restrictions in cases where investigations can be made, and regarding the methods used to make them. Inter alia, it was determined that an investigation will include only documentation of the policyholder's actions as they occurred, and that, within the framework of a decision to reject a claim, which also relies on findings which came up in the investigation, the insurer is required to attach to its decision also the date and location of the investigation, as well as a picture from the investigation, which allows verification of the policyholder's identity.

The circular also specifies the cases in which the insurer may refer the policyholder for the performance of functional evaluations, and it was further determined that if the insurer has a functional evaluation which was performed by the National Insurance Institute, or by another insurer, it will be considered 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 circular.

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 circular, the application date is September 1, 2019, excluding the provisions regarding the performance of investigations, for which earlier application dates were determined, until March 1, 2019 (the "**Application Date**"), which will also apply with respect to policies which were sold in the past, and the claims for which will be submitted after the application date.

The described processes, provisions and restrictions set forth in the circular with respect to the settlement of long term care claims 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, are expected to increase claim settlement costs. At this preliminary stage, the Company is unable to estimate the entire impact of the aforementioned provisions, which could be significant. For additional details, see section 10.16(b)(1) below and Part B of the report - board of directors' report, section 3.1.3.

**The information presented on all matters associated with the possible implications of the claim settlement circular, as described above, constitutes forward looking information, which is based on assumptions and estimates made by the Group, and actual results may differ significantly from the forecast, and depend, inter alia, on the manner of actual implementation, and the implications of the long term care claim settlement process, including with respect to claims which will be settled after the application date, based on policies which were marketed in the past.**

#### **A. 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.

**B. Collective long term care insurance (excluding collective long term care insurance for health fund members)**

In recent years, the Commissioner has published various directives, in which he regulated the conclusion of collective long term care insurance activities, under the previously implemented framework, and the conclusion of which was eventually scheduled for December 31, 2017 (hereinafter: the "**Conclusion Date**"). Additionally, in 2017, directives of the Commissioner entered into effect with respect to the framework for collective long term care insurance policies which will be sold beginning from the conclusion date (hereinafter: the "**New Framework**"). In accordance with the new framework, it was determined, inter alia, that the insurance period will be no shorter than 5 years, and no longer than 8 years; the type of premium which can be collected from a policyholder 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 upon renewal of the collective insurance at another insurer, the reserves will be transferred between insurers; when exercising the continuity right of a policyholder aged 40 or older, for a individual framework long term care policy, the premium of the continuing policy will be no higher than the premium which that policyholder was required to pay with respect to the collective long term care insurance before the transition to the continuing policy. To the best of the Company's knowledge, policies according to the new framework are not common on the market.

As of the publication date of the report, Clal Insurance does not engage in collective long term care insurance under the new framework, and accordingly, most of the collective policies in which Clal Insurance was engaged until the end of 2017 concluded; however, during the reporting year, the above did not have a significant impact on the Company, inter alia, in light of the fact that, during the years preceding the publication of the aforementioned provisions, the Company worked to reduce its activities in collective long term care insurance.

**C. Collective long term care insurance for health fund members**

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, which determine, inter alia, standard terms for such insurance, rules for the management of policyholder funds, within the framework of a special cumulative fund of policyholders, which may bear no more than 80% of the insurance risk (the "**Policyholder Fund**"), where the insurer bears the balance of the insurance risk only, as well as rules for the transition of policyholders between different health funds and long term care insurance policies.

In accordance with the aforementioned provisions, the Commissioner is entitled to approve, for that insurer, to insure members of 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 Leumit health fund, until the end of March 2019.

Until the end of the reporting year, Clal Insurance insured, through collective long term care insurance, also members of Maccabi Magen and members of Maccabi Health Services, continuously since July 1, 2008. After the date of the report, Clal Insurance transferred to Maccabi the monies in the policyholder fund which it managed during the aforementioned period, in accordance with the agreement between the parties.

In general, despite the conclusion of the activity as an insurer providing long term care insurance for health fund members, as specified above, Clal Insurance still has insurance liability to cover claims of policyholders who were insured by it through the aforementioned insurance, with respect to insurance events which first occurred during the validity period of the collective insurance in Clal Insurance, including with respect to claims which were submitted after the end of the insurance period, and subject to obsolescence, in accordance with the law.

In 2018, the Maccabi, Leumit and Clalit health funds published new tenders for the selection of an insurer to provide collective long term care insurance for the fund members, according to a different framework of engagement than that which applies to Clal Insurance's current engagement with Maccabi and Leumit (such that the winning insurer will bear only 20% of the insurance risk, and the policyholder fund will bear the rest). In accordance with the funds' notice, Clal Insurance's offer regarding the provision of collective long term care insurance service to fund members did not win the tender.

It is difficult to assess the long term implications of the conclusion of Clal Insurance's activity as an insurer of long term care insurance for members of the Maccabi and Leumit health funds; however, in the short term, the conclusion of the aforementioned operation will result in a decrease in the scope of premiums and in the market share of Clal Insurance in the long term care branch (although in light of the new framework for the funds' engagement in long term care insurance policies, as specified above, the scope of insurance liability for the winning insurer, and in any case also for Clal Insurance, had it won the tenders, is significantly lower than that which applied to such insurance under the previous framework). Additionally, in consideration of the preliminary phase of the regulatory changes with respect to claim settlement in the long term care insurance segment, which were published in the circular regarding the settlement of long term care claims, as specified in section 8.1.2.2 above, and in consideration of the prices at which, to the best of Clal Insurance's knowledge, the funds engaged with the insurers that won the tenders, Clal Insurance estimates that the profit which it would have gained from the transactions, had it won, would have been low. The conclusion of the engagement with Maccabi and Leumit health funds is expected to result in a gradual reduction of direct expenses with respect to the concluded activity, over three years after the conclusion date of the insurance period, and in the re-allocation of indirect expenses.

**The information presented on all matters associated with the possible future implications of the conclusion of Clal Insurance's activity as a provider of long term care insurance to members of Maccabi and Leumit health funds constitutes forward looking information, which is based on assumptions and estimates made by the Group as of the publication date of the report, and actual results may differ.**

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

8.1.3.1. **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 awareness regarding the need for available service and by choice, the need for medical services which are not included in the basic health basket, and the additional services of health funds.

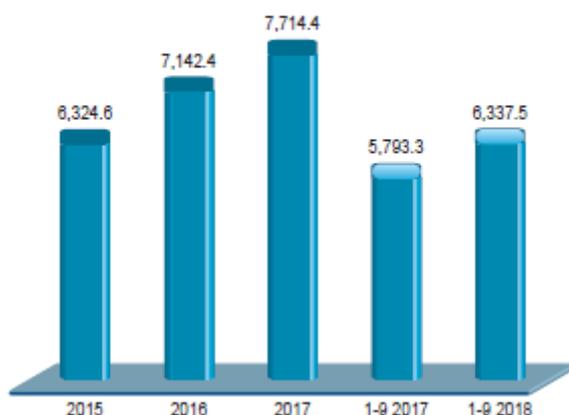
Additionally, in light of the Company's decision to focus on its core activities in this branch, in general, Clal Insurance no longer markets insurance in the insurance branch for foreigners residing in Israel, dental insurance and health insurance policies for Israelis residing abroad.

In accordance with the Commissioner's publications as of September 30, 2018, the market volume, in terms of gross premiums in the illness and hospitalization branch in the first nine months of 2018, amounted to approximately NIS 6.3 billion, as compared with approximately NIS 5.8 billion in the corresponding period last year. Premiums in the illness and hospitalization branch in the first nine months of 2018 constituted approximately 12.6% of total premiums in the entire insurance market in Israel, as compared with approximately 12.2% in the corresponding period last year.

In January to September 2018, an increase of approximately 9.4% 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 8% in the total scope of the aforementioned premiums in 2017, relative to 2016.

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.

Developments in the premiums in the sickness and hospitalization branch in the years 2015 to 2018 in NIS billions



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 8.1.2.1(a) and 8.1.2.1 above.

8.1.3.2. **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, 2018, the market volume in terms of gross premiums in the long term care branch in the market, in the first nine months of 2018, amounted to approximately NIS 3.1 billion, as compared with approximately NIS 2.9 billion in the corresponding period last year. Premiums in the long term care branch in the first nine months of 2018 constituted approximately 6.3% of total premiums in the insurance market in Israel, as compared with approximately 6.0% in the corresponding period last year.

In January to September 2018, an increase of approximately 10.5% 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 8.7% in the scope of premiums in long term care insurance in the insurance market in Israel in 2017, relative to 2016.

Developments in the premiums in the nursing insurance branch in the years 2015 to 2018 in NIS billions



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, 2018, the Group is the third largest 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, in light of recent regulatory changes, and possible future changes, it is not currently possible, at this stage, to predict the full impact of the changes on the segment in general, and on the Company's future share in particular.

Additionally, in light of the conclusion of the engagement with Maccabi and Leumit health funds, the Company's share in the long term care branch is expected to decrease; however, in light of the fact that the new framework for engagement of health funds with insurers providing collective long term care insurance is different from the framework for engagement which existed vis-à-vis Clal Insurance (in a manner whereby the winning insurer will bear only 20% of the insurance risk, and the policyholder fund will bear the remainder), the aforementioned decrease will be reduced.

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, 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 8.1.2.1(a) 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 8.1.2.1 above.

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.

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 coverages 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 Authority in the Ministry of Finance.

With respect to additional regulatory directives which were published regarding 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 insurers and policyholders, beginning in September 2018, 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. For details regarding the effect with respect to personal accidents policies, see section 8.1.2.1(c) above.

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.

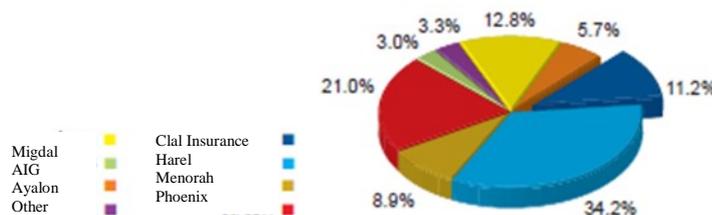
The competition between the insurance companies in the segment is focused on the extent of correspondence to the policyholder's needs and wishes, and on service, claim settlement and tariffs.

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 2.5.4 above.

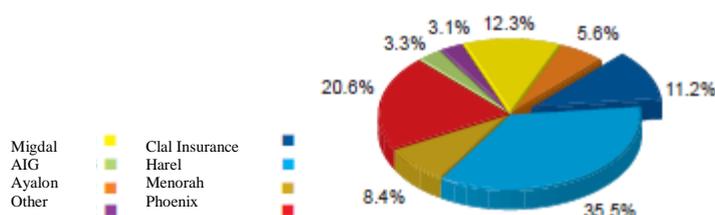
Total gross premiums in the illness and hospitalization branch in the Group amounted, in the first nine months of 2018, to approximately NIS 705 million, and constituted, in accordance with the Commissioner's data, approximately 11.2% of the activity in this branch in the insurance market in Israel. In the corresponding period last year, total gross premiums amounted to approximately NIS 650 million, and constituted approximately 11.2% 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.

Spread of the gross premiums in the sickness and hospitalization branch between the insurance groups and companies in Israel as at September 2018

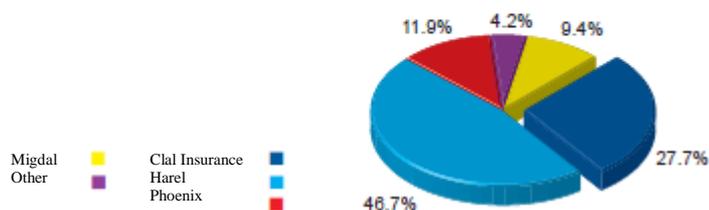


Spread of the gross premiums in the sickness and hospitalization branch between the insurance groups and companies in Israel as at September 2017

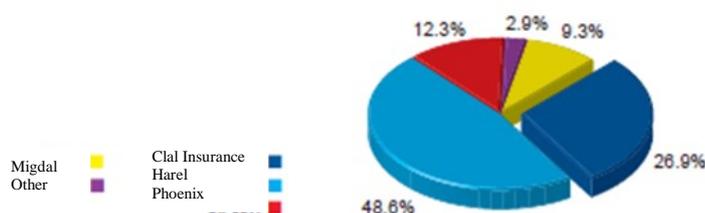


Total gross premiums in the long term care branch in the Group amounted, in the first nine months of 2018, to approximately NIS 874 million, and constituted, in accordance with the Commissioner's data, which are published on the website of the Capital Markets, Insurance and Savings Division, approximately 27.7% of the activity in this branch in the insurance market in Israel. In the corresponding period in 2017, total gross premiums amounted to approximately NIS 768 million, and constituted approximately 26.9% of the activity in this branch in the insurance market in Israel.

Spread of the gross premiums in the nursing insurance branch between the insurance groups and companies in Israel in the period January - September 2018



Spread of the gross premiums in the nursing insurance branch between the insurance groups and companies in Israel in the period January - September 2017



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 Authority, 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, an amendment to the addition to insurance circular entered into effect. The purpose of this amendment is to require that the adjustment of insurance, according to the needs of the insurance applicants as part of the process of marketing insurance policies, address the insurance products which they already have at all insurance companies, through an online interface operated by the Ministry of Finance (the **“Insurance Mountain”**). For additional details, see section 10.2.5 above.

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.

During the reporting year, the Antitrust Authority 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.

8.3.3. 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 health insurance segment are collectives and individual policyholders.

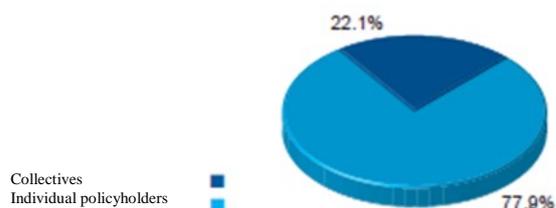
8.4.1. Illness and hospitalization<sup>57</sup>

Presented below is the distribution of gross premiums (NIS in thousands) by types of customers in the illness and hospitalization segment, for the years 2017 and 2018:

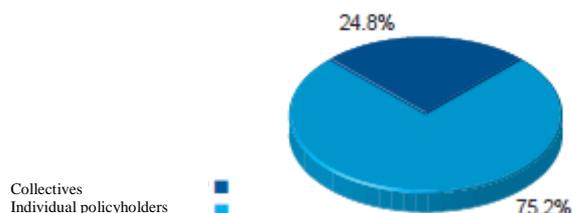
NIS in thousands	Gross premiums for 2018	Proportion of total gross premiums for 2018	Gross premiums for 2017	Proportion of total gross premiums for 2017
Collectives*	206,195	22.1%	215,768	24.8%
Individual policyholders	725,433	77.9%	655,049	75.2%
<b>Total</b>	<b>931,628</b>	<b>100%</b>	<b>870,817</b>	<b>100%</b>

\* Includes sales of international travel insurance at the health funds.

Spread of the customers in the sickness and hospitalization branch according to the premiums in the year 2018



Spread of the customers in the sickness and hospitalization branch according to the premiums in the year 2017



8.4.2. Long term care<sup>58</sup>

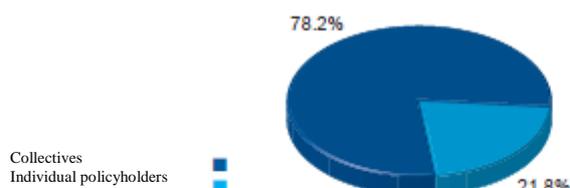
Presented below is the distribution of gross premiums (NIS in thousands) by types of customers in the long term care segment, for the years 2017 and 2018:

<sup>57</sup> 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.

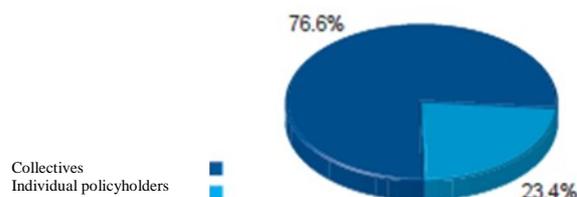
<sup>58</sup> The scope of premiums in the long term care insurance branch reflects the premiums which are paid with respect to all policies in effect which were sold over the years, and change therein do not necessarily reflect the change during the reporting year.

NIS in thousands	Gross premiums for 2018	Proportion of total gross premiums for 2018	Gross premiums for 2017	Proportion of total gross premiums for 2017
Collectives <sup>59</sup>	919,513	78.2%	801,855	76.6%
Individual policyholders	256,634	21.8%	244,456	23.4%
<b>Total</b>	<b>1,176,147</b>	<b>100%</b>	<b>1,046,311</b>	<b>100.0%</b>

Spread of the customers in the nursing branch according to the premiums in the year 2018



Spread of the customers in the nursing branch according to the premiums in the year 2017



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 12.0% during the reporting year, as compared with approximately 9.4% in 2017.<sup>60</sup>

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 4.7%, as compared with 3.1% in 2017.<sup>61</sup>

The Group is not dependent on any single customer or on a limited number of customers in the health insurance segment.

<sup>59</sup> Includes health fund policyholders.

<sup>60</sup> 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.

<sup>61</sup> See footnote 60 above.

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 2018. 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.<sup>62</sup>

The rate of premiums of Maccabi long term care collective insurance amounted, during the reporting year, to approximately 63.3% of total premiums in the long term care segment, which constitutes a total of approximately NIS 745 million. For details regarding the termination of the agreement with Maccabi Health Services, see section 8.1.2.2.(c) above.

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<sup>62</sup> 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.

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 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.

Further to the aforementioned decision, in December 2018, several processes were implemented with the intention of completing the dissolution of the finance division, as specified below: (A) Merging the activity of the mortgage unit (which operates through Clal Finance) and the consumer credit activity (which operates through Clal Finance Consumer Credit Ltd.) into Clal Insurance; and (B) Transfer of the Group's holdings in Clal Finance Business Credit Ltd. and in Clal Factoring and Finance Ltd., which are in the run-off stages of their activity, to the direct holding of the Company. As part of the above, merger agreements were signed between Clal Finance and Clal Finance Consumer Credit Ltd., and Clal Insurance, and a motion was filed with the court to approve a capital reduction in Clal Finance, in order to allow a distribution of shares of Clal Finance Business Credit Ltd. and Clal Factoring and Finance Ltd., as a payment in kind dividend to the Company, which it approved. As of the approval date of the report, all of the authorizations which are required in order to complete the aforementioned processes have not yet been received, and there is no certainty that they will be received.

**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.

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, 1981, 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.

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.

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. Additionally, in recent years, new enforcement / reporting authorities have been conferred upon additional regulatory authorities, including the Competition Authority (formerly known as the Antitrust Authority), and the Privacy Protection Authority. Member companies in the Group are exposed, from time to time, to administrative enforcement proceedings and to the imposition of fines by various regulators. 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 specifies, 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.

For additional details, see Note 16(e)(3)(a) to the financial statements.

For details regarding “**The Commissioner's position regarding the definition of recognized capital and required capital in hybrid equity instruments**”, which was published in March 2018, see Note 25(b)(4)(f)(3) to the financial statements.

- **Capital requirements**

For details regarding the Control of Financial Services Regulations (Insurance) (Minimum Equity Required to Receive Insurer License), 2017, and the circular “provisions regarding an insurer's required equity for solvency purposes”, see section 10.3.1.2 below and Note 16(e) to the financial statements.

10.2.2. The Law to Promote Competition and Reduce Concentration, 2013 (the “**Concentration Law**”)

In December 2013 the Concentration Law was published, which is intended to reduce the level of concentration in the Israeli economy through several central processes, 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”, including the 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 pyramid holding structures

In accordance with the provisions of the Concentration Law, a pyramid holding structure is restricted to two tiers only<sup>63</sup>. Notwithstanding the above, the transitional provisions of the Concentration Law determine that a company which was a second tier company at the time of the law's publication, and for as long as it remains as such, is entitled to continue holding control of an other tier company until six

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<sup>63</sup> A tier company is a company which constitutes a reporting corporation, in accordance with the definitions of the Concentration Law. The terms tier company, second tier company and other tier company are as defined in the Concentration Law.

years after the publication date (December 2019), if it held control of that company before the publication date (the “**Transition Period**”). The Concentration Law prescribes provisions in case of control of a reporting corporation which constitutes an other tier company, in breach of the law, which primarily include entrusting the means of control of the other tier company with a trustee, for the sake of selling them in accordance with the instructions which the court's instructions to the trustee. 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.

Therefore, if Clalbit Finance continues to be considered as an other tier company after the end of the transition period, the Company and/or Clal Insurance may be required to appoint a trustee or to perform actions which result in Clalbit Finance not being considered an other tier company, and Clal Insurance may, inter alia, transfer its shares in Clalbit Finance to a third party, or merge Clalbit Finance into Clal Insurance, or merge Clal Insurance into the Company.

- Prohibition against control and restrictions on cross-holding of a significant real corporation and a significant financial entity -

In accordance with the transitional provisions which were prescribed in the Concentration Law, beginning in December 2019, 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.<sup>64</sup>

Beginning in May 2015, a list of the concentration entities has been published in the Official Gazette from time to time, as well as a 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. IDB Development is a significant real corporation, and accordingly, the Group's member companies which are not institutional entities were also included in the list of concentration entities, and were classified as significant real corporations. Clal Insurance and additional institutional entities in the Group were also included in the list of significant financial entities.

Therefore, the continued control by Dolphin Netherlands, the controlling shareholder of IDB Development, of significant real corporations, may affect the ability of IDB Development to hold control of the Group's institutional entities, or to hold more than 10% of a certain type of the means of control of the Group's institutional entities (or more than 5% of a certain type of the means of control, in case the Company or the institutional entities are considered an insurer with no controlling shareholder), without derogating from the restrictions applicable to IDB Development's continued control of the Company, in accordance with the Commissioner's instructions, as stated above.

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.

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<sup>64</sup> It is noted that, during the transition period, a prohibition applies against increasing the effective sales turnover or the effective credit of the real corporation, or the total asset value of the financial entity, as a result of the acquisition of another real corporation or financial entity, a merger with such a corporation or entity, or an acquisition of the operations of such a corporation or entity.

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.

#### 10.2.3. The Economic Competition Law, 1988

In January 2019, an amendment to the Restrictive Trade Practices Law, 2018, was approved, which pertains to the increased enforcement and increased regulatory burden (the "**Amendment to the Restrictive Trade Practices Law**"), which included the determination, inter alia, of higher total minimum conditions 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; expanding the definition of a "monopoly holder" such that it will also include anyone who holds significant market power with respect to the provision or acquisition of assets or services; increasing the maximum amount which may be imposed as sanctions on a corporation to NIS 100 million.

It is noted that the Competition Authority (formerly the Antitrust Authority) announced that it will not carry out enforcement with respect to the expansion of the definition of a monopoly holder, including for entities holding significant market power, before an opinion paper has been published regarding the manner in which it intends to evaluate market power.

Further to the above, in February 2019, the Competition Authority published a draft of opinion paper regarding the "method for evaluation of significant market power". The draft specifies characteristics and examples which the Authority believes constitute evidence of the existence of significant market power. These include characteristics which affect the restriction of competition on the demand side; characteristics which affect the restriction of competition on the supply side; and characteristics for evaluation of actual conduct.

The draft opinion paper also determines that there may be cases in which several entities operating in a single market will be considered as holders of shared market power.

Additionally, in February 2019, the Competition Authority published a draft of revised version of an opinion paper, for public hearing, pertaining to the considerations of the Competition Commissioner regarding the determination of the amount of financial sanctions, including provisions regarding the method used to calculate the amount of financial sanctions, as well as considerations which affect the calculation thereof. Also specified were considerations which affect the amount of sanctions which may be imposed on a corporate officer.

The amendment to the Restrictive Trade Practices Law, as well as the draft opinion papers, insofar as it will be published as binding version texts, may result in increases to the amounts of financial sanctions which may be imposed on companies and on corporate officers in case of breaches of antitrust laws, and also may have business implications on all matters associated with the interpretation of holding of significant market power. At this stage, inter alia, due to the preliminary nature of the arrangement, and the uncertainty regarding its manner of implementation, the Company is unable to estimate the aforementioned effects.

#### 10.2.4. Update to the provisions of the consolidated circular - board of directors of institutional entity

In August 2018, a final version was published which updated the provisions of the consolidated circular regarding an institutional entity's board of directors, which set forth provisions regarding the qualifications, composition, responsibilities, authorities, and manner of conducts of members of the Board of Directors and

its committees. The circular comes in place of the provisions of the **Control of Finance Services Regulations (Insurance) (Board of Directors and Its Committees), 2007** (except with respect to managing companies of branch-specific provident funds and managing companies of some of the old pension funds).

The circular formalizes rules and principles with respect to the work methods of the board of directors, and establishes, inter alia, provisions regarding the composition of the board of directors, the required qualifications and expertise of directors, the obligation to establish a policy regarding the maximum tenure of the chairman of the board, and the required responsibilities and qualifications of the chairman of the board. In accordance with the provisions of the circular, the board of directors is required to determine its desired composition, whereby one third of the directors will be independent, with their total tenure not exceeding 3 terms of 3 years each (unless the meeting does not extend their tenure). Resolutions not to extend the tenure of an independent director must be passed by the meeting. According to the circular, the appointment of independent directors in companies with a controlling shareholder will be performed by a board of directors search committee, most of whose members will be independent, and whose members will not include the controlling shareholder or any of his relatives. The general meeting is entitled to decide to appoint a candidate who was not proposed by the search committee. In accordance with the circular, in cases where the controlling shareholder, or any of his relatives, hold a senior position in the institutional entity, as defined in the circular, at least one half of the directors must be independent directors (instead of one third).

It was further determined that joint meetings of the boards of directors of institutional entities and of other corporations may not be held, excluding joint meetings with the parent company of an institutional entity, or of an institutional entity controlled by the institutional entity, for the purpose of training or presentation only of subjects which will be published by the Commissioner. Restrictions were also established regarding the tenure of directors in several institutional entities of the same group.

The circular includes transitional provisions, which stipulate that an outside 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 as an independent director will be renewed, subject to his fulfillment of the current provisions of the law, he may continuously serve until the end of nine years after the date of his initial appointment. A director who is not an outside director or an independent director, and who does not fulfill the current provisions of the law, may continue serving in the position until the end of three years after the published date of entry into effect. It was further determined that anyone whose relative serves as a "senior position holder" in an institutional entity may not serve as a director; however, this provision will not apply to anyone who held office as a director, as stated above, before the application date.

The circular has implications on the composition of the board of directors of the company and the Group's institutional entities, and on their work arrangements. The Group's institutional entities are preparing for the implementation of the provisions of the circular, which is scheduled to enter into effect in April 2019.

#### 10.2.5. Circular regarding the addition to insurance plans

In July 2018, an 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 amendment to the circular expands the insurance adjustment process, as specified in the addition to insurance circular, and determines that, as part of the aforementioned process (except with respect to comprehensive motor vehicle insurance, property motor vehicle insurance, comprehensive insurance for businesses and collective long term care insurance for health fund members), 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 was further determined that the insurance agent is obligated to submit the policyholder's contact details to the insurance company. Additionally, insurance companies were prohibited to add an insurance applicant to an individual policy which provides reimbursement when the

policyholder has another policy which provides reimbursement for 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, including obtaining the policyholder's consent.

According to the assessment of Clal Insurance, the amendment to the addition to insurance circular has increased the complexity of sale processes, and particularly, the process of initiated marketing and telephone sales, and has increased the competition in the segment, including with respect to additional products which customers already have and which are included in the Insurance Mountain, and is affecting the policy retention and renewal processes. The obligation for the agent to submit the policyholder's contact details to the insurance company is expected to assist institutional entities in their relationships with customers.

**The information presented on all matters associated with the possible implications of the amendment to 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, inter alia, due to the conduct of competitors, agents and customers.**

#### 10.2.6. Circular regarding the implementation and marketing of service letters

In July 2018, an amendment was published to the circular regarding service letters, which determined provisions and rules regarding the implementation and marketing of service letters. In the amendment, it was determined 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 was further determined 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. Additionally, an insurance agent who markets external service letters to policyholders (which are sold by an entity other than the insurer), was obligated 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, and must document said activity.

**At this preliminary stage, it is not possible to predict the impact of the amendment to the circular regarding service letters, which depends, inter alia, on the conduct of policyholders, agents and competitors, and on the Commissioner's directives.**

#### 10.2.7. 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 unable to estimate the implications of the aforementioned draft, due to the uncertainty regarding the final version which will be published.

#### 10.2.8. Amendment to the Consumer Protection Law

In July 2018, an amendment were implemented to the Consumer Protection Law, the Control of Financial Services (Insurance) Law, 1981, and the Control of Financial Services Law (Pension Advice, Marketing and Clearing Systems), 2005, in a manner whereby provisions were determined which obligate institutional

entities which provide telephone service through an automatic call routing system, to provide a human response on various matters (problem resolution, account inquiries and termination of engagement), already in the first stage of the call. It was further determined that the wait time for a human response may not exceed six minutes from the start of the call; however the Commissioner was authorized to determine exceptions on this matter. The amendment specifies restrictions on the referral of customers to the voice message service. The circular will enter into effect in July 2019.

According to the Group's estimate, the aforementioned amendment may result in increased costs involved in the management of the call centers of the Group's institutional entities.

#### 10.2.9. The Insolvency and Economic Rehabilitation Law

In March 2018, the Knesset passed the **Insolvency and Economic Rehabilitation Law, 2018** (the "**Insolvency Law**"), which will enter into effect in September 2019, and 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 Insolvency Law regulates, 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. (7) Establishment of provisions which confer upon the Court the authority to order a provider which provided, prior to the issuance of an order to initiate proceedings against the corporation, or shortly before the aforementioned date, even if it has already discontinued such provision, a critical service or product to a corporation undergoing recovery.

The provisions of 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 law. Additionally, the implementation of the law may have effects on all matters associated with the scope of insurance coverage provided by the Company in officers' liability policies, and on the period of insurance coverage, as well as the insurance risk with respect to corporations undergoing recovery processes.

**The Company's estimate in connection with the implications of the law 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, and in connection with the scope of insurance coverage which it will sell, and depend, inter alia, on the decisions of Clal Insurance, competing entities and reinsurers, and also in accordance with the manner of implementation of the provisions of the law, after its application date and court rulings.**

#### 10.2.10. **The Credit Data Law, 2016.**

On April 12, 2016, the Credit Data Law, 2016, was published. The purpose of the law is to expand competition in the retail credit market, and to reduce discrimination in the provision of credit, by creating a standard and egalitarian database. The law prescribes a comprehensive arrangement for the sharing of credit data for individuals, including provisions regarding the collection of credit data from the data sources specified in the law, the saving such data in a central database operated by the Bank of Israel, and the transfer of credit data therefrom to the credit bureaus, for the purpose of processing and transferring them to credit providers, while protecting the interests and privacy of customers. The law regulates the conditions for the receipt of data from the aforementioned central database, including the condition stipulating that the information recipient must be a source of information which submits credit data to the database. The

Company is evaluating the implications of the law which apply to it. The law will enter into effect on April 12, 2019.

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. 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. The insurers and the managing companies of pension funds and provident funds in the Group are obligated to receive a license from the Commissioner.

(B) 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. A managing company is entitled to engage in the management of provident funds only. 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.

(C) 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. Also life insurance products which are managed as provident funds (insurance funds) require approval which is renewable on an annual basis.

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.

(D) 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 him. 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.

(E) 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, see section 10.2.2 above and Note 1(b)(4) to the financial statement.

#### 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.

In April 2018, the Control of Financial Services Regulations (Insurance) (Minimum Equity Required to Receive Insurer License), 2018, were published (hereinafter: the "**Minimum Equity Regulations**"), which canceled the Control of Financial Services Regulations (Insurance) (Minimum Equity Required of Insurer), 1998, which were in effect until that date. The aforementioned regulations include the determination of the minimum equity required to receive a license in branches featuring long insurance periods and claim periods (the life, long term health and liabilities branches), in the amount of NIS 15 million (as compared with a total of NIS 52 million, which was required until then) and the minimum Tier 1 capital required to receive a license in branches featuring short insurance periods and 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, which was required until then).

The Regulations have increased, and are expected to increase in the future, competition in the insurance market, due to the reduction of the equity requirement required to receive an insurance company license and the activity of new companies in the market. The company is unable to predict the full implications of the regulations at this stage.

**The information presented on all matters associated with the possible implications of the Minimum Equity Regulations 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 uncertainty regarding the actions which will be taken by competing entities in the market, and the entry of new entities.**

#### 10.3.1.3. **Scope of activity**

In order to cover the high fixed marketing and operating costs of the insurance and provident products which are marketed by the Group's institutional entities, the sale and operation of which are regulated, inter alia, through complex regulatory directives, and which require complex management and operation over time, 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 recent years, the Authority performed several actions in an effort to lessen the barriers to entry in the segment. For additional details, see section 6.2.2(a) above regarding the default pension fund and the conclusion of the collective arrangement with employers, and section 10.3.1.2 above regarding the minimum capital requirements.

#### 10.3.2. Presented below are details regarding the main barriers to exit in the Company's various operating segments:

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), a period during which the Company was required to bear all of the associated operating costs, or until the operation has been sold.

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. 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 returns which are achieved 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 on a real basis, 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 assets for investment-linked contracts of the Group's insurance companies 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 recorded in the balance sheets of the managing companies, excluding 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. 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 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. For additional details, see section 6.1.1.2 above.
- 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. For additional details, see Note 39(d)(1)(c) to the financial statements.
- 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, 2018 (NIS millions):

<b>Institutional entity</b>	<b>Nostro</b>	<b>Investment-linked funds</b>
The Company	48	
Clal Insurance	32,189	64,834****
Clal Credit Insurance	281	-
Clal Pension and Provident Funds - pension funds*		55,997
Clal Pension and Provident Funds - provident funds*	155	
Atudot Havatika ***	31	10,028
<b>Total</b>	<b>32,704</b>	<b>163,842</b>

- \* 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 consolidated.
- \*\*\*\* 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(c) above, in the amount of NIS 3,544 million, as of the publication date of the report. In 2018, the Maccabi, Leumit and Clalit health funds published new tenders for the selection of an insurer to provide collective long term care insurance for the fund members, according to a different framework of engagement than that which applies to Clal Insurance's current engagement with Maccabi and Leumit (such that the winning insurer will bear only 20% of the insurance risk, and the policyholder fund will bear the rest). In accordance with the notice of Maccabi and Leumit funds, the offer of Clal Insurance for the provision of collective long term care insurance service to the fund members did not win the tender. Maccabi's assets were transferred on January 1, 2019, and Leumit's assets will be transferred on April 1, 2019.

### 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, credit, 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.

For details regarding the distribution of managed assets in each of the Group's institutional entities as of December 31, 2018, see section 10.5.6 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 2018 and 2019 were published in January 2018 and January 2019, 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.

As of the publication date of the report, separate investment committees operate with respect to the funds of investment-linked contracts in Clal Insurance, and with respect to the members' funds in Clal Pension and Provident Funds. In light of the fact that the investment committees convene frequently, and that the majority of issues for discussion are identical, the Commissioner did not object to the unification of the committees' composition, and to the joint presentation of issues on the agenda, regarding overlapping issues. The decision making process will take place separately.

It is noted that the **Draft Control Financial Services Regulations (Provident Funds) (Investment Committee), 2017**, includes a proposal to allow the boards of directors of institutional entities which belong to the same group of investors, to appoint a joint members' investment committee for all institutional investors which belong to the same group of investors.

As of the publication date of the report, the composition of these committees has not yet been unified.

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. The members of the investment committees of Clal Insurance and of Clal Insurance and Clal Pension and Provident Funds are appointed by the relevant boards of directors, according to the recommendation of a search committee which was appointed by the board of directors, and which is comprised of the chairman of the board, and two outside directors.

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. The identification and screening of candidates for the nostro investment committee is done by the board of directors, with the members being appointed external representatives from among the outside directors who held tenure in the Company, or external representatives.

**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 shareholders<sup>65</sup>, directly and/or indirectly, in those corporations (hereinafter: "**Aggregate Holding**"). Due to the current restrictions on holding in the law, with respect to corporations with certain operating segments (such as banking corporations, insurers, communication companies) and/or with respect to holdings in corporations which are related parties of the Group, the aforementioned aggregate holding may be restricted, and the Group may sometimes be prevented from increasing its holdings in the securities of those corporations, and may sometimes also be required to sell existing holdings, including out of the Group's 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.

10.5.4.3. **Parliamentary committee for investigation of the conduct of financial systems in credit arrangements to large business borrowers**

On July 5, 2017, the Knesset plenum approved the establishment of a parliamentary investigation committee led by the Chairman of the Economy Committee, Mr. Eitan Cabel, which will discuss the conduct of the financial system in the allocation of credit to large business borrowers since 2003. The investigation committee is expected to submit its conclusions once it has completed its discussions, through a report specifying its activities and conclusions. On January 6, 2019, the committee concluded its discussions, and on that date, the Company's representative appeared before it as well. After that date, the Company received demands for the submission of supplementary information. As of the publication date of the report, the committee's findings have not yet been published, and the Company is unable to estimate their implications.

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 "**Insolvency Law**"), which will enter into effect in September 2019. For details regarding the law, see section 10.2.9 above.

10.5.5.2. **The Control of Finance Services Regulations (Provident Funds) (Direct Expenses Due To Performance Of Transactions), 2008** (hereinafter: the "**Expense Regulations**") 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

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<sup>65</sup> For details regarding the status of the control of the Company, see Note 1 to the financial statements.

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.

In August 2018, an amendment was published to the Expense Regulations, which includes the following main amendment: extension of the validity period of the Expense Regulations by two additional years, retroactively from January 1, 2018 to December 31, 2019.

10.5.5.3. **Opinion paper regarding “collaboration between investors in institutional entities outside of the field of competition”**

In February 2019, the Competition Authority published a draft opinion paper on the subject of “collaboration between investors in institutional entities outside of the field of competition”, which addresses, inter alia, and in particular, collaborations between institutional entities which hold the shares of a particular corporation, on all matters pertaining to the decision making process in the general meeting of that corporation. In accordance with the draft opinion paper, such collaboration may give the institutional entities more significant influence over the corporation's activities, relative to separate and independent activities. In accordance with the draft opinion paper, the Authority will allow collaborations which do not constitute a restrictive arrangement, subject to the conditions and circumstances specified in the opinion paper.

Collaborations covered under the draft opinion paper are restricted to fields outside of the field of competition. In other words, in cases where there are competitive ties between the activities of the investee corporation and the institutional entity, the collaboration will not be included under the opinion paper.

**The Company is studying the provisions of the draft opinion paper, and is unable to estimate its impact on the business activities, insofar as it will be accepted as a final opinion paper.**

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, 2018**

	<b>Assets held against investment-linked insurance liabilities</b>	<b>Nostro - assets held against liabilities in non-life insurance, health and equity<sup>66</sup></b>	<b>Nostro - assets held against liabilities in life and health insurance (long term care and critical illness)</b>
Cash and cash equivalents	5.63%	4.89%	2.28%
Marketable government bonds	24.23%	18.31%	5.19%
Marketable corporate bonds	16.92%	8.43%	5.12%
Stocks and other marketable securities	33.75%	14.65%	4.98%
Designated bonds	0.00%	0.00%	61.01%
Deposits and loans	6.57%	33.56%	9.45%
Others <sup>(*)</sup>	12.90%	20.16%	11.97%

<sup>66</sup> Not including long term care and critical illness.

	Assets held against investment-linked insurance liabilities	Nostro - assets held against liabilities in non-life insurance, health and equity <sup>66</sup>	Nostro - assets held against liabilities in life and health insurance (long term care and critical illness)
<b>Total assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

10.5.6.2. **Distribution of managed assets in Clal Credit Insurance as of December 31, 2018:**

	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	5.53%	-	-
Marketable government bonds	48.58%	-	-
Marketable corporate bonds	19.89%	-	-
Stocks and other marketable securities	5.92%	-	-
Deposits and loans	16.27%	-	-
Others <sup>(*)</sup>	3.81%	-	-
<b>Total assets</b>	<b>100.00%</b>	<b>-</b>	<b>-</b>

10.5.6.3. **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, 2018**

	Meitavit Atudot New Fund	Meitavit Atudot Supplementary Fund	Atudot Havatika
Cash and cash equivalents	4.64%	5.50%	2.03%
Marketable government bonds	7.80%	33.32%	12.35%
Marketable corporate bonds	10.83%	22.82%	14.52%
Stocks and other marketable securities	31.22%	30.95%	14.43%
Designated bonds	30.49%	0.00%	37.48%
Deposits and loans	5.65%	3.90%	7.68%
Others <sup>(*)</sup>	9.37%	3.51%	11.51%
<b>Total assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

10.5.6.4. **Distribution of assets of pension funds managed by the Clal Pension and Provident Funds as of December 31, 2018:**

	Provident fund for compensation and severance pay	Study funds	Central provident funds
Cash and cash equivalents	4.16%	5.87%	6.97%
Marketable government bonds	28.36%	26.72%	31.71%
Marketable corporate bonds	19.98%	16.55%	20.27%
Stocks and other marketable securities	20.69%	31.08%	27.11%
Deposits and loans	17.51%	10.27%	5.58%
Other investments <sup>(*)</sup>	9.30%	9.51%	8.36%
<b>Total assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

\* Primarily includes non-marketable corporate bonds, investment funds and land rights.

10.5.7. Investments in investee companies

During the reporting year, the Company had no material investments in investee companies and/or partnerships and/or enterprises which are not subsidiaries. For details regarding the policy regarding the evaluation of significance for the purpose of classifying investment transactions, which was adopted by the Company, see Part D of the report - Additional Details Regarding the Corporation, section 13(f).

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 shares its risks with additional insurance companies, reduces its exposure (particularly to accumulated damages in case of a catastrophic event, such as natural disasters, earthquake, fire, etc.), and allows the expansion of the scope of insurance liabilities which it can accept upon itself.

The engagement in reinsurance does not exempt the insurance company from its obligations towards the policyholders, and the settling of accounts vis-à-vis the reinsurers takes place throughout the years of insurance exposure. The stability of reinsurers is therefore important.

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 relevant premiums which are received by the direct insurer, and divides the damages and expenses by the same ratio, up to the determined amount, and in accordance with the contract terms.
  - **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 MPL<sup>67</sup>. 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

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<sup>67</sup> Maximum probable loss, with the determined probability, calculated using models.

the policies which were sold during the reinsurance agreement period, excluding catastrophe risk agreements, which are prepared on an annual basis.

The Company's ability to engage in reinsurance treaties, and the terms of such engagement, also depend on the market conditions and the capacity of the reinsurers which meet the minimum conditions specified by the Group, with respect to the relevant risks.

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.

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 constituted more than 10% of total reinsurance premiums in the segment in the reporting year

Proportion of total premiums to reinsurers for the operating segment in 2018	Premiums recorded in favor of the reinsurer (NIS in thousands) in 2018	S&P rating as of the date of as of the publication date of the report	Name of reinsurer
15.8%	159,899	AA-	Munich Re

10.6.2.3. **Changes to reinsurance arrangements in the non-life insurance segment**

During the reporting year, no material changes occurred in reinsurance arrangements in the non-life insurance segment.

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 during the reporting year**

Proportion of total premiums to reinsurers for the operating segment in 2018	Premiums recorded in favor of the insurer for 2018 (NIS in thousands)	S&P rating as of the publication date of the report	Name of reinsurer
48.4%	65,712	AA-	Swiss Re
33.2%	45,086	AA-	Munich Re
12.7%	17,263	AA+	Gen Re

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 and long term care insurance segment**

Part of the Group's exposure in health policies with respect to particular risk components is covered under quota share treaties. With respect to long term care insurance products, quota share proportional reinsurance is available for individual policies which were sold until July 2004, and beginning in June 2014. For long term care 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 (see section 8.1.2.2(c) 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 non-proportional contracts, with respect to personal accidents policies, international travel personal accidents, long term care and critical illness policies, within the framework of catastrophe coverage. The scope of the acquired protection is based on internal studies conducted by the Company.

#### 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 during the reporting year**

Name of reinsurer	S&P Rating As of the publication date of the report	Premiums recorded in favor of the insurer for 2018 (NIS in thousands)	Proportion of total premiums to reinsurers for the operating segment in 2018
Scor	AA-	167,590	55.8%
Partner Re Sa	A+	84,109	28.0%

#### 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, certain restrictions apply regarding the conditions of participation or regarding the coverage limit with respect to the reinsurer's participation 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. Certain treaties also include clauses regarding the terms of participation. As of the reporting date, the stipulations have not been fulfilled, and the Company does not expect them to be fulfilled.

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 makes adjustments to the details of insurance arrangements, including with respect to the amount of commissions, the coverage limits and the retention amounts and rates, based on an analysis of past results and the assessment of risk, including with reference to changes in products, in the market and in the regulations.

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, 2018, the amounts of property insurance in Israel, which include earthquake coverage, amount to approximately NIS 400 billion (gross). Clal Insurance is covered, with respect to the aforementioned property insurance, by proportional reinsurance on a quota share or surplus basis. Some of the relative reinsurance contracts include coverage limits for individual events (see details below).

With respect to catastrophic events, Clal Insurance purchased, or the property branches, beyond the coverage under the proportional reinsurance contracts (contractual and/or facultative) with respect to the cumulative retention, reinsurance on an excess of loss basis, in a defined amount with respect to the exposure due to such

event, based on the estimate of Clal Insurance regarding the damage which is expected to occur due to a catastrophe with a certain probability.

The acquisition of reinsurance 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 2018, 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 above analysis, Clal Insurance bases the acquisition of catastrophe protection on a maximum probable loss (MPL) rate which ranges from 1.5% to 2.9% of the insurance amount, according to the insurance branches and the characteristics of the policyholder's property. 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 9.6 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 50.4 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 purchased with respect to these products is based on internal studies which were performed by the Company regarding the impact of various scenarios, including an earthquake in Israel, insurance liabilities which cover cases of death or physical injury, which are covered under life and health policies. It is noted that the exposure to earthquake risk in Israel, as estimated with respect to this insurance, is of significantly lower scopes relative to the exposure to insurance in the property branches which are referenced by 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 2018:

Proportion of total	Forecast regarding exposure to earthquake	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake, non-proportional	S&P rating group as of the publication date of the report
100.00%	9,673,052	8,736,052	937,000	A- and higher
0.00%	0	0	0	BBB- to BBB+
0.00%	0	0	0	Lower than BBB- or unrated
100.00%	<b>9,673,052</b>	<b>8,736,052</b>	<b>937,000</b>	<b>Total</b>

Reinsurers whose exposure to earthquake risk exceeds 10% of the total exposure to earthquakes (NIS in thousands) for 2018:

Proportion of total	Forecast regarding exposure to earthquake	Forecast regarding exposure to earthquake, proportional	Forecast regarding exposure to earthquake,	S&P rating group as of the publication date of the report	Name of reinsurer
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		<b>non- proportional</b>			
16.0%	1,542,908	1,364,878	178,030	AA-	Swiss Re
12.0%	1,165,129	987,099	178,030	AA-	Munich Re

Exposure of reinsurers to an earthquake (NIS in thousands) for 2017:

<b>Proportion of total</b>	<b>Forecast regarding exposure to earthquake</b>	<b>Forecast regarding exposure to earthquake, proportional</b>	<b>Forecast regarding exposure to earthquake, non-proportional</b>	<b>S&amp;P rating group as of the publication date of the report</b>
99.99%	8,291,163	6,904,363	1,386,800	A- and higher
0.00%	0	0	0	BBB- to BBB+
0.01%	567	567	0	Lower than BBB- or unrated
<b>100.0%</b>	<b>8,291,730</b>	<b>6,904,930</b>	<b>1,386,800</b>	<b>Total</b>

Reinsurers whose exposure to earthquake risk exceeds 10% of the total exposure to earthquakes (NIS in thousands) for 2017:

<b>Proportion of total</b>	<b>Forecast regarding exposure to earthquake</b>	<b>Forecast regarding exposure to earthquake, proportional</b>	<b>Forecast regarding exposure to earthquake, non-proportional</b>	<b>S&amp;P rating group as of the publication date of the report</b>	<b>Name of reinsurer</b>
16.8%	1,390,952	1,122,259	268,693	AA-	Swiss Re
11.0%	912,709	644,016	268,693	AA-	Munich Re

\* 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 2016 to 2018:<sup>68</sup>

<b>Reinsurance premiums in 2018 (NIS in thousands)</b>	<b>Compulsory motor insurance branch</b>	<b>Motor property insurance branch</b>	<b>Other property and others insurance branch</b>	<b>Liabilities insurance branch</b>	<b>Total</b>
Earthquake and natural risks		555	246,603		247,158
Reinsurance, proportional	273,252	-	315,363	32,046	620,661
Reinsurance, non-proportional	8,229	1,395	47,499	87,518	144,641
<b>Total</b>	<b>281,481</b>	<b>1,950</b>	<b>609,465</b>	<b>119,564</b>	<b>1,012,460</b>

<sup>68</sup> 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.

<b>premiums</b>					
Reinsurance results	(26,522)	2,254	205,397	7,290	188,419
<b>Reinsurance premiums in 2017 (NIS in thousands)</b>					
	<b>Compulsory motor insurance branch</b>	<b>Motor property insurance branch</b>	<b>Other property and others insurance branch</b>	<b>Liabilities insurance branch</b>	<b>Total</b>
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
<b>Total premiums</b>	<b>220,270</b>	<b>2,417</b>	<b>526,435</b>	<b>112,357</b>	<b>861,479</b>
Reinsurance results	(60,588)	2,325	37,139	(66,546)	(87,670)

<b>Reinsurance premiums in 2016 (NIS in thousands)</b>					
	<b>Compulsory motor insurance branch</b>	<b>Motor property insurance branch</b>	<b>Other property and others insurance branch</b>	<b>Liabilities insurance branch</b>	<b>Total</b>
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
<b>Total premiums</b>	<b>15,572</b>	<b>2,756</b>	<b>530,017</b>	<b>97,292</b>	<b>645,637</b>
Reinsurance results	(18,042)	3,248	282,331	(97,643)	169,894

**Explanations regarding the reinsurance results in non-life insurance:**

- **Compulsory motor insurance branch** - During the reporting year, the proportional treaty that was signed last year was renewed. The improvement in the profitability of reinsurers during the reporting year reflects stability in the development of claims in the branch during the reporting year, relative to a deterioration last year. Additionally, during the reporting year, there was no significant change in insurance liabilities as a result of the expected impact of the Winograd committee, as compared with an increase of the liabilities last year. For details, see section 7.1.1.1(d)(2) above.
- **Other property and others insurance branch** - The improvement in profitability during the reporting year was primarily due to the decrease in the development of large claims during the reporting year, as

compared with the deterioration last year, and due to the stability of earned premiums, relative to the decrease last year, due to the optimization of the portfolio.

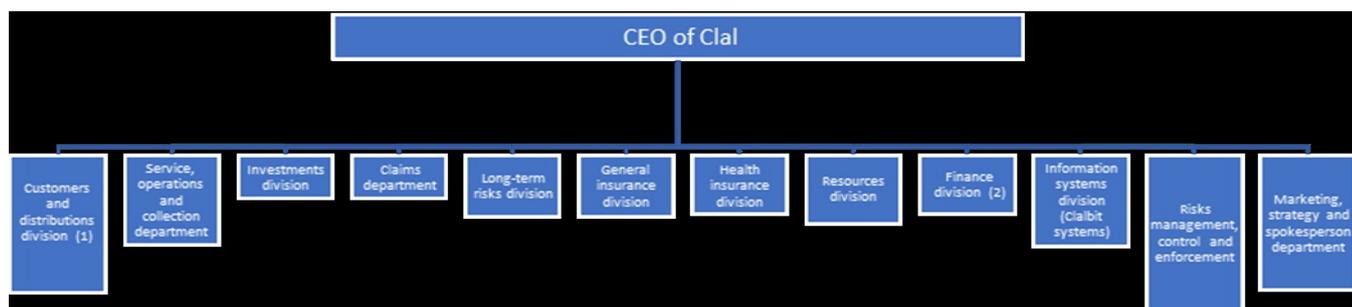
- **Liabilities insurance branch** - The improvement in the profitability of reinsurers during the reporting year was due to the decrease in the development of large claims during the reporting year, as compared with the deterioration last year. Additionally, there was no significant change in insurance liabilities due to the expected impact of the Winograd committee, as compared with an increase of the liabilities last year (for details, see section 7.1.1.1(d)(2) above), and the improvement in the development of claims.

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10.7. Human capital

10.7.1. Diagram of the Group's organizational structure

The diagram presented below reflects the functional-organizational relationships, as of the date of this report, of the various senior position holders, which is not necessarily identical to legal relationships.



- (1) The division includes, inter alia, employees of HaClal HaRishon and employees of Clal Agencies.
- (2) The division includes the actuarial 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. Four operational units: (1) The customers and distribution division, which concentrates the Group's sales activities, including vis-à-vis the Group's agents, and the direct sales activities; (2) The service, operations and collection unit, which concentrates the service, operations and collection activities vis-à-vis agents and customers; (3) The investments division, which concentrates the investing and credit provision activities in the Group; (4) The claims unit, which concentrates the handling of claims by policyholders and members in all insurance and pension branches.
- B. Three business divisions: (1) The long term savings division; (2) The non-life insurance division; and (3) The health insurance division; which are professional divisions that guide the operational entities in their segments.
- C. Six headquarters units: (1) The resources division, which concentrates the management of human resources, payroll, logistics, and organization and methodology in the Group; (2) The finance division, which concentrates all of the financial and actuarial activities in the Group; (3) The information system division; (4) The legal consulting and regulation division; (5) The risk management, control and enforcement division. 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; (6) The marketing, strategy and spokespersonship 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 presented organizational structure is a new organizational structure, effective as from September 1, 2018, which was formed due to the change in Company management. The purpose of the change is to create a structure which serves the Group's objectives and allows increased efficiency of the headquarters entities, while focusing on the core activities of each division. The main elements of structural change are as follows:

1. Dividing the investments, finance and credit division into 2 divisions - the finance division and the investments division, and making the actuarial division subordinate to the finance division.
2. Cancellation of the headquarters office and subordination of the headquarters units (excluding the actuarial unit) directly to the CEO.
3. Unification of the life insurance division and the pension and provident division into a single division - the long term savings division.
4. Establishment of the customers and distribution division - which includes the activities which took place under the customers unit (direct sale activities to customers), and some of the activities which took place under the business unit (mostly sales units).
5. Establishment of the service, operations and collection unit - which includes the Company's service units (the service department, including call centers), as well as the operations and collection units in the long term savings and health insurance segments, and the public appeals department.

#### 10.7.2. The Group's workforce

**Presented below are data regarding the Group's workforce as of December 31, 2018 and 2017, in accordance with the organizational structure:**

Units	Number of employees as of December 31, 2018	Number of employees as of December 31, 2017
Headquarters and central service entities <sup>(1)</sup>	797 <sup>(2)</sup>	1,194
Health division	50 <sup>(3)</sup>	460
Long term savings division <sup>(4)</sup>	206 <sup>(5)</sup>	171
		104
Non-life insurance division	131	125
Claims unit	388	415
Service, operations and collection unit	1,268 <sup>(7)</sup>	1,078 <sup>(6)</sup>
Customers and distribution division	838 <sup>(8)</sup>	
Investments division	173	434 <sup>(9)</sup>
Finance division	306 <sup>(10)</sup>	
Clal Agencies	455	452
<b>Total <sup>(11)</sup></b>	<b>4,612</b>	<b>4,433</b>

The growth of the workforce during the reporting year was primarily due to the expansion of the collection and operations units (including the transfer of the operations and collection activities, which had been outsourced, to the Group), and the expansion of the sales units.

- 1- Mostly employees of the resources division, the information systems division (Clalbit), the legal consulting and regulation division, the risk management, the control and enforcement unit, the marketing, strategy and spokespersonship division, and the internal audit division.
- 2- The decrease was primarily due to the transition of 387 employees of the service department from the resources division to the service, operations and collection unit, and the transition of employees of the actuarial division to the finance division. In parallel, there was an increase of 23 employees in the information systems division.
- 3- The decrease was primarily due to the transition of 346 employees of HaClal HaRishon, and the transition of 57 employees of the call centers of Clal Insurance, as defined in the addendum to the new collective agreement, to the customers and distribution division.
- 4- The pension and provident funds division, and the life insurance division were unified into the long term savings division.
- 5- The decrease was primarily due to the transition of 80 employees of the direct customers division to the customers and distribution division.
- 6- The employees of the business unit were divided between the service, operations and collection unit and the customers and distribution division.
- 7- The increase was primarily due to the transition of 387 employees of the service department, from the resources division to the service, operations and collection unit, and the workforce increase of around 130 employees for the purpose of expanding operation and collection activities, and additionally, during the reporting year, operations and collection activities which had been outsourced, were brought into the Company.
- 8- The increase was primarily due to the transition of 346 employees of HaClal HaRishon and 57 employees of Clal Vision from the health division, and the transition of 80 employees of the direct employee division from the long term savings division.
- 9- Splitting the investments, finance and credit division into two divisions - the finance division and the investments division.
- 10- The increase was due to the transition of 35 employees of the actuarial division from the headquarters division to the finance division,
- 11- including around 166 and around 202 provider employees during the years 2018 and 2017, respectively.

\* The explanation presented above regarding the changes in status refer to most of the changes which occurred during the reporting year.

Out of the workforce described above, the Group's senior management (primarily division, department, and headquarter unit managers) includes 15 managers, as well as the Company's CEO (who also serves as the CEO of Clal Insurance) and the Group's internal auditor.

Corporate officers in the Company include the Company's CEO, Legal Counsel, Financial Division Manager, Resources Division Manager, Investment Division Manager and Risk Management Unit Manager<sup>69</sup>, who hold the rank of Executive VP. All of the Company's corporate officers also serve as corporate officers in Clal Insurance. Additionally, in Clal Insurance, which serves as the Group's primary

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<sup>69</sup> In accordance with a resolution of the Company's board of directors on August 20, 2018.

business arm, individuals serving as corporate officers also include the Long Term Savings Division Manager, the Non-Life Insurance Division Manager, the Health Insurance Division Manager, the Actuarial Division Manager, the Customers and Distribution Division Manager, the Service, Operations and Collection Unit Manager, the Claims Unit Manager, the Information Systems Division Manager, and the Marketing, Strategy and Spokesmanship Division Manager.

On March 7, 2018, Mr. Izzy Cohen, who served 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. On June 17, the Company's board of directors and the board of directors of Clal Insurance approved the appointment of Mr. Yoram Naveh as the CEO of the Company and of Clal Insurance, as from July 1, 2018. For details, see section 2.5.2.1 above.

For details regarding corporate officers in the Company, see Part D of the report - Additional Details Regarding the Corporation, section 18. For additional details regarding the employment terms of the Company's CEO, see Note 40(b)(5) to the financial statements, and for details regarding the compensation terms of corporate officers, see section 10.7.5(c) below.

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, 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. For details, see Note 24(d) to the financial statements.

Further to the announcement of the Histadrut on November 13, 2017, regarding its status as the representative organization of employees of HaClal HaRishon, on March 29, 2018, the companies, HaClal HaRishon, the Histadrut Worker's Committee in the Group signed an annex to the new collective agreement, which applied the provisions of the agreement to some employees of HaClal HaRishon, excluding managers of a specified rank, subject to certain agreed-upon changes.

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. On May 3, 2018, following the sale of 5% of the Company's shares (in accordance with the Commissioner's instructions to the trustee to continue working in accordance with the outline, in place of IDB Development, towards the sale of 5% of the means of control in the Company), the agreement expired.

It is hereby clarified that the Company was not a party to the aforementioned agreement, and was not involved in its preparation, and is unable to estimate the agreement's effects, including its expiration, on the Company and on the labor relations therein. The Group has around 860 employees to whom the new collective agreement does not apply, including senior management, and who are employed in accordance

with personal work agreements, which define their employment terms, including the base salary, social benefits and fringe benefits.

**Provisions with respect to termination of employer - employee relationships -**

With respect to the employees to whom the new collective agreement applies (excluding hourly employees at HaClal HaRishon and employees of Clal Vision who are in a trial period) - an arrangement applies in accordance with section 14 of the Severance Pay Law, 1963, with respect to 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 Ordinance enters into effect on April 1, 2018. The Company is complying with the provisions of the Ordinance.

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 2018, 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 2018, 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.

On March 18, 2019, a draft amendment to the provisions of the consolidated circular regarding compensation was published (the "**Compensation Draft**"). The compensation draft establishes certain easements with respect to the compensation circulars, following the enactment of the Executive Compensation Law, and the easements which were established with respect to public companies and banks. In the compensation draft, it was determined, inter alia, that an immaterial change (as defined in the compensation policy) to the compensation terms of an officer will not require the approval of the board of directors, if it has been approved by the CEO, and if it corresponds to the compensation policy, and with respect to compensation of the Chairman of the Board, it is proposed to cancel the obligation to establish a maximum multiplication ratio for the compensation of an outside director, easements were established regarding the definition of senior

position holders who are engaged in investment management, and it was further determined that there is no obligation to defer the payment of a variable component with respect to a particular year, if the total compensation with respect to the calendar year does not exceed the payment cap, as defined in section 32 (17) of the Income Tax Ordinance (New Version), and if the variable compensation during that year does not exceed 40% of the fixed component. An option was also added to grant a "retention bonus" to "key employees", as defined in the compensation draft and in the compensation policy.

#### **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 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. 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, payment of a variable component which is not contingent upon preconditions, conditions for

the reimbursement of the variable bonus, and provisions regarding the issuance of exemptions, indemnification and insurance.

In accordance with the terms of the compensation policy, the minimum conditions for the release of deferred variable compensation, during the relevant year of release, are a solvency ratio which is no lower than the minimum solvency ratio as of the date of the first payment of the variable component, and the Company's recording of profit. Insofar as one of the minimum conditions for release has not been fulfilled in a certain year, the unreleased component of variable compensation will be deferred, and will be paid in the subsequent year, subject to the fulfillment of the conditions in that year. If the minimum conditions for release are not fulfilled in the subsequent year either, the officer will lose their entitlement to that component. During the reporting year, the minimum conditions for the release of deferred bonuses with respect to previous years were not fulfilled, and accordingly, the deferred payments will not be paid to the relevant senior position holders this year.

It is 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.

It is further 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 set forth in the compensation policy documents of the Group's institutional entities, which apply to all employees of the Group's institutional entities, according as it stands from time to time.

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. Additionally, the compensation policy does not specify the actual employment terms, but rather the approved framework according to which such rules will be determined.

The Company's compensation policy is 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](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 existing agreements to the compensation policy and to the Executive Compensation Law**

Provided that the compensation policy does not prejudice rights which have accrued with respect to previous periods, and subject to the transitional provisions which were set forth in the compensation circulars and in the Executive Compensation Law, the Company worked to adjust the compensation agreements of corporate officers and senior position holders in the Company, in accordance with the compensation policy, the provisions of the compensation circulars, and the restrictions prescribed in the Executive Compensation Law.

#### **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, and the possibility of recruiting senior position holders. 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. It is not possible to estimate all of the possible long-term implications of the Executive Compensation Law on the employment market in the financial segment.

10.7.6. Capital compensation plans for employees

- 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 March 6, 2019, the total amount of warrants which were allocated according to the 2013 plan (to specific employees, including the Chairman and the CEO) is 2,575,000. 395,333 warrants are held by the trustee for specific employees, and 246,332 warrants are held in the register of warrants, and may be designated, in the future, to specific employees, approximately 933,664 warrants expired and can no longer be allocated, and approximately 1,619,334 warrants were exercised into company shares.

As of March 6, 2019, approximately 362,668 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)(1), 41(b), 41(c) and 41(d) 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, in 3 tranches, 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, 2 tranches 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. 271,013 warrants are held by the trustee for specific employees, and 185,322 are held in the register of warrants, and may be designated, in the future, to specific employees. Around 13,665 warrants were exercised into Company shares.

As of December 31, 2018, approximately 90,788 warrants are exercisable.

For additional details regarding the 2015 plan, see Notes 41(a)(2), 41(b), 41(c) and 41(d) 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:

In September 2018, following the changes to the Group's organizational structure, the customers and distribution division was created, which concentrates the Group's sales activities, including both the activities vis-à-vis the Group's agents, and the direct sales activities (which had been concentrated under the directly unit).

The customers and distribution division was created with the aim of creating a synergy between all of the Group's sales activities, and with the aim of boosting the sales activities, inter alia, in light of the changing regulatory environment.

The division is comprised of 3 units / departments:

- Business unit - This unit concentrates the Group's entire activity in the long term savings segment, life insurance segment, health insurance segment and non-life insurance segment, vis-à-vis the insurance agents in the sales and agent service departments, 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, where it maintains a sub-branch in Beer Sheva.

HaClal HaRishon - HaClal HaRishon, an auxiliary corporation wholly owned (100%) by Clal Insurance, which concentrates the activity involving direct sales of the risk and non-life insurance products 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), health and long term care insurance and motor insurance, to customers who, in general, do not work with the Group through insurance agents.

In December 2018, a agreement was signed regarding a merger of HaClal HaRishon with and into Clal Insurance. As of the reporting date, all of the authorizations which are required to complete the merger have not yet been received, and there is no certainty that they will be received.

- Customer relations department - which concentrates both the retention activities in the long term savings, life insurance and health insurance segments, and the direct sales activities by license holders in the pension, provident, risk and health segments, vis-à-vis employers and customers which, in general, do not work with the Group through insurance agents. This department includes the activities of all pension license holders who are employed by the Group's institutional entities, and allows synergistic activities, based on a broad perspective.

- Financial unit - Additionally, under the customers and distribution division, a unit was established which is focused on the sales of products of a financial nature, including provident funds, study funds, and individual savings policies. This unit is also responsible for the contact with the banking system in the pension advice segment, and is responsible for the contact with employers in connection with central severance pay funds.
- The Group's agencies - The Group's direct sales activities are also performed through agencies which are under the Company's control. These insurance agencies are controlled by Clal Agency Holdings (1998) Ltd. ("**Clal Agencies**"), a wholly owned subsidiary of the Company (hereinafter: 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. The activities of the Group's agencies are concentrated in two agencies: Tmura Insurance Agency (1987) Ltd. (hereinafter: "**Tmura**"), which operates in the long term savings and health branches, and Batach Thorne Insurance Agency Ltd., which is primarily engaged in non-life insurance.

10.8.1. Marketing and distribution methods and commission structure in the various segments:

10.8.1.1. **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 new legal provisions which have been published over the years in the segment, and which have caused a gradual decrease in management fees. For details regarding the provisions of the law which are expected to have an impact on the management fees which are collected by the Group's institutional entities, see section 6.2.2 above; (2) Regulatory encouragement of pension products (with respect to trends in supply and demand during the reporting year, see section 6.1.4.2 above); (3) Changes to the compensation arrangements which are paid to agents by the institutional entities, including the reform of disconnecting the link between the distribution commission and the management fees (for details regarding the amendment to the Control Law regarding the calculation of distribution commissions from management fees, see this section 10.8.1.1 below, and for details regarding a class action, see Note 42(a2)(7) to the financial statements), including the Authority's determination, as part of the approval of tariffs for risk policies, regarding the mechanism for reimbursement of commissions on risk policy cancellations in the first years after their purchase, see section 6.1.4.1 above; (4) Regulation of the engagement between agents and employers in several respects, including the Commissioner's position regarding the obligations of license holders; (5) The expansion of the activities of the pension clearing house and the employers interface, including clearing of funds and provision of feedback, which may facilitate, over the long term, the activities of agents (including arrangement managers), inter alia, in connection with the provision of service, the sale of

additional products, and the performance of transfers, as well as the activities of operating entities. For details regarding the expansion of the clearing house's activity, see section 6.2.2(d)(1) above.

- Further to the explanatory document circular, which entered into effect in July 2017, and which primarily includes provisions with respect to the explanatory document which a license holder is required to submit to a customer when issuing a recommendation regarding their pension savings, in July 2018 an amendment was published to the explanatory document circular, which includes, inter alia, provisions directing the expansion of the scope of cases in which a license holder is required to complete a full explanatory document when issuing recommendations to customers. Inter alia, it was determined that, in general, in case of cancellation of a license holder's recommendation, as part of the retention process, a complete explanatory document must be filled out, instead of a call summary only, as was required in the past. It was further determined that in case an employer requests to increase the pension deposits for an employee up to the maximum rates which are recognized for it in accordance with the tax laws and performing the increase requires opening a new pension product, the license holder will be required to fill out a complete explanatory document, a requirement from which it was previously exempt. At the same time, the number of cases in which a summary explanatory document and call summary can be prepared was reduced.

The circular includes provisions with respect to the expansion of information and details regarding the considerations which the license holder is required to submit to the customer when giving a recommendation, as well as provisions determining standard discounts, to be used by all institutional entities, and with respect to all pension products, which will be used when presenting the accrued balance at the end of the savings period, the expected annuity at retirement age, and the reduction of the balance of savings, due to various factors which affect that balance.

The provisions of the amendment to the circular entered into effect with respect to most policy types in October 2018.

According to the company's estimate, the provisions of the circular are expected to prolong, impose difficulties on, and increase the cost of the customer service process in the aforementioned cases, and to impose difficulties on customer retention.

**The company's estimate in connection with the amendment to the explanatory document 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 distributing entities, and on the conduct of members and policyholders.**

- In May 2018, the circular regarding customer service of agents and advisors was published, in which it was determined 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, and the establishment of an obligation to conduct a service inquiry to evaluate the correspondence of the pension product to the customer's needs, each time the license holder is informed, including by the institutional entity, that a change has occurred in the customer's situation, and at least once every two years. It was also determined that an pension insurance agent who collects from a customer fees or reimbursement of expenses, will prepare a written agreement between him and the customer, which will address the amounts which will be charged to the customer, as well as the service period. The agent service circular will enter into effect in January 2019.

The company estimates that the agent service circular is expected to increase the service requirements applicable to insurance agents towards customers, including the insurance agencies which are owned by Clal Group, and accordingly, it may have indirect effects, in both operational and business terms, on the institutional entities themselves.

**The Company's estimate in connection with the circular regarding customer service of agents and advisors 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 license holders with respect to the service charter for their customers.**

- As of the publication date of the report, the Group is engaged in the segment through 1,897 insurance agents<sup>70</sup>. 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.<sup>71</sup>
- Approximately 13% 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 12.3% in 2017.
- Approximately 12.9% of total contributions in the pension 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 12.3% in 2017.
- Approximately 15.7% of total contributions in the provident 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 13.7% in 2017.

#### **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. It is noted that the directive regarding the **prohibition against the calculation of distribution commissions linked to the rate of management fees which are collected from members** (in accordance with the provisions of the amendment to the law regarding the calculation of distribution fees), in combination with the distribution agreements vis-à-vis the banks, which define a fixed commission for the bank with respect to each customer brought by an agent, have led to a situation in which the income from some of the members of Clal Pension and Provident Funds do not correspond to the Company's expenses in connection with those members.
- 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.

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<sup>70</sup> Including agents who made sales in 2018 in an amount exceeding NIS 10,000.

<sup>71</sup> Excluding an agency wholly owned by the Group, as specified below.

- Following the conclusion of the agreements, which allowed the addition of members to pension savings products through a collective arrangement (in accordance with the provisions of the default fund circular, see section 6.2.2(a) above), as of the publication date of the report, all of the collective agreements have concluded which were in effect on the application date of the default circular, and which applied to the Group's institutional entities, and it will no longer be possible to add to collective agreements, except through an employer's tender, which will be conducted in accordance with the rules set forth in the default funds circular. This change affects the relationship with employers on all matters associated with the addition of their employees to pension products.

According to the assessment of the Group's institutional entities, in light of the regulatory restrictions which were imposed on employers in connection with the addition of members by way of collective arrangements, the number of arrangements is expected to decrease significantly. Therefore, the termination of the default agreements by which the Group's institutional entities are bound resulted, and is expected to continue resulting, in the future, in a decrease in the scope of new members added to the pension fund which is managed by Clal Pension and Provident Funds, and also in a decrease in the scope of current members, and is expected to impose difficulties and additional costs on the member addition processes, and in parallel, is expected to result directing new members towards default pension funds. This trend may be moderated, to a certain degree, in light of the possibility of adding members through individual addition, and in light of the fact that the cancellation of arrangements which allow addition by way of a collective arrangement, under the previous framework, is branch-specific, and therefore, is expected to increase competition in the entire market.

**The information presented on all matters associated with the possible implications of the default agreements 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, inter alia, on decisions which will be reached by the Group's institutional entities, on competing entities, and on employers and customers, on all matters associated with the method of joining.**

- The engagement for the sale of products in the segment to self-employed members is performed on an individual basis.
- The Company operates a customer service center which provides direct support to customers, as well as a customer retention unit.
- The Company works vis-à-vis external consultants who are recruited by public companies and entities, for the purpose of publishing tenders and conducting negotiations regarding the selection of the pension insurer and determining the terms of the pension arrangements of their employees.

#### **D. Mortgage banks - risk**

The Company engaged in agreements for the provision of insurance services through mortgages with some of the mortgage banks which are under their control of agencies, as stated above. 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:**

- **Renewal commissions:** Commissions at a fixed or variable rate of the paid premiums, which are paid for a limited period, on an ongoing basis.
- **Collection fees:** Commissions at a fixed rate of the paid premiums which are paid throughout the entire lifetime of the policy as fronting fees.
- **Special commissions - First year commissions:** Upon the sale of the policy, 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:**

- **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.
- **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, with respect to products which were sold until April 2017 (see below).
- **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, Clal Insurance discontinued paying commissions for management fees from accrual with respect to policies which were sold during or after 2013, in most products.
- **Commissions from accrual:** With respect to certain profile products which were marketed in the past, and with respect to one-time deposits in individual savings policies, commissions from accrual are paid.
- **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, for a limited period with respect to policies which were sold in the past.

Following the amendment to the law regarding the calculation of distribution commissions, as specified in this section 10.8.1.1 below, which entered into effect in April 2017, the Group's institutional entities worked to adjust the compensation model for agents, in accordance with the legislative amendments. With respect to customers who joined the products from the aforementioned date onwards, commissions are not paid as a proportion of the management fees which are collected from the customers (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 out of the routine deposits, instead of commissions out of management

fees from deposits, and additionally, with respect to the aforementioned products, first year commissions are paid which are not derived from the management fees).

For details regarding changes to the tariffs of the Group's risk policies, including the establishment of a mechanism for the reimbursement of commissions on policy cancellations, in a manner whereby the cancellation thereof, in the first years after their purchase, will lead to a gradual repayment of sale commissions, see section 6.1.4.1 above.

In collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately, in accordance with the law. The commission rate paid by an insurer to an insurance agent with respect to a collective life insurance policy may not exceed 5% of the gross premiums.

#### **Commission rates to third parties in the life insurance branch<sup>72</sup>**

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 10.33%, including commissions paid for collective insurance, as compared with 9.95% in 2017.

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 28.4%, as compared with approximately 30.5% in 2017.

#### **• Pension funds branch**

- **Current commissions from contributions** - Clal Pension and Provident Funds pays commissions to insurance agents with respect to pension product sales. In the comprehensive pension fund, these commissions were in the past 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 commissions are paid as a rate of the deposit, and not as a rate of the management fees which are collected from customers (for details regarding the reform on this matter, see this section 10.8.1.1 below).
- 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<sup>73,74</sup>**

In 2018, the rate of commissions paid to insurance agents with respect to pension products was 1.7% of the total contributions attributed to agents in the pension funds, as compared with 2.3% in 2017.

#### **Provident funds branch**

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<sup>72</sup> 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 10.8.1.1 below.

<sup>73</sup> Not including payment to a license holder in accordance with the Distribution Regulations.

<sup>74</sup> See footnote 72 above.

- **Commissions for management fees from accrual** - with respect to provident products which were marketed until 2017, the commissions with respect to provident product sales are generally paid to the insurance agents as a rate of the accrual of members.
- **Commissions from accrual** - with respect to provident products which are marketed from 2017 onwards, commissions are paid as a rate of the accrual, and not out of the management fees which are collected from the customer (for details regarding the reform on this matter, see this section 10.8.1.1 below).
- For details regarding the payment of **special commissions** with respect to new first deposits (including one-time deposits which are due to the transfer of accrued balances) of contributions to provident funds which are managed by Clal Pension and Provident Funds, see the description of special commissions in the life insurance branch above.

#### **Commission rates to third parties in the provident fund branch** <sup>75</sup>

In 2018, 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, similarly to 2017.

In consideration of the complexity of the framework for the payment of commissions to insurance agents, as specified above, discussions are held, from time to time, between certain agents and the Group's institutional entities, regarding the method for payment and calculation of commissions, which conclude, in a significant part of cases, with arrangements which take into account mutual offsets between the parties.

- Presented below is a description of the regulatory provisions which were published in the reporting year and in the preceding years, and which may affect the payment of commissions to pension marketers, agents and arrangement managers in the long term savings segment:
- 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 by linkage to 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.

During the reporting year, Clal Insurance and Clal Pension and Provident Funds worked to implement an amendment to the law regarding the method used to calculate the distribution commission. During the reporting year, the implementation of the aforementioned model had no significant implications on the Group, and in general, they led to 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.

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<sup>75</sup> See footnote 73 above.

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.

- Further to the clarification which was published by the Commissioner in February 2018, regarding the pension marketing process upon the addition of members to a pension product (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 as a condition for the payment of a commission; In November 2018, and following a hearing which was held before the Supreme Court, regarding a petition which was filed on the matter, inter alia, by the Association of Insurance Brokers and Agents in Israel, the Commissioner published a clarification stating that the clarification regarding pension marketing will only apply to the addition of savers to a pension product which were performed as from February 2018, and that the Commissioner does not intend to exercise enforcement authorities with respect to distribution commissions which were paid the clarification.

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 by way of an arrangement for many, 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, is expected to affect the future addition of members 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 6.2.2(a) and 6.2.2(b) 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 from the estimated implications, and depend, inter alia, on the choices of institutional entities regarding the distribution channels, on commercial relationships with marketing entities, on the conduct of competing entities, employers and customers, and on the combined impact of the clarification directives, together with additional directives.**

## B. Payment to pension advisors

- 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 standard 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.

\_\_For additional details, see section 10.8.1.1(b) above.

**\_\_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.**

#### 10.8.1.2. 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 1,450 active insurance agents<sup>76</sup>.

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 90.2%, as compared with approximately 91.0% in 2017.<sup>77</sup>

Out of the total premiums in the non-life insurance segment in Israel, approximately 4.3% are due to activities of the Group's agencies, as compared with approximately 3.69% in 2017.

### **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. During the reporting year, 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 2018 is approximately 9.8%, as compared with approximately 9.0% in 2017.

### **C. Mortgage banks**

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.

#### 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.

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.

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<sup>76</sup> Including agents who made sales in 2018 in an amount exceeding NIS 50,000.

<sup>77</sup> This figure includes sales which were performed by Batach Thorne Insurance Agency Ltd., which is an agency owned by the Group.

**B. Average commission rate**

The average commission rate out of total gross premiums in the non-life insurance segment<sup>78</sup> during the reporting year amounted to approximately 14.2%, as compared with approximately 14.8% in 2017.

10.8.1.3. **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 1,012 insurance agents<sup>79</sup>. 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 4.2% are due to the activities of the Group's agencies, as compared with 3.8% in 2017.

**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:

**Routine commissions** - Commissions which are derived from the premiums and paid throughout the entire policy lifetime, on a routine basis.

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<sup>78</sup> Not including commissions which were paid by Clal Credit Insurance or premiums which were collected by it.

<sup>79</sup> Including agents who made sales in 2018 in an amount exceeding NIS 10,000.

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 30%, as compared with 29% in 2017.

In collective insurance, the agent commission is determined in negotiations with the agent regarding each transaction separately.

10.8.2. **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**").

For details regarding marketing and distribution, see section 10.8 above.

B. Expenses in connection with operating services for the operation of provident funds which are managed by Clal Pension and Provident Funds. For details regarding Clal Pension and Provident Funds' engagement with the aforementioned provider, see section 10.17.2(a) below.

C. General expenses of the Company to various providers, 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).

D. 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(a) to the financial statements.

There is no primary provider 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 40 million with respect to the aforementioned development and maintenance services, as compared with a total of approximately NIS 33 million in 2017. However, due to the nature of circumstances, within the framework of the work done by providers in the Group, in certain

cases, the providers 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 providers, as stated above, with whom the Company has engaged, see section 10.17.2(b) below. For details regarding the aforementioned providers with whom Clal Pension and Provident Funds engaged, see section 10.17.2(a) below.

#### 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 2017 and 2018

Company / Unit	Location	As of December 31, 2018		As of December 31, 2017	
		Owned area (square meters)	Rented area (in square meters)	Owned area (square meters)	Rented area (in square meters)
Clal Insurance	Tel Aviv <sup>1</sup>	-	34,912	-	34,068
	Petach	-	2,093	-	2,460
	Tikva	-	-	-	-
	Haifa <sup>(2)</sup>	2,618	-	2,862	-
	Jerusalem	-	1,627	-	1,593
	Beer Sheva <sup>(3)</sup>	-	1,290	-	1,739
	Herzliya <sup>(4)</sup>	-	250	-	250
Clal Credit and Finance <sup>(5)</sup>	Tel Aviv	-	1,273	-	1,013
Clal Pension and Provident Funds	Tel Aviv	-	3,973	-	5,226
	Petach	-	1,686	-	937
	Tikva	-	-	-	-
	Jerusalem	-	73	-	73
	Beer Sheva	-	735	-	735
HaClal HaRishon	Petach	-	3,150	-	3,143
	Tikva	-	-	-	-
Clalbit Systems	Tel Aviv	-	8,057	-	7,907
Agencies under control <sup>(6)</sup>	Throughout Israel	1,027	3,555	1,027	3,214
Clal US <sup>(7)</sup>	New York	-	-	-	93
<b>Total</b>		<b>3,645</b>	<b>62,674</b>	<b>3,889</b>	<b>62,451</b>

\* Excluding parking lot areas.

1. Including area of Canaf.
2. 78 square meters, leased to Clal Pension and Provident Funds.

3. Since June 2018, Clal Insurance has rented a new area for the Beer Sheva region. The lease agreement with respect to the previous offices of the Beer Sheva region concluded on December 31, 2018, and the aforementioned area is not included in the table.
4. Backup site for the Group's IT systems (there is also a backup site in Greece, in an immaterial area).
5. Including Clal Credit Insurance and Clal Mortgages.
6. Including Batach and Tmura.
7. In April 2018, the activity of Clal US was discontinued.

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 (for details, see section 10.17.1(a) below). In some of the rental agreements, the Company has the option to extend the rental period.

Data regarding buildings which constitute a part of the nostro investment portfolio of Clal Insurance, in square meters, for the years 2018 and 2017\*

Place	Designation	As of December 31, 2018	As of December 31, 2017
Gush Dan area	Offices and commercial	37,038	37,371
North	Trading	3,108	3,108
HaSharon area	Offices and commercial	20,040	19,086
Haifa	Offices	3,096	3,096
England and Scotland	Offices	12,547	12,547
Jerusalem	Offices and commercial	6,219	6,219
United States	Offices, commercial and multifamily	34,551	53,097
<b>Total</b>		<b>116,599</b>	<b>134,524</b>

\* 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

##### 0.10.3.1. **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 IT services to the Group's member companies, and as of the reporting date, does not provide services to companies outside of the Group. Clalbit Systems engages with external providers 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.

#### 0.10.3.2. **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 during the reporting year, some of which are also expected to continue after the reporting year.

**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.

#### **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 6.2.2(d) 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, the addition of built-in controls, 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 provider, as stated in section 10.17.2(b) below. 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. 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 6.2.3 above, and Note 42(a4)(2) to the financial statements.

Further to the "road map" project, and in parallel with the activities towards completing it, the Company continued the performance of additional upgrade processes for the core systems, through the external provider.

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, inter alia, on all matters associated with the management of members' rights. As part of the above, Clal Insurance decided, in 2018, to conduct a feasibility test, which is expected to conclude in 2019, with the aim of reducing the redundancies between the systems, and converting and adjusting an innovative automation system which exists in the Company. The conversion, insofar as it will be approved, is expected to take place over a period of several years.

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 long term savings segment. For additional details, see Note 6 to the financial statements.

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.

#### **Digital segment -**

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 additional details, see section 10.18 below.

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.

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.

#### **0.10.3.3. 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 recruitment processes, and engagement with providers; 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 provider 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 providers.
- 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):**

2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums and contributions, NIS in thousands	3,254.7	3,281.4	3,508.1	3,734.8	13,778.9

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

Spread of the gross premiums in life assurance and contribution payments by quarters in the years 2017 – 2018 in NIS



#### 10.11.2. Non-life insurance

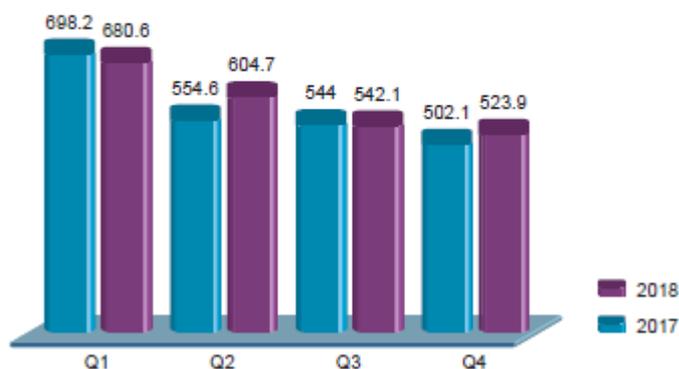
In general, income from premiums in the non-life insurance segment does not feature clear seasonality. However, premiums in the first quarter of the year are higher than premiums in other quarters, mainly due to renewals of insurance contracts by business policyholders, and to renewals of large vehicle 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):**

2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Premiums, NIS in thousands	680,597	604,709	542,118	523,954	2,351,378
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

Spread of the gross premiums in general insurance by quarters in the years 2017 – 2018 in NIS millions.millions



### 10.11.3. Other operating segments

The health insurance segment is not characterized by seasonality. In the international travel insurance sub-branch, there has been an increase in the scope of policies sold to international travelers during the summer and holiday periods. However, the above had no significant effect on the distribution of total premiums in the health segment during the calendar year.

### 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 providers, 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.

In May 2018, the **Protection of Privacy Regulations (Information Security), 2017**, entered into effect, and a directive of the Registrar of Databases was also published, regarding the application of the aforementioned regulations to managing companies and insurers which are subject to the Authority's directives, which imposed only some of the regulations on institutional entities. In the regulations which apply to institutional entities, it was determined, inter alia, that upon the occurrence of a severe security event, the database owner is required to inform the Registrar of the matter immediately, including regarding the steps which were taken following the event, and that the Registrar will be entitled to instruct the database owner to announce the event, with respect to information which may be harmed as a result. The Privacy Protection Authority also published examples of severe security events which must be reported to the Authority, as stated above.

The Company is working to implement the provisions of the regulations which apply to it.

10.13. Legal proceedings

Material legal proceedings are currently pending against the Group, including class actions in accordance with the Class Action Law, and a derivative claim. For details regarding claims which are not in the ordinary course of business, including class actions which have been approved for filing as class actions; 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; a derivative claim; and material claims against the Group which are not in the ordinary course of business, see Note 42(a)-(c) 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(d) to the financial statements.

10.14.2. Credit

For details concerning the interest rates on loans which applied during the reporting period, restrictions which apply to the Company regarding the receipt of credit, and the 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 of the report - board of directors' report, section 3.2.3, Clal Insurance expects an increase in the capacity for an issue of Tier 2 capital

in the coming year, according to the calculation of the economic solvency ratio without the provisions during the distribution period. Clal Insurance may be required, in the coming year, to raise sources by way of an issuance and/or exchange, subject to the developments in its capital status, and with the Commissioner's approval, if and insofar as required.

The reporting date, the Company and Clalbit Finance have no shelf prospectuses in effect.

**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.

Presented in the following table are risk factors, according distributed by macro risks, branch-specific risks and risks which are unique to the Group, as well as details regarding the risk factors.

Risk factors	Risk factor's impact on the Group		
	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		
<b>B. Branch-specific risks</b>			
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		
<b>C. Risks on the level of the Group</b>			
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 providers		X	

**The impact of the foregoing risk factors is based on the judgment of group management, based on the information which is available as of the estimation date, refers to each risk independently, and takes into account the probability of the materialization of each risk and its potential results. The estimation of the extent of the risk factors' impact refers to the direct implications on the Group, 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).

##### (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, as a result of their impact on the value of the assets in the Group's nostro portfolio. 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 indirectly, as a result of the impact on the Group's profits on returns which are achieved in 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, 2018, see Note 39(c)(1) 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. For details regarding the negative addition which accrued during the reporting period, see Notes 20 and 30 to the financial statements.

### (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 comprehensive income of the Group are exposed to changes in risk factors, of which the main ones are specified below. The capital requirements which apply to the Group's insurance companies 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, the Group's insurance companies are also subject to the provisions of the accounting solvency regime which are based on measurement in the financial statements. 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.

- A. 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. An interest rate decrease may also adversely affect the solvency ratio of Clal Insurance. 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(e)(e1)(d) to the financial statements). However, the Group may also be exposed to certain scenarios involving interest rate increases, due to the relatively long average lifetime of the assets, in consideration of the long term nature of most of the liabilities, due to the fact that, in accordance with the currently practiced accounting method, in certain scenarios involving changes to interest rates, there is not necessarily full correspondence between the change in the market interest rate and the discount rate which is used to discount the various insurance liabilities. It is noted that, in the long term, the Group's is also exposed to an ongoing low level of interest rates, with an emphasis on the index-linked interest rate, which may make it difficult to achieve the guaranteed rate of return for guaranteed-return products, and to achieve the returns that were used to price other insurance products, and to require a renewed evaluation of the actuarial assessment of the Group's insurance liabilities (see Note 39(e)(e1) to the financial statements).

- B. 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.
- C. 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.
- D. 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.
- E. 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.
- F. Other assets price risk - The Group is exposed to alternative investments, which include investments in real estate and in 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 specific business 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(e)(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(e)(e1)(b)(4) to the financial statements). **The portfolio retention rate also constitutes a significant risk in pension fund and provident fund management business operations.** 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 when approving new products, and 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 also 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 6.1.4.1, 6.2.2(a), 6.2.2(b), 6.2.2(c), 6.2.2(d), 6.2.2(g)(2), 7.1.1.1(b)(1), 7.1.1.1(c)(1), 7.1.1.1(d)(1), 7.1.1.1(d)(2), 8.1.2.2, 8.2, 10.2, 10.3.1.2, 10.8.1.1 and 10.8.1.1(b) 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, including as a result of structural changes in the market, and including in the distribution channels. 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.
- 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, an 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. (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 Group's activities are subject to many provisions of the law, and to the oversight of regulatory entities.** 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.

For additional details regarding the permits for the control of the institutional entities which are under the Company's control, and regarding the status of the permits for the control of the Company and of its institutional entities as of the reporting date, see Notes 1f and 16(e)(5) to the financial statements.

#### (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 potential 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 6.2.3 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 6.2.2(d)(2) above). In light of the scope of activities of the Group, which currently manages, as of December 31, 2018, assets in the amount of approximately NIS 197 billion, of which approximately NIS 165 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 and risk mitigation actions, 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, primarily with respect to the large scope of sensitive information which is at its disposal, and with respect to the large scope of funds which it manages. Such risks include, inter alia, the risk of financial damage, disruption of 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 10.10.3.3 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(d) 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 providers

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 providers is inadequate, and is also exposed to the risk associated with the difficulty in finding an alternative provider, if necessary.

10.17. Material agreements and collaboration agreements

10.17.1. Presented below is a description of the material agreements to which the Company is party, or which pertain to the Company

- (A) **Agreement for the rental of areas with Atidim - Science Based Industries Ltd.** - On March 12, 2013, the Company engaged in a binding memorandum of understanding with Atidim - Science Based Industries Ltd., according to which the Company rents, on its own behalf and on behalf of the Group's member companies, office areas with an area of approximately 47,000 square meters (including 24 floors), a lobby floor, warehouses and approximately 1,000 underground parking spaces, in Atidim Tower in Ramat HaHayal, Tel Aviv. The agreement between the parties is in effect for a period of approximately 24 years, with one exit station after around 16 years.

- (B) 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. On March 29, 2018, the companies, HaClal HaRishon, and the Histadrut Worker's Committee in the Group signed an annex to the collective agreement which was signed, which applied the provisions of the agreement to some employees of HaClal HaRishon, excluding managers of a specified rank, subject to certain agreed-upon changes. For additional details regarding the agreement and the annex to the agreement, see section 10.7.3 above and Note 24(d) to the financial statements.
- (C) **Agreement for the acquisition of systems for automating the management of pension operations** - In January 2015, Clal Pension and Provident Funds began operating the pension operations through the Nissan system, a system for the management of members' rights, and also launched a commission payment system module, which were purchased from Sapiens. Sapiens also provides maintenance services for the system. For additional details regarding the agreement with Sapiens, see section 10.9 above.

10.17.2. Presented below are details regarding significant agreements which are immaterial and to which the Company is party, or which involve the Company

- (A) **Agreement for the receipt of routine operating services of provident funds** - In June 2016, Clal Pension and Provident Funds engaged in an operating agreement with Bank Leumi 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 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. Since January 2018, Bank Leumi has operated all of the provident funds which are managed by Clal Pension and Provident Funds. The replacement of Bank Leumi, without an advance preparation period, could temporarily adversely affect the provision of services in the funds which it manages, until an alternative provider has been found.
- (B) **Agreement regarding 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.

10.17.3. 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 October 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. On June 13, 2018, the parties signed a letter waiving their right to terminate the agreement with reference to the renewal period beginning on January 1, 2019, and the extension of the agreement for 3 additional years, until December 31, 2021. 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 insurance and long term savings market in Israel, while increasing its financial soundness and maximizing the value for its shareholders, through growth and business expansion, accompanied by increased profitability and continued improvement of the level of customer service, while emphasizing innovation and excellence in services and products, technological leadership, retention of the Group's human capital, and through strengthening its position among its employees, agents and customers.

Business strategy - In a complex and changing regulatory environment, which includes frequent regulation and a low interest rate environment for years in the capital market, the Company validates its business strategy on an annual basis, and drafts its work plans accordingly. The ongoing challenge of Clal Group is to strengthen its position as a market leader, and to substantiate a stable and loyal relationship with all of its interested parties, based on transparency and a proactive approach, with the aim of providing the best and most professional service possible, and providing personally tailored solutions to its agents and customers.

Main tasks in the implementation of the business strategy:

- Growth of revenue and of new business profitability: In recent years, Clal Insurance optimized its insurance portfolios with the aim of increasing the portfolios' profitability. Following the conclusion of the optimization process, the Company is now focused on developing new business growth and ensuring

high profitability, in all branches. The Company intends to grow mainly through its insurance agents, with whom it maintains longstanding business relationships, while providing them with the most advanced tools for growth in shared business.

- Development and support of financial products: The Company has designated the finance branch as a major growth engine for the coming years, and intends to increase the traditional savings channels along with innovative savings products, to offer a variety of savings products and tracks which meet the needs of its customers, and to increase its market share in the segment, while evaluating possibilities for the acquisition of additional financial operations.
- Restraining the increase of expenses to support the cost/income ratio: In the challenging competitive and regulatory environment, which is affecting the decline in premiums and management fees, the Company has set a goal of increasing operational efficiency and reducing expenses.
- Leading investment management: The Company has set a goal of leading returns for its members, in various investment channels, and does so through Canaf, which performs the Group's investment management activities, and which constitutes one of the largest extra-banking institutional investors in Israel, while maintaining adequate risk levels, based on a long term approach.
- Innovation and digitization: In recent years, the Group has undergone a broad digital transformation, upgraded its core systems, and implemented advanced digital tools, in order to allow agents and customers to obtain comprehensive and high-quality information, and to perform transactions, anywhere and anytime. The Group will continue investing in the most advanced tools in the world, in order to meet the needs of its various customers, and to lead the branch in this segment.
- Improvement of service and operations: Service is one of the Group's central value, and this segment has undergone dramatic changes in recent years. The Group is working to continue improving the satisfaction of customers and all interested parties. As part of the above, the service and operations units were unified into a single division, allowing full synergy and shortened time frames for handling the various service processes.
- Investment in automation infrastructure, while improving automation infrastructure in life insurance: The Group's automation system is a critical tool for its activity. The improvement of infrastructure in the life insurance segment is one of the Company's major tasks, with the aim of upgrading the core systems and managing the knowledge which has been gained in the Company in recent years, as stated above.
- Maintaining and improving financial soundness and the solvency ratio: The Group is working to improve its overall financial management and risk management, inter alia, by developing quantitative benchmarks, and incorporating them into the management of its business affairs, and particularly, in order to support the maintenance of an adequate economic solvency ratio, in consideration of the challenges which are due to the portfolio's past exposures, the low interest rate environment, and regulatory effects.
- Improving the Company's position vis-à-vis all interested parties, inter alia, by strengthening the brand and its value in the eyes of the public, including the Company's intention to work on the subject of organizational connectedness, and increasing the sense of pride among its employees.

**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.**

## **Part V - Corporate Governance**

### 11. **Corporate governance**

The following sections are provided in this part of the Company's periodic report for 2018 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**

On December 12, 2018, Mr. Yaacov Dior concluded his tenure as an outside director, after 9 years of service. Save for the above, during the reporting year, no additional 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 2017, 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.
- 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 internal audit unit's work plan for 2018 also addressed the activities of subsidiaries, and particularly, material investees 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 <sup>80</sup>	32,950		650	33,600
Clal Credit Insurance	1,100			1,100
Clal Pension and Provident Funds	10,600		200	10,800
Atudot Havatika		1,300		1,300
Agencies under the Company's control	500			500
<b>Total:</b>	<b>45,150</b>	<b>1,300</b>	<b>850</b>	<b>47,300</b>

The total scope of audit work hours in the Group in 2018 (including 1,300 audit hours of Atudot Havatika) amounted to a total of approximately 47,300, approximately 1,900 hours more than the total scope of hours in the Group in 2017. 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

- The audit is performed in accordance with professional internal auditing guidelines, and in accordance with the guidelines set forth in the regulation codex of the Authority of Capital Markets, Insurance and Savings, volume 5, part 1, chapter 8 (formerly 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 21, 2018, February

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<sup>80</sup> The figure includes 100 audit hours in Clalbit Finance.

15, 2018, March 18, 2018, April 22, 2018, May 13, 2018, June 14, 2018, July 12, 2018, August 12, 2018, September 13, 2018, October 18, 2018, November 11, 2017 and December 20, 2018.

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 2018 amounted to approximately NIS 1.24 million.
- Over the years 2013 and 2014, 26,000 non-marketable warrants exercisable into ordinary company shares were allocated to the internal auditor as part of the 2013 warrants plan, which applies to corporate officers and employees in the Company and in the Group's member companies. As of the present date, he has 13,000 warrants, following the expiration of some of the warrants. For additional details, see Note 41(a)(1) to the financial statements.
- On March 17, 24 and 26, 2019, the Compensation Committee, audit committee and board of directors evaluated the correspondence of the compensation received by the Company's internal auditor in 2018, 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, 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, C.P.A.

##### 11.4.2. Payments to the auditors

**NIS in thousands, excluding VAT**

	2018				2017			
	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	3,811	726	1,062	5,599	3,898	1,154	2,137	7,189
Clal Agency Holdings and subsidiaries	136	-	-	136	142	-	50	192
Other companies	32	-	-	32	34	-	-	34
<b>Total companies</b>	<b>4,079</b>	<b>726</b>	<b>1,062</b>	<b>5,867</b>	<b>4,174</b>	<b>1,154</b>	<b>2,188</b>	<b>7,516</b>

##### 11.4.3. Auditors' work hours

	2018				2017			
	Audit and tax services	Audit related services	Other services	Total	Audit and tax services	Audit related services	Other services	Total
The Company	496	-	-	496	496	-	-	496
Clal	18,875	2,151	3,540	24,566	19,790	4,236	7,891	31,917

Insurance and subsidiaries								
Clal Agency Holdings and subsidiaries	839	-	-	839	910	-	188	1,098
Other companies	209	-	-	209	192	-	-	192
<b>Total companies</b>	<b>20,417</b>	<b>2,151</b>	<b>3,540</b>	<b>26,108</b>	<b>21,388</b>	<b>4,236</b>	<b>8,079</b>	<b>33,703</b>

The overall scope of work hours of the auditors in the Group in 2018 amounted to 26,108 work hours, as compared with 33,703 hours in 2017.

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 2018, the Group donated a total of approximately NIS 2.2 million in Israel, in accordance with the defined strategy: support for entities and associations working to support special needs groups, including groups affected by illness, disabled population groups, including an emphasis on supporting children and youths; for example, the Jordan River Association, which runs a unique holiday village for children dealing with chronic, genetic or life-endangering illnesses. The Company emphasizes the involvement of employees in community activities, and contributes over one thousand volunteer hours, including, for example, managing the fundraising day of Pitchon Halev Association, which strives to break the inter-generational poverty gap in Israel, and each year assists around half a million people in Israel, inter alia, through the "7 Plan", which is designed for youths in the geographical periphery, and which accompanies them for 7 years, from the high school period until their paths in higher education and in post-military employment.

To the best of the Company's knowledge, there are no ties between the associations to which the Group donated NIS 50,000 or more during the reporting year, and the Company, any director of the Company, the Company's CEO, the Company's controlling shareholder, or any relatives thereof. However, it is noted that during the reporting year the Company donated approximately NIS 200 thousand to the Weizmann Institute of Science, a donation which is intended to support medical research aimed to promote the ability to deal better with illnesses, including illnesses affecting children. For the sake of prudence, it is noted that Gav Yam, a company controlled by the controlling shareholder of IDB Development, which is held (51.7%) by Property & Building Corporation<sup>81</sup>, and the Weizmann Institute, are partners in land in Tamar Park in Rehovot, on which there are several buildings which were built in the past, and where several additional buildings are currently under construction. Gav Yam's share in the partnership is 72%, while the Weizmann's Institute's share is 28%. The partnership is managed entirely by Gav Yam, in consideration of

<sup>81</sup> It is noted that Mr. Alejandro Elsztain (the brother of Mr. Eduardo Elsztain) serves as the Chairman of the Board of Gav Yam.

management fees which are paid to it by the Weizmann Institute. The Company believes that the above does not constitute an extraordinary transaction or a transaction in which the controlling shareholder has a personal interest.

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.

The management of Clal Insurance (the institutional entity), in collaboration with the CEO, the Executive VP of Clal Insurance, the Financial Division Manager and the Senior VP Comptrollership Division Manager 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 CEO, the Executive VP of Clal Insurance and Financial Division Manager and the Senior VP Comptrollership Division Manager of Clal Insurance have concluded that, as of the end of the aforementioned period, the controls and procedures involving the disclosures made by Clal Insurance are effective for the purpose of recording, processing, summarizing and reporting the information which Clal Insurance is required to disclose in the

annual report, in accordance with the provisions of the law, and the reporting directives which were issued by the Commissioner, and by the date specified in those directives.

During the covered period ended December 31, 2018, 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.

The company continues working to improve and increase the efficiency of various work processes, including with reference to aspects of internal control and customer service, and as part of the above, it is continuing the process of developing, upgrading and/or replacing several information systems.

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-

The insurance companies in the Group are 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.**

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**Danny Naveh**  
**Chairman of the Board of**  
**Directors**

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**Yoram Naveh**  
**Chief Executive Officer**

**March 26, 2019**

\* \* \*



# Periodic Report for 2018

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The board of directors' report regarding the state of the corporation's affairs for the period ended December 31, 2018 (hereinafter: the "**Board of Directors' Report**") reviews the principal changes which occurred in the operations of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the "**Company**") during 2018 (hereinafter: the "**Reporting Period**").

The board of directors' report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. The board of directors' report with respect to insurance business operations was prepared 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's controlling shareholders**

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

<u>Shareholder</u>	<u>As of December 31, 2018</u>		<u>Proximate to the publication date of the report</u>	
	<u>Holding of voting rights</u>	<u>Holding of fully diluted voting rights<sup>1)</sup></u>	<u>Holding of voting rights</u>	<u>Holding of fully diluted voting rights<sup>1)</sup></u>
	%			
IDB Development Corporation Ltd.	29.82	29.62	25.32	25.16

It is noted that IDB Development holds shares of Clal Holdings, directly and indirectly, through a trustee who was appointed to hold the control shares of Clal Holdings.

For additional details regarding IDB Development's holdings in Clal Holdings, the swap transactions which it performed with its shares and IDB Development's obligation to sell its shares, see Note 1 to the financial statements.

\*) For details regarding the sale of shares of Clal Holdings, which were held by Bank Hapoalim during the reporting period, see Note 1(b)(5) to the financial statements.

<sup>1</sup> The fully diluted holding rate was presented based on the theoretical assumption that all options would be exercised. For additional details, see Note 41 to the annual financial statements.

## 2. 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 in an increase of the interest rates which are used to calculate insurance liabilities, and in declines in the capital markets, mostly in the stock market, in the fourth quarter, which adversely affected investment income during the reporting period. For additional details, see Note 43(a) to the financial statements.

Parameter	Data for the period																																																																																																				
<b>Developments in the Israeli economy and employment rate</b>	GDP increased by approximately 3.3% in 2018, and increased by approximately 3% in the fourth quarter (in annual terms), in accordance with the estimate of the Central Bureau of Statistics. According to the assessment of the research division of Bank of Israel from January 2019, GDP is expected to grow by approximately 3.4% in 2019. According to the workforce survey of the Central Bureau of Statistics as of December 2018: <ul style="list-style-type: none"> <li>• Share of employed persons usually working full time out of total employed persons: 78.7% (as compared with 77.9% at the end of 2017)</li> <li>• The workforce unemployment rate among persons aged 25-64 was 3.7% (similarly to the end of 2017).</li> <li>• The workforce participation rate among persons aged 25-64 was 80.5% (similarly to the end of 2017).</li> <li>• The employment rate among persons aged 25-64 was 77.5% (similarly to the end of 2017).</li> </ul>																																																																																																				
<b>Inflation data</b>	In 2018, the consumer price index increased by approximately 0.8%, as compared with the increase of approximately 0.4% in 2017.  Subsequent to the reporting period, the Central Bureau of Statistics published the price index for January, which decreased by approximately 0.1%, and for February, which increased by approximately 0.1%.																																																																																																				
<b>Exchange rates</b>	In 2018, the NIS weakened vs. the USD and the EUR by approximately 7.5% and 3.2%, respectively. In the fourth quarter of 2018, the NIS weakened vs. the USD and the EUR by approximately 3.3% and approximately 1.8%, respectively.  Balances of foreign currency at the Bank of Israel, as of the end of the fourth quarter of 2018, amounted to approximately USD 115 billion.																																																																																																				
<b>Development of the interest rate and yields</b>	For details regarding the impact of the low interest rate environment, see Note 43(a) to the financial statements.  The Bank of Israel interest rate increased in the last quarter (November) by approximately 0.15%, to a rate of 0.25%. According to the assessment of the Bank of Israel's research division from January 2019, the Bank of Israel interest rate is expected to be increased to 0.5% in 2019.																																																																																																				
<b>Developments in the capital market in Israel and around the world (in terms of local currency)</b>	<table border="1"> <thead> <tr> <th>In percent</th> <th colspan="2">1-12</th> <th colspan="2">Q4</th> </tr> <tr> <th>Stock indices in Israel</th> <th>2018</th> <th>2017</th> <th>2018</th> <th>2017</th> </tr> </thead> <tbody> <tr> <td>Tel Aviv 35</td> <td>(3.0)</td> <td>2.7</td> <td>(10.9)</td> <td>6.2</td> </tr> <tr> <td>Tel Aviv 90</td> <td>(3.0)</td> <td>21.2</td> <td>(8.9)</td> <td>4.5</td> </tr> <tr> <td>Tel Aviv 125</td> <td>(2.3)</td> <td>6.4</td> <td>(10.2)</td> <td>5.6</td> </tr> <tr> <td>Tel Aviv Growth</td> <td>(15.6)</td> <td>4.5</td> <td>(12.4)</td> <td>(3.6)</td> </tr> <tr> <td><b>Bond indices</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>General</td> <td>(1.5)</td> <td>4.7</td> <td>(1.6)</td> <td>1.3</td> </tr> <tr> <td>Telbond CPI-linked</td> <td>(0.7)</td> <td>5.6</td> <td>(2.1)</td> <td>1.6</td> </tr> <tr> <td>Telbond NIS-linked</td> <td>(4.3)</td> <td>7.5</td> <td>(3.0)</td> <td>1.5</td> </tr> <tr> <td>Government CPI-linked</td> <td>(1.4)</td> <td>3.4</td> <td>(1.6)</td> <td>1.5</td> </tr> <tr> <td>Government NIS-linked</td> <td>(1.2)</td> <td>3.7</td> <td>(0.4)</td> <td>0.8</td> </tr> <tr> <td><b>Global stock indices</b></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dow Jones</td> <td>1.4</td> <td>12.8</td> <td>(9.5)</td> <td>8.4</td> </tr> <tr> <td>NASDAQ</td> <td>3.3</td> <td>15.6</td> <td>(15.4)</td> <td>4.4</td> </tr> <tr> <td>Nikkei Tokyo</td> <td>(2.6)</td> <td>11.6</td> <td>(10.2)</td> <td>10.0</td> </tr> <tr> <td>CAC - Paris</td> <td>(8.0)</td> <td>12.2</td> <td>(13.1)</td> <td>(0.4)</td> </tr> <tr> <td>FTSE - London</td> <td>(10.4)</td> <td>6.6</td> <td>(9.8)</td> <td>3.1</td> </tr> <tr> <td>DAX - Frankfurt</td> <td>(15.5)</td> <td>15.5</td> <td>(13.6)</td> <td>0.6</td> </tr> <tr> <td>MSCI WORLD</td> <td>(4.0)</td> <td>8.5</td> <td>(11.7)</td> <td>3.5</td> </tr> </tbody> </table>	In percent	1-12		Q4		Stock indices in Israel	2018	2017	2018	2017	Tel Aviv 35	(3.0)	2.7	(10.9)	6.2	Tel Aviv 90	(3.0)	21.2	(8.9)	4.5	Tel Aviv 125	(2.3)	6.4	(10.2)	5.6	Tel Aviv Growth	(15.6)	4.5	(12.4)	(3.6)	<b>Bond indices</b>					General	(1.5)	4.7	(1.6)	1.3	Telbond CPI-linked	(0.7)	5.6	(2.1)	1.6	Telbond NIS-linked	(4.3)	7.5	(3.0)	1.5	Government CPI-linked	(1.4)	3.4	(1.6)	1.5	Government NIS-linked	(1.2)	3.7	(0.4)	0.8	<b>Global stock indices</b>					Dow Jones	1.4	12.8	(9.5)	8.4	NASDAQ	3.3	15.6	(15.4)	4.4	Nikkei Tokyo	(2.6)	11.6	(10.2)	10.0	CAC - Paris	(8.0)	12.2	(13.1)	(0.4)	FTSE - London	(10.4)	6.6	(9.8)	3.1	DAX - Frankfurt	(15.5)	15.5	(13.6)	0.6	MSCI WORLD	(4.0)	8.5	(11.7)	3.5
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2. **Material developments and changes in the macroeconomic environment during the reporting year (Cont.)**

<p><b>Global economic developments</b></p>	<p>The global economy is continuing a trend of growth, although a trend of moderation has been apparent in recent months.</p> <p><b>United States</b> - In 2018, the American economy grew by approximately 2.9%, and in the fourth quarter, by 3.1% (in annual terms). 2018 was characterized by the restrictive monetary policy implemented by the Federal Reserve, which continued to gradually reduce the balance sheet, and raised interest rates four times during the year, to the level of 2.25%-2.5%. It is noted that 2018 was also adversely affected by the trade war between the United States and China, and by the weakening of the global economy. On the other hand, it should be noted that the labor market presented a positive trend.</p> <p><b>Europe</b> - In 2018, the European economy grew at a rate of 1.9%, and in the fourth quarter, at a rate of 1.2% (in annual terms). The weakness of the European economy in 2018, relative to the corresponding period last year (in which the European economy grew by approximately 2.5%), was due to several factors, including slower global growth, political problems in the Bloc such as Brexit, the Italian debt crisis and the “yellow vests” protests against the cost of living in France, as well as regulatory changes in the vehicle industry, which resulted in a decline of industrial activity. On the other hand, the labor market in Europe continued on a positive trend, which was reflected in the decreased unemployment rate and in increased salaries. The interest rate remained unchanged. In accordance with a decision of the Central Bank, the quantitative easing program was stopped in December.</p> <p><b>China</b> - The growth rate of the Chinese economy is in a downtrend, in light of the structural changes which are due to the transition from an export-based economy to an economy driven by local demand, and the decline in credit scopes and in monetary amounts. Growth in 2018 featured growth of 6.4%. In 2018, the Chinese Yuan weakened significantly, apparently due to the decelerated growth rate. With the aim of preventing the continued decline of growth, and to support the economy, the government implemented several expansive fiscal and monetary measures.</p>
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### 3. Board of Directors' Remarks Regarding the Corporation's Business Position

#### 3.1 Financial information by operating segments (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

##### A. Reporting period

Gross premiums earned in the reporting period amounted to a total of approximately NIS 10,275 million, as compared with a total of approximately NIS 9,729 million in the corresponding period last year. The increase in premiums was primarily due to life and health insurance business operations, as a result of the increased sales of individual managers insurance and health insurance products.

Comprehensive loss after tax attributable to company shareholders during the reporting period amounted to a total of approximately NIS 148 million, as compared with comprehensive income of approximately NIS 370 million in the corresponding period last year. Return on equity in annual terms during the reporting period amounted to a negative rate of 2.9%, as compared with a positive rate of 7.9% in the corresponding period last year.

Comprehensive loss in the reporting period was primarily affected by the decrease in capital market returns, which were lower than the returns in the corresponding period last year, and which were reflected in the decrease of investment income, which resulted, inter alia, in the collection of variable management fees in the amount of approximately NIS 3 million, as compared with collection in the amount of approximately NIS 352 million last year. It is noted that, as of December 31, 2018, there is a liability to policyholders with respect to the collection of variable management fees<sup>2</sup> in the portfolio of profit-sharing life insurance policies in the amount of approximately NIS 87 million.

The during the reporting period and in the corresponding period last year, as specified in section D below, include, inter alia, the following detailed effects<sup>3</sup>:

NIS in millions	Year		Q4	
	2018	2017	2018	2017
<b>Life insurance</b> - Low interest rate environment and LAT:				
Change in the discount interest rate used in the calculation of the liability to supplement the annuity and paid pension reserves	85	(197)	49	(39)
Change in the liability to supplement annuity reserves (K factor)	135	(126)	16	(63)
Liability adequacy test (LAT)	75	64	29	93
<b>Total life insurance</b>	<b>295</b>	<b>(259)</b>	<b>94</b>	<b>(9)</b>
<b>Non-life insurance</b> - Impact of the Winograd committee's recommendations <sup>4</sup>	52	(78)	23	18
<b>Long-term care insurance in the health segment</b> - Liability adequacy test (LAT)	-	-	73	-
Amortization of goodwill - provident funds	(115)	(108)	-	(27)

In the operating segments, except for the effect of the capital market, and the effects described above, a decrease was recorded in comprehensive income in the reporting period as compared with the corresponding period last year, primarily due to the negative development in claims and the update to estimates in the long-term care branch, and the update to the provision for claims in employers' liability and third party insurance, which was reflected in the actuarial model. On the other hand, profit increased in the motor property branch, as specified in section D below.

<sup>2</sup> "Liabilities to policyholders with respect to the collection of variable management fees" - cumulative negative returns during the reporting period, which will be deducted, for the purpose of calculating management fees, from positive returns in subsequent periods.

<sup>3</sup> For details regarding additional effects on the results of the operating segments, see section D below.

<sup>4</sup> As of December 31, 2018, the balance of the provision amounts to a total of approximately NIS 167 million. For additional details, see Note 39(e)(e2)(4)(f) to the financial statements.

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

#### **3.1 Financial information by operating segments** (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

##### **B. Current quarter**

Gross premiums earned in the quarter amounted to a total of approximately NIS 2,627 million, as compared with a total of approximately NIS 2,423 million in the corresponding period last year. The increase in premiums was primarily due to life and health insurance business operations, as a result of the increased sales of individual managers insurance and health insurance products.

Comprehensive loss after tax attributable to company shareholders in the quarter amounted to a total of approximately NIS 204 million, as compared with comprehensive income of approximately NIS 188 million in the corresponding period last year. Return on equity in annual terms amounted to a negative rate of 16.0%, as compared with a positive rate of return of 15.5% in the corresponding period last year.

Comprehensive loss in the quarter, as compared with the income in the corresponding period last year, was primarily due to the decrease in capital market returns, which were lower than the returns in the corresponding period last year, and which were reflected in investments losses, inter alia, regarding the repayment of variable management fees in the amount of approximately NIS 123 million, as compared with collection of approximately NIS 112 million last year. The results also included the effects described in the above table.

In the operating segments, the decrease in comprehensive income in the quarter, as compared with the corresponding period last year, was primarily due to the negative development in claims and the update to estimates in the long-term care branch, and the increase in the negative development of claims in employers' liability and third party in non-life insurance, which was reflected in the actuarial model. On the other hand, income in the motor property branch increased, due to the underwriting improvement and the increase in underwriting profit in life insurance, as specified below.

##### **C. Developments subsequent to the reporting period**

During the period subsequent to the reporting date, and until the publication date of the report, increases occurred in the capital markets which resulted, inter alia, as of the end of February 2019, in closing the liability to policyholders with respect to the collection of variable management fees, and the collection of variable management fees in the amount of approximately NIS 136 million.

The risk-free interest rate curve also decreased. Further to that stated in Note 39(e)(e1) and (e2) to the financial statements, a decrease in the interest rate may lead to an increase in the liability to supplement annuity reserves, including a change in the K factor, in paid pension liabilities in life insurance, and also as part of the liability adequacy test (LAT), in insurance liabilities in non-life insurance, in the compulsory, liabilities and personal accidents branches.

At this stage, it is not possible to estimate the implications of the decreased risk-free interest rate curve during this period on the financial results for the first quarter of 2019, 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 2019, and the above does not any estimate regarding the Company's expected financial results for 2019.

For details regarding sensitivity tests to market risks, see Note 39 regarding risk management in the financial statements.

**3. Board of Directors' Remarks Regarding the Corporation's Business Position**
**3.1 Financial information by operating segments** (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

**D. Additional primary details and additional primary effects, by segments**

Presented below are details regarding comprehensive income, distributed by segments:

NIS in millions	Item	Year			Q4	
		2018	2017	2016	2018	2017
<b>Life insurance</b>	<b>3.1.1.1</b>	144	267	(113)	(24)	120
<b>Pension</b>	<b>3.1.1.4</b>	(16)	11	43	(14)	5
<b>Provident</b>	<b>3.1.1.3</b>	(105)	(102)	8	1	(28)
<b>Total long term savings division</b>		23	177	(61)	(37)	97
<b>Non-life insurance</b>	<b>3.1.2</b>	47	62	(13)	(57)	51
<b>Health insurance</b>	<b>3.1.3</b>	(165)	184	216	(140)	80
<b>Financing expenses</b>	<b>3.1.6</b>	132	125	151	31	31
<b>Other and items not included in the insurance branches</b>	<b>3.1.4</b>	(34)	249	114	(76)	85
<b>Total comprehensive income (loss) before tax</b>		(261)	547	105	(341)	283
<b>Taxes (tax benefit)</b>		(117)	171	(20)	(138)	94
<b>Total comprehensive income (loss) for the period, net of tax</b>		(144)	376	125	(203)	189
<b>Attributable to Company shareholders</b>		(148)	370	122	(204)	188
<b>Attributable to non-controlling interests</b>		4	5	3	-	1
<b>Return on equity in annual terms (in percent) *</b>		(2.9)	7.9	2.7	(16.0)	15.5

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

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

#### 3.1 Financial information by operating segments (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

##### 3.1.1. Long term savings

##### 3.1.1.1. Life insurance operations

Life insurance	Year		Q4		Note
	2018	2017	2018	2017	
Gross premiums earned	<b>5,846</b>	5,535	<b>1,515</b>	<b>1,347</b>	
Comprehensive income (loss)	<b>144</b>	<b>267</b>	<b>(24)</b>	120	Reporting period - during the reporting period, a decrease was recorded in insurance reserves with respect to the low interest rate environment and the LAT, in the amount of approximately NIS 295 million, as compared with an increase of the reserves in the amount of approximately NIS 259 million in the corresponding period last year (see section A above). Additionally, in the corresponding period last year, the Company made a correction regarding the attribution of its liabilities to stipend recipient policyholders, to various guaranteed-return HETZ bonds, and as a result, the insurance reserves decreased, and pre-tax profit increased in the amount of approximately NIS 88 million, with no effect during the reporting period.
					On the other hand, during the reporting period, investment income decreased relative to the corresponding period last year, and the financial margin during the reporting period amounted to approximately NIS 515 million, as compared with a total of approximately 1,016 million in the corresponding period last year.
					Current quarter - the loss as compared with the comprehensive income in the corresponding period last year was primarily affected by declines in capital markets, which were reflected in the decrease of the financial margin, as stated above, relative to the corresponding period last year. This effect was partly offset by the decrease in insurance reserves with respect to the low interest rate environment and LAT, in the amount of approximately NIS 94 million, as compared with the increase of reserves in the corresponding period last year in the amount of approximately NIS 9 million (see section A above), and the increase in reserves in the corresponding period last year, in the amount of approximately NIS 67 million, primarily due to the implementation of the results of the Company's study on current cancellation rates. (For additional details, see Note 39(e)(1)(d)).
Redemption rates of life insurance policies from the average reserve, in annual terms	<b>2.0%</b>	2.1%	<b>2.2%</b>	2.1%	
Investment income (loss) applied to policyholders after management fees	<b>(711)</b>	3,303	<b>(2,300)</b>	1,140	

**3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)**
**3.1 Financial information by operating segments** (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

**3.1.1. Long-term savings (Cont.)**
**3.1.1.1. Life insurance operations (Cont.)**

Presented below is a description of the main results in life insurance, by product types, according to the specification provided in Note 20 to the financial statements:

Life insurance	2018	2017	Note
<b>Policies which include a savings component</b>			
Which were sold until December 31, 1990			
Gross premiums earned	225	249	The decrease in premiums was primarily due to the development in the portfolio whose business was sold until the end of 1990. The increase in income during the reporting period, as compared with the corresponding period last year, was primarily due to the decrease in insurance reserves with respect to the low interest rate environment and LAT, in the amount of approximately NIS 160 million, as compared with the increase of reserves in the amount of approximately NIS 103 million in the corresponding period last year (see section A above). On the other hand, a decrease was recorded in the financial margin during the reporting period, which amounted to a total of approximately NIS 78 million, as compared with approximately NIS 260 million in the corresponding period last year (see Note 20). Additionally, in the corresponding period last year, the Company made a correction regarding the attribution of its liabilities to stipend recipient policyholders, to various guaranteed-return HETZ bonds, and as a result, the insurance reserves decreased, and pre-tax profit increased in the amount of approximately NIS 88 million, with no effect during the reporting period.
Comprehensive income (loss)	179	130	
Policies including a savings component which were sold from January 1, 1991 to December 31, 2003			
Gross premiums earned	1,668	1,655	The decrease in comprehensive income during the reporting period, as compared with the corresponding period last year, was primarily due to the decrease in variable management fees, which amounted to a total of approximately NIS 3 million, as compared with a total of approximately NIS 352 million last year, due to the decrease in investment income. On the other hand, during the reporting period, the liability to supplement annuity reserves with respect to the K factor decreased in the amount of approximately NIS 135 million, as compared with the increase of the liability in the amount of approximately NIS 126 million in the corresponding period last year.
Comprehensive income (loss)	88	231	
Sold since January 1, 2004			
Gross premiums earned	3,260	2,926	The increase in premiums in the policies was primarily due to the increase in sales of managers insurance.
Comprehensive income (loss)	(151)	(163)	
<b>Policies with no savings component</b>			
Coverage for risk sold as a single (individual) policy			
Gross premiums earned	612	614	The decrease in income during the reporting period, as compared with the corresponding period last year, was primarily due to the decrease in investment income required to cover the increase in insurance liabilities.
Comprehensive income (loss)	20	46	
Coverage for risk sold as a collective policy			
Gross premiums earned	82	90	The decrease in comprehensive income was primarily due to the decrease in investment income required to cover the increase in insurance liabilities.
Comprehensive income (loss)	7	22	

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

3.1 Financial information by operating segments (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

#### 3.1.1. Long-term savings (Cont.)

##### 3.1.1.2 Data regarding premiums earned, management fees and financial margin<sup>5</sup>:

NIS in millions	Year			Q4	
	2018	2017	2016	2018	2017
<b>Variable management fees *)</b>	<b>3</b>	352	106	<b>(123)</b>	112
<b>Fixed management fees</b>	<b>433</b>	410	379	<b>111</b>	108
<b>Total management fees</b>	<b>436</b>	761	485	<b>(12)</b>	220
<b>Total financial margin and management fees</b>	<b>515</b>	1,016	686	<b>(20)</b>	313
<b>Current premiums</b>	<b>5,388</b>	5,226	4,817	<b>1,337</b>	1,282
<b>Non-recurring premiums</b>	<b>459</b>	309	182	<b>178</b>	65
<b>Total gross premiums earned</b>	<b>5,846</b>	5,535	4,999	<b>1,515</b>	1,347
<b>Current premiums</b>	<b>69</b>	82	111	<b>17</b>	17
<b>Non-recurring premiums</b>	<b>368</b>	209	358	<b>122</b>	59
<b>Total premiums with respect to pure savings</b>	<b>437</b>	291	469	<b>140</b>	77

\*) As of December 31, 2018, liabilities to policyholders with respect to variable management fees amounted to a total of approximately NIS 87 million.

#### Details regarding the rates of return in profit-sharing policies

	Policies issued during the years 1992 to 2003 (Fund J)					
	Year			Q4		
	2018	2017	2016	2018	2017	2016
Real return before payment of management fees	<b>(1.13)</b>	8.50	2.95	<b>(4.01)</b>	2.70	2.05
Real return after payment of management fees	<b>(1.70)</b>	6.72	2.01	<b>(3.80)</b>	2.19	1.62
Nominal return before payment of management fees	<b>0.05</b>	8.82	2.64	<b>(3.91)</b>	2.80	1.74
Nominal return after payment of management fees	<b>(0.52)</b>	7.04	1.70	<b>(3.70)</b>	2.29	1.31
	Policies issued beginning in 2004 (New Fund J)					
	Year			Q4		
	2018	2017	2016	2018	2017	2016
Real return before payment of management fees	<b>(1.71)</b>	8.12	2.46	<b>(4.30)</b>	2.67	1.70
Real return after payment of management fees	<b>(2.78)</b>	6.93	1.32	<b>(4.57)</b>	2.39	1.42
Nominal return before payment of management fees	<b>(0.53)</b>	8.45	2.15	<b>(4.21)</b>	2.77	1.39
Nominal return after payment of management fees	<b>(1.62)</b>	7.25	1.01	<b>(4.47)</b>	2.49	1.11

<sup>5</sup> The financial margin includes profit (loss) from investments charged to other comprehensive income, and does not include the Company's additional income charged as a percentage of the premium, and is calculated before the deduction of investment management expenses. The financial margin in guaranteed-return policies is based on income from actual investments for the reporting year, less a multiple of the guaranteed rate of return per year, times the average reserve for the year in the various insurance funds. Financial margin in investment-linked contracts is the total of fixed and variable management fees based on a reduction in the charging to savings in the Company's systems.

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

**3.1 Financial information by operating segments** (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

#### 3.1.1. Long-term savings (Cont.)

##### 3.1.1.3 Provident fund operations

	Year		Q4		Note
	2018	2017	2018	2017	
<b>Comprehensive income (loss)</b>	<b>(105)</b>	<b>(102)</b>	<b>1</b>	<b>(28)</b>	<p><b>Reporting period</b> - The results during the reporting period and in the corresponding period last year were primarily affected by the impairment of goodwill which was recorded in the amount of approximately NIS 115 million, as compared with impairment in the amount of approximately NIS 108 million last year.</p> <p><b>Current quarter</b> - The transition to income, as compared with the loss in the corresponding period last year, was due to the amortization of goodwill in the amount of approximately NIS 27 million last year, with no effect in the current quarter.</p> <p>It is noted that, in the reporting period and in the current quarter, a significant decrease occurred in net negative transfers.</p>
<b>Contributions</b>	<b>1,814</b>	<b>1,601</b>	<b>592</b>	<b>413</b>	

##### 3.1.1.4 Pension operations

	Year		Q4		Note
	2018	2017	2018	2017	
<b>Comprehensive income (loss)</b>	<b>(16)</b>	<b>11</b>	<b>(14)</b>	<b>5</b>	<p><b>Reporting period and current quarter</b> - The decrease in income and the transition to loss in the reporting period and in the current quarter were primarily due to the decrease in income from management fees, due to the competitive conditions in the segment, which resulted in an erosion of the management fee rate, and also due to the increase in operating and collection expenses, and the handling of regulatory updates. These effects were partly offset by the increase in routine deposits. Additionally, during the reporting period and during the current quarter, investment loss was recorded, as compared with investment income in the corresponding periods last year.</p> <p>For details regarding a letter from the Commissioner, in which pension funds which will serve as default funds were evaluated, see section 6.2.2.(A) of the chapter including updates to the chapter "description of the corporation's business"</p>
<b>Contributions</b>	<b>5,891</b>	<b>5,702</b>	<b>1,540</b>	<b>1,465</b>	

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

#### 3.1 Financial information by operating segments (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

##### 3.1.2 Non-life insurance - Presented below is the distribution of premiums and comprehensive income:

Non-life insurance	2018	2017	Q4 2018	Q4 2017	Note
Gross premiums	<b>2,351</b>	2,299	<b>524</b>	502	
Comprehensive income	<b>47</b>	62	<b>(58)</b>	52	<p><b>Reporting period</b> - A decrease was recorded in the provision with respect to the recommendations of the Winograd committee, in the amount of approximately NIS 52 million, as compared with an increase of the provision in the amount of approximately NIS 78 million in the corresponding period last year.</p> <p>The transition from income to loss, after neutralizing the aforementioned provision, was primarily due to the decrease in surplus investment income over the income required to cover the increase in insurance liabilities which were due to discounting and linkage, relative to the corresponding period last year, and the deterioration of claims in the employers' liability insurance sub-branch and in the third party sub-branch. On the other hand, an increase of income occurred in the motor property branch, as a result of the underwriting improvement, as specified below.</p> <p>Current quarter - A decrease was recorded in the provision with respect to the Winograd committee's recommendations, in the amount of approximately NIS 23 million, as compared with a decrease of the provision in the amount of approximately NIS 18 million in the corresponding period last year.</p> <p>The transition from income to loss was primarily due to the decrease of approximately NIS 93 million in surplus investment income over the income required to cover the increase in insurance liabilities due to discounting and linkage, relative to the corresponding period last year, as well as the deterioration of claims in the third party sub-branch, relative to the corresponding period last year.</p>
<b>Motor property</b>					
Gross premiums	<b>713</b>	727	<b>149</b>	155	
Comprehensive income before tax	<b>70</b>	27	<b>13</b>	4	
Gross LR	<b>64%</b>	70%	<b>63%</b>	73%	
LR on retention	<b>64%</b>	70%	<b>63%</b>	73%	
Gross CR	<b>92%</b>	99%	<b>92%</b>	102%	
CR on retention	<b>92%</b>	99%	<b>92%</b>	102%	
<b>Compulsory motor</b>					
Gross premiums	<b>467</b>	473	<b>99</b>	95	
Comprehensive income (loss)	<b>35</b>	1	<b>(1)</b>	37	<p><b>Reporting period and current quarter</b> - The increase in income and the increase in the LR and CR ratios 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.</p> <p><b>Reporting period</b> - A decrease was recorded in the provision with respect to the Winograd committee's recommendations in the amount of approximately NIS 32 million, as compared with an increase of the provision in the amount of approximately NIS 45 million in the corresponding period last year.</p> <p>The decrease in income, after neutralizing the aforementioned provisions, was primarily due to the decrease in surplus investment income over the income required to cover the increase in insurance liabilities due to discounting and linkage, and the increase in expenses with respect to claims, including with respect to the claims of the Pool, and the changes to the method for attribution of reinsurance results.</p> <p><b>Current quarter and corresponding quarter last year</b> - A decrease was recorded in the provision with respect to the Winograd committee's recommendations, in the amount of approximately NIS 14 million.</p> <p>The transition from income to loss, after neutralizing the aforementioned provision, was primarily due to the decrease in surplus investment income over the required income, as stated above.</p>

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

#### 3.1 Financial information by operating segments (for details regarding operating segments, see Note 5 to the financial statements) (Cont.)

##### 3.1.2 Non-life insurance - Presented below is the distribution of premiums and comprehensive income: (Cont.)

Non-life insurance	2018	2017	Q4 2018	Q4 2017	Note
<b>Property and others branches</b>					
Gross premiums	728	666	163	164	
Comprehensive income (loss)	(3)	11	(12)	(14)	<b>Reporting period and current quarter</b> - The results were affected by the decrease in investment income and the increase in financing expenses, as a result foreign currency differences, as compared with the corresponding periods last year. Additionally, in the current quarter, a deterioration was recorded in claims in the fire and property branches. This effect was partly offset by the smaller loss than last year in the students personal accident insurance branch.
Gross LR	44%	70%	57%	92%	
LR on retention	46%	52%	54%	89%	
Gross CR	76%	104%	90%	126%	
CR on retention	106%	104%	122%	144%	
<b>Credit insurance</b>					
Gross premiums	110	110	28	27	
Comprehensive income	33	41	5	12	The decrease in income during the reporting period and during the current quarter was primarily due to the decrease in surplus investment income over the required income.
LR on retention	18%	22%	22%	9%	
CR on retention	38%	42%	39%	35%	
<b>Liability branches</b>					
Gross premiums	334	324	85	62	
Comprehensive income	(88)	(19)	(63)	13	<b>Reporting period</b> - A decrease was recorded in the provision with respect to the Winograd committee's recommendations in the amount of approximately NIS 20 million, as compared with an increase of the provision in the amount of approximately NIS 33 million in the corresponding period last year. The transition from income to loss, after neutralizing the provision, was primarily due to the deterioration in claims relative to last year in the employers' liability insurance sub-branch and in the third party branch, and also due to the decrease in surplus investment income over the income required to cover the increase in insurance liabilities due to discounting and linkage, relative to the corresponding period last year. <b>Current quarter</b> - A decrease was recorded in the provision with respect to the Winograd committee's recommendations in the amount of approximately NIS 9 million, as compared with a decrease of the provision in the amount of approximately NIS 4 million in the corresponding period last year. The transition from income to loss, after neutralizing the provision, was primarily due to the deterioration of claims relative to last year in the employers' liability insurance sub-branch and in the third party branch, and by the decrease in investment income, as stated above.

**3. Board of Directors' Remarks Regarding the Corporation's Business Position (Cont.)**
**3.1 Financial information by operating segments (Cont.)**
**3.1.3. Health insurance**

	Year		Q4		Note
	2018	2017	2018	2017	
<b>Gross premiums earned</b>	<b>2,107</b>	1,917	<b>530</b>	502	The increase in premiums was primarily due to the increase in individual business operations.
<b>Comprehensive income (loss)</b>	<b>(165)</b>	184	<b>(140)</b>	80	<p><b>Reporting period</b> - The decrease in comprehensive income and the transition to loss, as compared with the corresponding period last year, was primarily due to the decrease in surplus investment income over the income required to cover the increase in insurance liabilities.</p> <p>Additionally, a negative development in claims was recorded, which was reflected in the actuarial model in the long-term care branch, inter alia, in light of the publication of the amendment to the provisions of the consolidated circular regarding the settlement of long-term care claims (see section 8.1.2.2 in the chapter "description of the corporation's business"), with no effect last year. Additionally, an increase was recorded in insurance reserves in light of the update to estimates with respect to cancellations and expenses in the individual health branch during the reporting period, with no effect last year.</p> <p><b>Current quarter</b> - The decrease in income and the transition to loss, relative to the corresponding period last year, were primarily due to the decrease in investment income, the negative development in claims, which was reflected in the actuarial model, as specified above.</p> <p>On the other hand, in the current quarter, the provision with respect to the liability adequacy test (LAT) decreased in the amount of approximately NIS 73 million, with no effect in the corresponding period last year.</p>

	2018	2017	Note
<b>Long-term care branch - comprehensive income</b>			
Individual	<b>(54)</b>	44	The decrease in income and the transition to loss, as compared with the corresponding period last year, was primarily due to the decrease in surplus investment income over the income required to cover the increase in insurance liabilities, as compared with the corresponding period last year, and the strengthening of reserves due to the negative development in claims, and with respect to the update to estimates in the long-term care branch, as stated above.
Collectives, including health funds	<b>(130)</b>	32	
<b>Illness and hospitalization branch - comprehensive income</b>			
Long term	<b>2</b>	94	The decrease in income, relative to the corresponding period last year, was primarily due to the update to estimates, mostly cancellations and expenses relative to the corresponding period last year, and the decrease in surplus investment income over the income required to cover the increase in insurance liabilities, relative to the corresponding period last year, as stated above.
Short term	<b>17</b>	14	

For details regarding the publication of new tenders for the selection of an insurer for collective long-term care insurance of the Maccabi and Clalit health funds, see section 8.1.2.2 in the chapter "description of the corporation's business".

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	
	2018	2017	2018	2017
Investment income (loss) applied to policyholders	<b>(37)</b>	282	<b>(190)</b>	101

### 3.1.4. Other and items not included in the insurance branches

NIS in millions	Year		Q4		Note
	2018	2017	2018	2017	
Total comprehensive income (loss) before tax	(34)	249	(76)	85	<b>Reporting period</b> - The decrease in income and the transition to loss during the reporting period were primarily due to investment income in the amount of approximately NIS 29 million during the reporting period, as compared with investment income in the amount of approximately NIS 315 million in the corresponding period last year. <b>Current quarter</b> - The decrease in income and the transition to loss were primarily due to investments losses in the amount of approximately NIS 67 million during the reporting period, as compared with relative to investment income NIS 103 million in the corresponding period last year.

### 3.1.5 General and administrative expenses

General and administrative expenses during the reporting period amounted to a total of approximately NIS 910 million, as compared with a total of approximately NIS 872 million last year. The increase during the reporting period was primarily due to payroll expenses, inter alia, due to the collective agreement, and the increase in operation and collection activities in long-term savings, which was partly offset by the non-fulfillment of the conditions for the distribution of bonuses, in accordance with the collective agreement. For additional details, see Note 24 to the financial statements.

### 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 Note 2 to the financial statements) and by raisings and repayments of debt.

Financing expenses in the reporting period amounted to a total of approximately NIS 132 million, as compared with approximately NIS 125 million in the corresponding period last year. The increase in financing expenses during the reporting period was due to the increase of 1.2% in the consumer price index, as compared with the increase of 0.3% in the corresponding period last year. During the current quarter, financing expenses amounted to NIS 31 million, unchanged relative to the corresponding period last year.

## 3.2 Principal data from the consolidated statements of financial position

### 3.2.1. Assets

NIS in millions	As of December 31		Rate of change %
	2018	2017	
Other financial investments <sup>1)</sup>	31,502	31,457	-
<b>Assets managed for others (non-nostro) in the Group (NIS in millions):</b>			
For investment-linked insurance contracts and investment contracts	66,121	64,310	3
For provident fund members <sup>1)</sup>	32,982	33,620	(2)
For pension fund members *)	66,025	61,751	7
Total assets managed for others	165,128	159,681	3
Total managed assets	196,630	191,138	3
*) Out of this amount, total assets managed by Atudot Havatika	10,028	10,086	(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. Financial liabilities

As of the balance sheet date, the Group has no balances of debt which are not for capital purposes in the insurance companies.

### 3.2.3. Capital and capital requirements

#### A. Capital requirements in accordance with the provisions for implementation of an economic solvency regime<sup>1)</sup>

The Group's insurance companies are subject to the provisions of the Solvency II-based economic solvency regime. In accordance with the Commissioner's directives, the insurance companies in the Group calculated the economic solvency ratio as of December 31, 2017, and are expected to calculate the economic solvency ratio as of December 31, 2018, by July 15, 2019.

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, and as specified in the economic solvency regime circular, the calculation of the economic solvency ratio is significantly based on the embedded value calculation model. 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.

See also the economic solvency ratio report as of December 31, 2017 on the Group's website at <https://www.clalbit.co.il/aboutclalinsurance/financialstatementsandpressrelease>.

#### 1. Solvency ratio -

	<u>As of December 31</u>	
	<u>2017</u>	<u>2016</u>
	<u>Unaudited and unreviewed</u>	
Equity for the purpose of the solvency capital requirement		
NIS in millions		
<b>Without taking into account the provisions for the distribution period, and including adjustment of the stock scenario:</b>		
Equity for the purpose of the solvency capital requirement	9,575	8,866
Solvency capital requirement	8,823	7,969
Surplus (deficit) <sup>3)</sup>	752	897
Solvency ratio	109%	111%
<b>Fulfillment of milestones, in consideration of the provisions for the distribution period and the adjustment of the stock scenario:</b> <sup>2)</sup>		
Equity for the purpose of the solvency capital requirement	8,773	7,887
Solvency capital requirement	5,196	4,418
Surplus (deficit)	3,577	3,469

#### 2. Minimum capital requirement (MCR)

	<u>As of December 31</u>	
	<u>2017</u>	<u>2016</u>
	<u>Unaudited and unreviewed</u>	
Equity for the purpose of the solvency capital requirement		
NIS in millions		
Equity for the purpose of MCR	6,514	6,009
MCR	1,692	1,655

- 1) The capital requirement applies to Clal Insurance, including the consolidation of Clal Credit Insurance.
- 2) In accordance with the provisions during the distribution period, the solvency capital requirement as of December 31, 2017 and 2016 amounts to 65% and 60%, respectively, of the solvency capital requirement which is calculated in accordance with the adjustment of the stock scenario.
- 3) Subsequent to the reporting date, and until the publication date of the solvency ratio report, recognized Tier 2 capital decreased in the amount of approximately NIS 24 million, which resulted in an immaterial decrease in the solvency ratio.

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.

#### B. For additional details regarding the capital requirements in accordance with the accounting solvency regime, see Note 16 to the financial statements.

### 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 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:

<b>NIS in millions</b>	<b>Balance as of December 2018</b>	<b>Proximate to the publication date of the report</b>
Liquid resources of the Company (solo)	48	48

\*) 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.
- B. The Company's operations (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 Note 16 to the financial statements.

#### **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 39 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 Group’s institutional entities 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 39 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.**

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**Danny Naveh**  
Chairman of the Board

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**Yoram Naveh**  
Chief Executive Officer

Tel Aviv, March 26, 2019



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**Auditors' 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, 2018 and 2017, 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, 2018. 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 companies accounted by the equity method, the investment in which amounted to approximately NIS 65 million and approximately NIS 63 million as of December 31, 2018 and 2017, respectively, and where the Company's share in the income of the aforementioned companies amounted to approximately NIS 1,865 thousand, approximately NIS 4,659 thousand, and approximately NIS 170 thousand, for the years ended December 31, 2018, 2017 and 2016, respectively. The financial statements of those companies were audited by other auditors, whose reports were presented to us, and our opinion, insofar 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 auditing standards 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, 2018 and 2017, 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, 2018, 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, 2018, and our reporting dated March 26, 2019 includes an unqualified opinion regarding the effective application of those controls.

Tel Aviv,  
March 26, 2019

Kost Forer Gabbay and Kasierer  
Certified Public Accountants

Somekh Chaikin  
Certified Public Accountants

Joint Auditors



**Consolidated Statements of Financial Position as of December 31**

NIS in thousands	Note	2018	2017
<b>Assets</b>			
Intangible assets	6	<b>1,342,759</b>	1,391,753
Deferred tax assets	23	<b>6,554</b>	8,637
Deferred acquisition costs	7	<b>1,973,539</b>	1,944,574
Property, plant and equipment	8	<b>225,160</b>	231,670
Investments in investee companies accounted by the equity method	9	<b>214,504</b>	296,172
Investment property for investment-linked contracts	10,13	<b>3,000,340</b>	2,869,967
Other investment property	10	<b>1,266,895</b>	1,212,109
Reinsurance assets	17,18	<b>2,979,379</b>	2,801,776
Current tax assets	23	<b>259,338</b>	176,496
Other accounts receivable	11	<b>1,213,327</b>	507,089
Outstanding premiums	12	<b>876,856</b>	893,842
Financial investments for investment-linked contracts	13	<b>58,185,233</b>	56,230,961
<b>Other financial investments:</b>			
Marketable debt assets	14(A)	<b>5,231,862</b>	5,532,612
Non-marketable debt assets	14(B)	<b>21,990,343</b>	21,833,094
Stocks	14(D)	<b>1,416,975</b>	1,367,841
Others	14(E)	<b>2,862,377</b>	2,723,604
Total other financial investments		<b>31,501,557</b>	31,457,151
Cash and cash equivalents for investment-linked contracts	13,15(A)	<b>3,648,899</b>	4,529,446
Other cash and cash equivalents	15(B)	<b>1,298,286</b>	1,405,863
<b>Total assets</b>		<b>107,992,626</b>	105,957,506
<b>Total assets for investment-linked contracts</b>	13	<b>66,121,248</b>	64,310,320

The notes to the consolidated financial statements constitute an inseparable part thereof.

**Consolidated Statements of Financial Position as of December 31**

<b>NIS in thousands</b>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Capital</b>			
Share capital	16	<b>143,382</b>	143,367
Premium on shares		<b>1,009,801</b>	1,001,880
Capital reserves		<b>587,118</b>	649,964
Retained earnings		<b>3,157,874</b>	3,251,608
<b>Total capital attributable to Company shareholders</b>		<b>4,898,175</b>	5,046,819
Non-controlling interests		<b>48,745</b>	44,382
<b>Total capital</b>		<b>4,946,920</b>	5,091,201
<b>Liabilities</b>			
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	17,19,20,21,22	<b>30,646,995</b>	30,184,292
Liabilities with respect to investment-linked insurance contracts and investment contracts	18,20,21,22	<b>65,366,897</b>	63,346,079
Deferred tax liabilities	23	<b>401,903</b>	511,333
Liabilities with respect to employee benefits, net	24	<b>80,757</b>	84,252
Other accounts payable	26	<b>3,000,165</b>	3,322,132
Current tax liabilities	23	<b>5,290</b>	5,163
Financial liabilities	25	<b>3,543,699</b>	3,413,054
<b>Total liabilities</b>		<b>103,045,706</b>	100,866,305
<b>Total capital and liabilities</b>		<b>107,992,626</b>	105,957,506

The notes to the consolidated financial statements constitute an inseparable part thereof.

<b>March 26, 2019</b>				
<b>Approval date of the financial statements</b>	<b>Danny Naveh</b>	<b>Yoram Naveh</b>	<b>Eran Cherninsky</b>	<b>Tal Cohen</b>
	<b>Chairman of the Board</b>	<b>Chief Executive Officer</b>	<b>Executive VP Finance Division Manager</b>	<b>Senior VP Comptrollership Division Manager</b>

**Consolidated Statements of Income for the Year Ended December 31**

NIS in thousands	Note	2018	2017	2016
Gross premiums earned		<b>10,275,018</b>	9,729,203	9,110,003
Premiums earned by reinsurers		<b>1,380,033</b>	1,190,281	1,042,247
Premiums earned on retention	28	<b>8,894,985</b>	8,538,922	8,067,756
Income from investments, net, and financing income	29	<b>1,244,869</b>	6,234,548	2,616,374
Income from management fees	30	<b>884,197</b>	1,226,483	956,457
Income from commissions	31	<b>291,346</b>	267,113	226,418
Other income	32	<b>75</b>	3,558	1,419
<b>Total income</b>		<b>11,315,472</b>	16,270,624	11,868,424
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross		<b>9,350,694</b>	14,008,748	9,684,807
Share of reinsurers in payments and change in liabilities with respect to insurance contracts		<b>(1,106,784)</b>	(1,103,954)	(657,026)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	33	<b>8,243,910</b>	12,904,794	9,027,781
Commissions, marketing expenses and other acquisition costs	34	<b>2,020,065</b>	1,956,552	1,814,199
General and administrative expenses	35	<b>910,230</b>	872,061	773,352
Impairment of intangible assets	6	<b>114,824</b>	121,637	34,246
Other expenses	36	<b>10,697</b>	23,773	14,762
Financing expenses	37	<b>157,931</b>	134,455	159,695
<b>Total expenses</b>		<b>11,457,657</b>	16,013,272	11,824,035
Share in the results of investee companies accounted by the equity method, net	9	<b>(25,668)</b>	25,581	41,479
<b>Income (loss) before taxes on income</b>		<b>(167,853)</b>	282,933	85,868
Taxes on income (tax benefit)	23	<b>(81,692)</b>	75,247	(13,713)
<b>Income (loss) for the period from continuing operations</b>		<b>(86,161)</b>	207,686	99,581
<b>Attributable to:</b>				
Company shareholders		<b>(91,445)</b>	203,096	96,401
Non-controlling interests		<b>5,284</b>	4,590	3,180
<b>Income (loss) for the period</b>		<b>(86,161)</b>	207,686	99,581
<b>Earnings (loss) per share attributable to Company shareholders:</b>	38			
Basic earnings (loss) per share (in NIS)		<b>(1.65)</b>	3.66	1.74
Diluted earnings (loss) per share (in NIS)		<b>(1.65)</b>	3.65	1.74
<b>Number of shares used to calculate earnings per share:</b>	38			
Basic		<b>55,577</b>	55,447	55,412
Diluted		<b>55,577</b>	55,618	55,412

The notes to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

NIS in thousands	Note	2018	2017	2016
Income (loss) for the period		(86,161)	207,686	99,581
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		28,640	(31,982)	(22,006)
Foreign currency translation differences for foreign operations applied to profit and loss		92	-	(553)
Change, net, in the fair value of available for sale financial assets applied to capital reserves		116,209	521,858	196,885
Change, net, in the fair value of available for sale financial assets transferred to profit and loss		(287,850)	(245,258)	(234,497)
Impairment loss with respect to available for sale financial assets transferred to profit and loss		41,051	14,277	73,761
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax		(101,858)	258,895	13,590
Tax (tax benefit) with respect to available-for-sale financial assets		(44,646)	99,492	(3,271)
Tax (tax benefit) with respect to other components		6,574	(7,169)	(6,710)
Tax (tax benefit) with respect to components of other comprehensive income for the period which have been or will be transferred to profit and loss	23(D)	(38,072)	92,323	(9,981)
Other comprehensive income (loss) which, following initial recognition under comprehensive income, have been or will be transferred to profit and loss, net of tax		(63,786)	166,572	23,571
Components of other comprehensive income which will not be transferred to profit and loss:				
Actuarial income (loss) from defined benefit plan		8,281	1,932	3,166
Tax with respect to components of other comprehensive income which will not be transferred to profit and loss	23(D)	2,448	753	938
Other comprehensive income which will not be transferred to profit and loss, net of tax		5,833	1,179	2,228
Other comprehensive income (loss) for the period		(57,953)	167,751	25,799
Total comprehensive income (loss) for the period		(144,114)	375,437	125,380
Attributable to:				
Company shareholders		(148,477)	370,072	122,240
Non-controlling interests		4,363	5,365	3,140
Total comprehensive income (loss) for the period		(144,114)	375,437	125,380

The notes to the consolidated financial statements constitute an inseparable part thereof.

**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		
<b>NIS in thousands</b>										
<b>For the year ended December 31, 2018</b>										
<b>As of January 1, 2018</b>	<b>143,367</b>	<b>1,001,880</b>	<b>(24,429)</b>	<b>533,373</b>	<b>180,329</b>	<b>(39,309)</b>	<b>3,251,608</b>	<b>5,046,819</b>	<b>44,382</b>	<b>5,091,201</b>
<b>Income for the period</b>	-	-	-	-	-	-	(91,445)	(91,445)	5,284	(86,161)
<b>Components of other comprehensive income (loss):</b>										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	28,640	-	-	-	-	28,640	-	28,640
Foreign currency translation differences applied to profit and loss	-	-	92	-	-	-	-	92	-	92
Change, net, in the fair value of available for sale financial assets applied to capital reserves	-	-	-	117,006	-	-	-	117,006	(797)	116,209
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	-	-	-	(287,181)	-	-	-	(287,181)	(669)	(287,850)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	-	-	-	41,012	-	-	-	41,012	39	41,051
Actuarial gains from defined benefit plan	-	-	-	-	-	-	8,252	8,252	29	8,281
Tax benefit (tax) with respect to components of comprehensive income (loss)	-	-	(6,574)	44,159	-	-	(2,438)	35,147	477	35,624
<b>Other comprehensive income (loss) for the period, net of tax</b>	-	-	22,158	(85,004)	-	-	5,814	(57,032)	(921)	(57,953)
<b>Total comprehensive income (loss) for the period</b>	-	-	22,158	(85,004)	-	-	(85,631)	(148,477)	4,363	(144,114)
<b>Transactions with shareholders which were applied directly to equity:</b>										
Exercise and expiration of warrants for senior employees	15	7,921	-	-	-	-	(7,936)	-	-	-
Share-based payments	-	-	-	-	-	-	(167)	(167)	-	(167)
<b>As of December 31, 2018</b>	<b>143,382</b>	<b>1,009,801</b>	<b>(2,271)</b>	<b>448,369</b>	<b>180,329</b>	<b>(39,309)</b>	<b>3,157,874</b>	<b>4,898,175</b>	<b>48,745</b>	<b>4,946,920</b>

The notes to the consolidated financial statements constitute an inseparable part thereof.

Consolidated Statements of Changes in Equity (Cont.)

NIS in thousands	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		
<b>For the year ended December 31, 2017</b>										
<b>As of January 1, 2017</b>	143,216	977,898	384	342,761	180,329	(39,309)	3,068,909	4,674,188	39,017	4,713,205
<b>Income for the period</b>	-	-	-	-	-	-	203,096	203,096	4,590	207,686
<b>Components of other comprehensive income (loss):</b>										
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 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)
<b>Other comprehensive income (loss) for the period, net of tax</b>	-	-	(24,813)	190,612	-	-	1,177	166,976	775	167,751
<b>Total comprehensive income for the period</b>	-	-	(24,813)	190,612	-	-	204,273	370,072	5,365	375,437
<b>Transactions with shareholders which were applied directly to equity:</b>										
Exercise and expiration of warrants for senior employees	151	23,982	-	-	-	-	(24,133)	-	-	-
Share-based payments	-	-	-	-	-	-	2,559	2,559	-	2,559
<b>As of December 31, 2017</b>	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.

**Consolidated Statements of Changes in Equity (Cont.)**

	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		
<b>NIS in thousands</b>										
<b>For the year ended December 31, 2016</b>										
<b>As of January 1, 2016</b>	143,216	976,329	16,233	303,301	180,329	(39,309)	2,967,929	4,548,028	35,877	4,583,905
<b>Income for the period</b>	-	-	-	-	-	-	96,401	96,401	3,180	99,581
<b>Components of other comprehensive income (loss):</b>										
Foreign currency translation differences for foreign operations applied to capital reserves	-	-	(22,006)	-	-	-	-	(22,006)	-	(22,006)
Foreign currency translation differences for foreign operations applied to profit and loss	-	-	(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 (losses) 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
<b>Other comprehensive income (loss) for the period, net of tax</b>	-	-	(15,849)	39,460	-	-	2,228	25,839	(40)	25,799
<b>Total comprehensive income for the period</b>	-	-	(15,849)	39,460	-	-	98,629	122,240	3,140	125,380
<b>Transactions with shareholders which were applied directly to equity:</b>										
Exercise and expiration of warrants for senior employees	-	1,569	-	-	-	-	(1,569)	-	-	-
Share-based payments	-	-	-	-	-	-	3,920	3,920	-	3,920
<b>As of December 31, 2016</b>	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.

## Financial Statements

### Consolidated Statements of Cash Flows for the Year Ended December 31

NIS in thousands	Annex	For the year ended December 31		
		2018	2017	2016
<b>Cash flows from operating activities</b>				
Before taxes on income	(A)	<b>(550,845)</b>	2,303,725	(542,825)
Income tax received (paid)		<b>(72,799)</b>	(115,122)	41,963
<b>Net cash from (used in) operating activities</b>		<b>(623,644)</b>	2,188,603	(500,862)
<b>Cash flows from investing activities</b>				
Consideration from disposal of property, plant and equipment		<b>217</b>	81	462
Consideration from disposal of intangible assets		-	1,107	-
Consideration from disposal of investments in other investee companies		<b>50,090</b>	24,082	5,902
Consideration from disposal of investment in available for sale financial assets by companies which are not insurance and finance companies		<b>26,098</b>	28,380	47,058
Investment in available for sale financial assets by companies that are not insurance and finance companies		<b>(15,054)</b>	(9,916)	(36,998)
Investment in shares and loans from investee companies		-	(34,050)	(31,102)
Investment in property, plant and equipment		<b>(20,699)</b>	(20,017)	(25,032)
Investment in intangible assets		<b>(282,004)</b>	(229,698)	(238,349)
<b>Net cash used in investing activities</b>		<b>(241,352)</b>	(240,031)	(278,059)
<b>Cash flows from financing activities</b>				
Repayment of liabilities to banks and others		-	(73,089)	(22,858)
Costs of issue and exchange of deferred liability notes		-	-	(4,733)
Consideration from issue of deferred liability notes		-	-	541,207
Repayment of deferred liability notes		<b>(50,899)</b>	(80,021)	(444,196)
Interest paid on bonds and deferred liability notes		<b>(115,981)</b>	(120,101)	(132,213)
<b>Net cash used in financing activities</b>		<b>(166,880)</b>	(273,211)	(62,793)
Impact of exchange rate fluctuations on cash and cash equivalent balances		<b>43,752</b>	(84,062)	(21,444)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(988,124)</b>	1,591,299	(863,158)
Cash and cash equivalents at beginning of period	(B)	<b>5,935,309</b>	4,344,010	5,207,168
<b>Cash and cash equivalents at end of period</b>	(C)	<b>4,947,185</b>	5,935,309	4,344,010

The notes to the consolidated financial statements constitute an inseparable part thereof.

**Consolidated Statements of Cash Flows for the Year Ended December 31 (Cont.)**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
<b>(A) Cash flows from operating activities before taxes on income <sup>1) 2)</sup></b>			
Income (loss) for the period	(86,161)	207,686	99,581
Items not involving cash flows:			
The Company's share in the income of investee companies accounted by the equity method	25,668	(25,581)	(41,479)
Dividends received from investee companies accounted by the equity method	19,253	190	277
Changes in liabilities with respect to non-investment-linked insurance contracts and investment contracts	462,703	415,313	(25,254)
Change in liabilities with respect to investment-linked insurance contracts and investment contracts	2,020,818	6,070,286	2,929,244
Change in deferred acquisition costs	(28,965)	(21,210)	(73,146)
Change in reinsurance assets	(177,603)	(573,737)	90,436
Depreciation of property, plant and equipment	41,593	40,817	42,228
Amortization of intangible assets	216,174	220,612	202,330
Impairment of intangible assets	114,824	121,629	34,246
Loss from disposal of property, plant and equipment	98	16	62
Profit from disposal of shares in consolidated companies	-	(2,081)	-
Interest and linkage differences accrued with respect to deferred liability notes	132,553	124,520	121,396
Interest accrued and revaluation of liabilities to banking corporations and others	118,418	8,332	22,008
Change in fair value of investment property for investment-linked contracts	(55,422)	(34,308)	53,133
Change in fair value of other investment property	(8,932)	(35,858)	22,253
Share-based payment transactions	(167)	2,559	3,920
Net loss (profit) from financial investments for insurance contracts and investment contracts, from and investment-linked contracts	1,985,142	(2,841,423)	(65,251)
Taxes on income (tax benefit)	(81,692)	75,247	(13,713)
<b>Net loss (profit) from other financial investments:</b>			
Marketable debt assets	(30,741)	44,413	(17,700)
Non-marketable debt assets	(266,560)	(15,742)	6,061
Stocks	(72,831)	(21,927)	1,792
Others	203,108	(258,674)	(63,015)
<b>Financial investments and investment property for investment-linked contracts:</b>			
Acquisition of investment property	(74,951)	(93,479)	(45,237)
Acquisitions net of financial investments	(3,939,414)	(825,463)	(4,284,523)
<b>Receipts (investments) from the sale of (investment in) available for sale financial assets and investment property in insurance business operations:</b>			
Marketable debt assets	138,969	118,439	838,699
Non-marketable debt assets	106,440	(544,536)	(331,946)
Stocks	(28,711)	56,708	(135,094)
Others	(239,162)	(58,519)	(109,675)
Acquisition of other investment property	(29,545)	(26,447)	(16,094)
Consideration from the sale of other investment property	-	15,600	-

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

The notes to the consolidated financial statements constitute an inseparable part thereof.

## Consolidated Statements of Cash Flows for the Year Ended December 31 (Cont.)

	For the year ended December 31			
	NIS in thousands	2018	2017	2016
<b>(A) Cash flows from operating activities before taxes on income (Cont.)</b>				
Changes in other items in the statement of financial position, net				
Securities held for trading by consolidated companies which are not insurance companies		3,605	8,953	25,925
Other accounts receivable		(706,238)	(214,885)	56,910
Outstanding premiums		16,986	(27,324)	31,713
Other accounts payable		(334,888)	381,992	100,375
Liabilities with respect to employee benefits, net		4,786	11,607	(3,287)
<b>Total cash flows from (used in) operating activities before taxes on income</b>		<b>(550,845)</b>	<b>2,303,725</b>	<b>(542,825)</b>
<b>(B) Cash and cash equivalents at beginning of period:</b>				
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
<b>Balance of cash and cash equivalents at beginning of period</b>		<b>5,935,309</b>	<b>4,344,010</b>	<b>5,207,168</b>
<b>(C) Cash and cash equivalents at end of period:</b>				
Cash and cash equivalents for investment-linked contracts		3,648,899	4,529,446	2,953,235
Other cash and cash equivalents		1,298,286	1,405,863	1,390,775
<b>Balance of cash and cash equivalents at end of period</b>		<b>4,947,185</b>	<b>5,935,309</b>	<b>4,344,010</b>
<b>(D) Cash flows with respect to interest and dividends received, included under operating activities:</b>				
Interest received		2,222,119	2,171,212	2,060,541
Dividend received		455,819	411,963	306,418
<b>(E) Operations which are not associated with cash flows</b>				
Investment in assets against other accounts payable		14,699	544,124	-

The notes to the consolidated financial statements constitute an inseparable part thereof.

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## Note 1: General

### A. Reporting entity

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

The condensed consolidated financial statements as of December 31, 2018 (hereinafter: the “**Financial Statements**”) include the statements of the Company and its subsidiaries (hereinafter, jointly: the “**Group**”), as well as the Group’s interests in joint ventures and associates.

As of the reporting date, approximately 20.3% 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 25.32% of the Company’s issued capital<sup>1</sup> (approximately 25.15% at full dilution).

IDB Development also engaged in swap transactions with various banking institutions, which it sold to third parties (hereinafter: the “**Buyers**” and the “**Swap Transactions**”, as applicable), with respect to the Company’s shares, at a rate of approximately 28.9%. IDB Development clarified that, in accordance with the terms of the swap transactions, it is unaware of the buyers’ identity. For details regarding the swap transactions, see Note 1(B)(2)(i) below.<sup>2</sup>

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 controlled by 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 (hereinbefore and 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.

<sup>1</sup> 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 4.94% 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 3(B) below.

<sup>2</sup> It is noted that IDB Development announced that in accordance with legal position number 101-22 which was published by the Israel Securities Authority on February, 28, 2019 (the “**Authority’s Position**”), and for the sake of prudence, it is considered (in accordance with the Authority’s position) as the holder of approximately 54.2% of the Company’s issued and paid-up share capital, whereby with respect to approximately 28.9%, IDB Development is considered as the holder together with third parties, of whose identity it is unaware, in accordance with the terms of the swap transactions.

The staff of the Israel Securities Authority clarified to the Company that, as stated in its position, the position entered into effect beginning on its date of publication, and therefore, it does not apply to existing transactions which have not yet concluded, and whose commencement date was before the publication date of the position.

## 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.)

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, January 1, 2018 and May 3, 2018, August 30, 2018 and January 2, 2019, shares of the Company were sold which together constitute approximately 29.5% of the Company's shares, as specified in section 3 below, such that, as of the publication date of the report, IDB Development directly and indirectly holds a total of approximately 25.32% of the Company's issued capital<sup>1</sup> (approximately 25.16% 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.

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. Said instructions were also received with respect to the relationship between the trustee and the Company and entities under its control, and the Company is acting in accordance with the aforementioned instructions, the clarifications and the understandings 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 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.

## 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.)

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.

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. In January 2018, a director was appointed in Clal Insurance, in place of two directors who concluded their terms.

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 IDB Development's controlling shareholders 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 IDB Development and its controlling shareholders, which included, inter alia, an outline over time for the sale of IDB Development's control of 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, 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 Elsztain 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.

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**").

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). IDB Development filed with the Supreme Court an appeal against the ruling, which was dismissed without ordering expenses.

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.

**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.)

Accordingly, on May 3, 2017, after the Court approved the aforementioned motion, and on August 31, 2017, January 1, 2018, May 3, 2018 and August 30, 2018 (in accordance with the instructions which were issued by Commissioner to the trustee, shortly before each aforementioned sale, 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 25% of the Company's shares (5% on each of the dates), and engaged, in parallel with each sale, in a swap transaction with a banking institution, according to which, at the end of a period which will end no later than 24 months after the date of each sale transaction (the "**Swap Period**"), each of the swap transactions will expire, and 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. For details regarding an additional swap transaction in which IDB Development engaged with respect to some of the Company's shares which it sold to Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**"), see section 5 below.

In accordance with understandings which were reached between IDB Development and the Commissioner on December 18, 2018, on January 2, 2019, IDB Development sold shares which constitute approximately 4.5% of the Company's issued capital, which were held by the trustee, in an over the counter transaction. Additionally, and further to the aforementioned understandings which were reached with the Commissioner, on January 2, 2019, the swap transaction concluded which had been implemented in May 2017, with respect to shares which constitute 1% of the Company's issued capital. The terms of the swap transaction will continue to apply with respect to the other shares of the Company which form the subject of this swap transaction, and which constitute approximately 4% of the Company's issued capital.

Additionally, within the framework of the aforementioned understandings vis-à-vis the Commissioner, IDB Development undertook to avoid, in the future, entering into any additional swap transactions beyond those which currently apply to the Company's shares, as specified above, and to avoid extending the existing swap transactions in connection with the Company's shares<sup>3</sup>.

3. Proceedings involving the sale of control of the Company

A. Proceedings involving the sale of control of the Company

On December 18, 2018, IDB Development announced that the Board of Directors and management of IDB Development will continue evaluating various alternatives for the sale of the control of the Company (through methods other than the sale of tranches of Company shares in accordance with the outline) to various entities (the "**Sale Of Control**"), including by contacting Discount Investment Corporation Ltd. ("**DIC**"), a company which is controlled by the controlling shareholder of IDB Development, regarding the evaluation of such a sale, and subject to the provisions of the law, the approval of the competent organs of IDB Development (and, as relevant, also the approval of the competent organs of DIC), and the required regulatory approvals, including the Commissioner's approval, and that there is no certainty that the sale of control, whether to a third party or to DIC, will be completed, inter alia, due to the non-receipt of the required approvals.

<sup>3</sup> For details regarding the Authority's position, see footnote 2 above.

## 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.)

In December 2018, the Board of Directors of IDB Development appointed an independent committee, whose members include its currently serving outside directors and the independent director, for the purpose of formulating an offer for the sale of the control of the Company to DIC, and to discuss the terms of the said transaction (the "**Independent Committee**").

On January 17, 2019, the independent committee contacted DIC's Chairman of the Board via letter, in which DIC offered to commence a process of negotiations towards the acquisition of the control of the Company (the "**Letter**"). It is noted that, in the letter, IDB Development did not offer any terms for the transaction, and to the best of the Company's knowledge, as of the publication date of the report, DIC's response to the letter has not yet been received.

##### 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 constitute as of the present date approximately 4.98% and approximately 4.94% 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 11,307,626 (constituting approximately 20.3% of the Company's issued and paid-up capital).

#### 4. The Concentration Law

The Concentration Law was published in December 2013, and is intended to reduce the level of concentration in the Israeli economy, through several central processes, including, inter alia, the imposition of restrictions on incorporation through a pyramid structure, the imposition of increased corporate governance rules on pyramid companies, creating a separation between holdings of significant real operations and of significant financial operations, and establishing a "insurer with no controlling shareholder" mechanism.

- In accordance with the provisions of the Concentration Law, a pyramid holding structure is restricted to two tiers only<sup>4</sup>. Notwithstanding the above, the transitional provisions of the Concentration Law determine that a company which was a second tier company at the time of the law's publication, and for as long as it remains as such, is entitled to continue holding control of an other tier company until six years after the publication date (December 2019), if it held control of that company before the publication date (the "Transition Period"). The Concentration Law prescribes provisions in case of control of a reporting corporation, which constitutes an other tier company, in breach of the law, which primarily include depositing the means of control of the other tier company with a trustee, for the sake of selling them in accordance with the instructions which the court's instructions to the trustee. As of the present date, IDB Development is considered a "first tier company", the Company is considered a "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.

Therefore, if Clalbit Finance continues to be considered as an other tier company after the end of the transition period, the Company and/or Clal Insurance may be required to appoint a trustee or to perform actions which lead to Clalbit Finance not being considered an other tier company. Inter alia, Clal Insurance may transfer its shares in Clalbit Finance to a third party, or merge Clalbit Finance into Clal Insurance, or merge Clal Insurance into the Company.

<sup>4</sup>A tier company is a company which constitutes a reporting corporation, in accordance with the definitions of the Concentration Law. The terms tier company, second tier company and other tier company are as defined 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 accordance with the transitional provisions which were prescribed in the Concentration Law, beginning in December 2019, 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.<sup>5</sup>

Beginning in May 2015, a list of the concentration entities has been published in the Official Gazette from time to time, as well as a 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. IDB Development is a significant real corporation, and accordingly, the Group's member companies which are not institutional entities were also included in the list of concentration entities, and were classified as significant real corporations. Clal Insurance and additional institutional entities in the Group were also included in the list of significant financial entities.

Therefore, the continued control by Dolphin Netherlands, the controlling shareholder of IDB Development, of significant real corporations, may affect the ability of IDB Development to hold control of the Group's institutional entities, or to hold more than 10% of a certain type of the means of control of the Group's institutional entities (or more than 5% of a certain type of the means of control, in case the Company or the institutional entities are considered an insurer with no controlling shareholder), without derogating from the restrictions applicable to IDB Development's continued control of the Company, in accordance with the Commissioner's instructions, as stated above.

Additionally, insofar as the Company will continue being considered as a concentration entity, and therefore as a significant real corporation, this may affect its ability to hold the control of the Group's institutional entities or to hold the means of control therein, as stated above, beginning in December 2019, and may also affect the ability to appoint corporate officers in significant real corporations of the Group, as directors in financial entities of the Group.

#### 5. Agreement between IDB Development and Bank Hapoalim Ltd. -

Until November 8, 2018, Bank Hapoalim held 9.47% of the Company's shares.

For details regarding an agreement between IDB Development and Bank Hapoalim from March 1999, with respect to approximately 9.47% of the Company's shares (the "**Sold Shares**"), in which, inter alia, IDB Development was given the right of first refusal upon the sale of Company shares (all or some) by Bank Hapoalim, 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 October 9, 2018 (reference number 2018-01-094068).

On October 17, 2018, IDB Development reported that it had signed an agreement with Bank Hapoalim (the "**Agreement**"), according to which IDB Development was given a for the purpose of finding several buyers, with whom Bank Hapoalim will engage, subject to any applicable law, in transactions for the sale of (all of) the sold shares, at a price of NIS 62 per share, in unconditional over the counter transactions, and which will be completed on a single day, and no later than November 10, 2018 (the "**Acquisition Date**").

<sup>5</sup>It is noted that, during the transition period, a prohibition applies against increasing the effective sales turnover or the effective credit of the real corporation, or the total asset value of the financial entity, as a result of the acquisition of another real corporation or financial entity, a merger with such a corporation or entity, or an acquisition of the operations of such a corporation or entity.

## Note 1: General (Cont.)

### B. Developments during the reporting period with respect to the Company's controlling shareholders (Cont.)

#### 5. Agreement between IDB Development and Bank Hapoalim Ltd. (Cont.)

On November 8, 2018, IDB Development reported that it had notified Bank Hapoalim that, in accordance with the terms of the agreement, IDB Development had found several buyers with whom Bank Hapoalim would engage in over the counter transactions for the sale of (all of) the sold shares, in unconditional over the counter transactions, and that the acquisition of the shares had been performed by them at that time. In accordance with the terms of the agreement, the shareholders agreement was canceled.

IDB Development also reported that it had engaged in a swap transaction with a banking institution in connection with 2,771,309 of the sold shares, which constitute approximately 5% of the Company's shares, according to a base price of NIS 62 per share, in accordance with the same principles as those which applied in previous swap transactions which were performed by IDB Development with respect to the Company's shares which it held, as stated in subsection 2(i) above.

#### 6. Implications

As of the reporting date, the Company is 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 the Company 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 with no controlling shareholder), and which may affect, inter alia, the reputation and ratings of the Company and of the Group's member companies.

Additionally, the transfer of the control shares in the Company 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:

<b>The Company</b>	- Clal Insurance Enterprises Holdings Ltd.
<b>The Group</b>	- The Company and its consolidated companies.
<b>Consolidated Companies / Subsidiaries</b>	- Companies, including partnerships, whose reports are fully consolidated, directly or indirectly, with the Company's reports.
<b>Investee Companies</b>	- 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.
<b>Joint Arrangements</b>	- 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.
<b>Associate Companies</b>	- 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.
<b>Interested Parties</b>	- As defined in paragraph (1) of the definition of an interested party in a corporation in section 1 of the Securities Law, 1968.
<b>Related Parties</b>	- As defined in International Accounting Standard 24 (2009), Related Parties.
<b>Member Companies of IDB Group</b>	- 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.
<b>The Commissioner</b>	- The Commissioner of the Capital Markets, Insurance and Savings Authority.
<b>The Control Law</b>	- The Control of Financial Services (Insurance) Law, 1981, including the amendments thereto.
<b>The Capital Regulations</b>	- The Control of Financial Services Regulations (Insurance)(Minimum Equity Required of Insurer), 1998, including amendments enacted pursuant thereto, which were canceled in 2018. See Note 16(e).
<b>The Investment Rules Regulations</b>	- The Control of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012, and directives issued by the Commissioner in accordance therewith.
<b>Economic Solvency Regime</b>	- As defined in insurance circular 2017-1-9.
<b>The Reserve Calculation Regulations</b>	- The Control of Financial Services Regulations (Insurance) (Calculation of Reserves in Non-Life Insurance), 2013.
<b>Insurance Contracts</b>	- 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.
<b>Investment Contracts</b>	- policies which do not constitute insurance contracts.
<b>Investment-Linked Contracts</b>	- 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.
<b>Assets for Investment-Linked Contracts</b>	- Assets held against liabilities due to investment-linked contracts.
<b>HETZ Bonds</b>	- CPI-linked government bonds which the state issues to insurance companies, and which back guaranteed-return policies.
<b>Liabilities with Respect to Insurance Contracts</b>	- Insurance reserves and outstanding claims in the long term savings, non-life insurance and health insurance segments.
<b>Reinsurance Assets</b>	- The share of reinsurers in payments and changes in liabilities with respect to insurance contracts.
<b>Premiums</b>	- Premiums including fees.
<b>Premiums Earned</b>	- 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
			%		
<b>For the year ended December 31</b>					
<b>2018</b>	<b>0.8</b>	<b>1.2</b>	<b>3.3</b>	<b>8.1</b>	<b>2.4</b>
2017	0.4	0.3	2.7	(9.8)	(0.9)
2016	(0.2)	(0.3)	(4.8)	(1.5)	(18.3)
			<b>Representative EUR exchange rate</b>	<b>Representative USD exchange rate</b>	<b>Representative GBP exchange rate</b>
<b>As of December 31, 2018</b>			<b>4.292</b>	<b>3.748</b>	<b>4.793</b>
As of December 31, 2017			4.153	3.467	4.682
As of December 31, 2016			4.044	3.845	4.725

### 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.

### 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.

## Note 2: Basis for Preparation of the Financial Statements (Cont.)

### E. Use of estimates and discretion

#### 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 estimates which are used in the 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:

(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, while taking into account, as much as possible, regulatory and business changes. 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).

**Note 2: Basis for Preparation of the Financial Statements (Cont.)****E. Use of estimates and discretion (Cont.)**

## 2. Critical estimates (Cont.)

- (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.

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 Division 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.

## Note 2: Basis for Preparation of the Financial Statements (Cont.)

### E. Use of estimates and discretion (Cont.)

#### 2. Critical estimates (Cont.)

- (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 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, including reinsurers, outstanding premiums and other debts, is determined on a specific basis, and also based on a collective assessment of groups with similar credit risk characteristics. For additional information, see Note 3(f) and (k)(1), and Note 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).

#### (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

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**Note 2: Basis for Preparation of the Financial Statements (Cont.)****E. Use of estimates and discretion (Cont.)****(3) Determination of fair value (Cont.)****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 33, Note 35, and Note 37, 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 basis

##### 1. Business combinations

The Group applies the acquisition method to all of its business combinations.

The acquisition date is the date on which the buyer obtains control of the acquired entity. Control exists when the Group is exposed, or holds rights, to variable returns due to its involvement in the acquired entity, and when it has the ability to influence those returns by exercising its influence over the acquired entity. The evaluation of control includes taking into account real rights which are held by the Group and by others.

The Group recognizes goodwill as of the acquisition date according to the fair value of the transferred consideration, including amounts recognized with respect to any non-controlling interests in the acquired entity, as well as the fair value, as of the acquisition date, of capital interests in the acquired entity which were previously held by the buyer, less the net amount attributed in the acquisition to identifiable assets that were acquired, and to liabilities that were accepted.

On the acquisition date, the buyer recognizes a contingent liability which was accepted in a business combination, if a present commitment exists which is due to past events, and if its fair value is reliably measurable.

In the event that the Group performs a bargain purchase (including one that includes negative goodwill), it recognizes the gains created as a result thereof in the statement of income, on the acquisition date.

Additionally, goodwill is not updated with respect to the use of transferred losses for tax purposes which existed on the business combination date.

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 equity 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 the Company 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 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.

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.

### Note 3: Significant Accounting Policies (Cont.)

#### A. Consolidation basis (Cont.)

##### 5. Investments in associate companies and joint ventures (Cont.)

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 companies

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 a group of assets and liabilities. In transactions of the business combination type, the acquisition cost, including transaction costs, is proportionately allocated to the identifiable assets and liabilities which were acquired, based on their proportional fair value as of the acquisition date. In the latter case, goodwill is not recognized, and deferred taxes are not recognized, with respect to temporary differences which exist as of the acquisition date.

#### B. Foreign currency

##### 1. Transactions in foreign currency

Transactions in foreign currency are translated to the relevant functional currencies of the Group's member companies, according to the exchange rates that were in force as of the transaction dates. Monetary assets and liabilities denominated in foreign currency on the reporting date are translated to the functional currency according to the exchange rate which is in effect as of that date. Foreign currency differences with respect to the monetary items refers to the difference between the amortized cost of the functional currency at the start of the year, adjusted to the effective interest rate and to payments throughout the year, and the amortized cost of the foreign currency, as translated using the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the functional currency according to the exchange rate that is in force on the date of determination of fair value. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate that was in force as of the transaction date.

Foreign currency differences arising from translation to the functional currency are generally recognized under the statement of income, excluding 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).

### Note 3: Significant Accounting Policies (Cont.)

#### B. Foreign currency (Cont.)

##### 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.

#### 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.

### Note 3: Significant Accounting Policies (Cont.)

#### 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 revenue - 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, M.B.A., F.I.A., F.I.L.A.A, who is a corporate officer in the Company, and Mr. Mark Omri Harel, 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)(e.1).

##### 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 the Company, 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 the Company, and are included under liabilities with respect to insurance contracts and investment contracts.

### Note 3: Significant Accounting Policies (Cont.)

#### D. Insurance contracts, investment contracts and asset management contracts (Cont.)

##### 1. Long term savings and long term care insurance in the health insurance segment (Cont.)

##### C. Deferred acquisition costs (DAC)

##### (1) Life and long term care insurance contracts

DAC in life insurance and long term care insurance contracts which were sold beginning on January 1, 1999, include commissions to agents and acquisition supervisors, and other expenses, including part of the general and administrative expenses, which are associated with the acquisition of new insurance contracts. 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 the Company, 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 the consolidated insurance companies 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 the Company on an annual basis, in accordance with tests, past experience, and relevant current studies.

##### (2) Asset management contracts

For details regarding the initial adoption of IFRS 15, see section N below.

##### A. Until December 31, 2017

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 when they are expected be recoverable. DAC is amortized on a systematic basis which is consistent with the transfer of the asset management service. The pension fund's chief actuary validates the estimated period for the transfer of the asset management service. The recoverability of DAC is evaluated within the framework of the recoverability of pension and provident operations, respectively. 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. See section K(2) below.

##### B. From January 1, 2018

In accordance with the provisions of IFRS 15, incremental acquisition costs to obtain a groups of contracts are recorded as DAC, when the Group is expected to recoup such costs. Acquisition costs which have materialized are recognized as an asset when they: directly refer to a contract which the Group is able to specifically identify; generate or improve the Group's resources which will serve to fulfill a performance obligation in the future; and when the expenses are expected to be recouped. In any other case, they are recognized as an expense upon their materialization.

Acquisition costs which have been discounted as assets are amortized to the statement of income on a systematic basis which is consistent with the estimated period for transfer of the asset management service, which is validated from time to time. In each reporting period, the Company evaluates whether the book value of the asset which was recognized, as stated above, exceeds the balance of the total consideration which the entity expects to receive in exchange for the service to which the asset refers, less the costs which are directly attributable to the provision of the service, which were not recognized as expenses, and if necessary, impairment loss is recognized in the statement of income. The test is performed on a non-discounted basis.

### 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 in the health insurance segment (Cont.)

###### D. Liability adequacy test

The chief actuaries in the Company 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, 2018 is 0.43% (as of December 31, 2017 - 0.36%), and was calculated based on the Commissioner’s guidelines on this matter (hereinafter: the “**Liability Value**”).

If the test indicates that the amount of the liability in the books is lower than the value of the aforementioned liability, a special provision is recorded with respect to the deficiency.

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 the Company 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 LAT. 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, investment contracts and asset management contracts (Cont.)

##### 2. Non-life insurance and health insurance, excluding long term care insurance

A. Recognition of income - see Note 3(n).

##### B. Liabilities with respect to non-life and health insurance contracts, except long term care insurance

Insurance reserves and outstanding claims which are included in the item for liabilities with respect to insurance contracts in the statement of financial position, and the share of reinsurers in the reserve and in outstanding claims, which is included in the item for reinsurance assets in the statement of financial position, were calculated according to the Reserve Calculation Regulations, the Commissioner's guidelines and conventional actuarial methods for the calculation of outstanding claims, which are applied according to the judgment of the actuaries of the Company. The liabilities with respect to insurance contracts were primarily calculated by the chief actuaries in the Company.

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 supervising actuaries of Clal Insurance: Mr. Yaakov Mauser, M.A., F.I.A., F.I.L.A.A., and Mr. Omri Harel, 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.
  - 4.4 Claims of recourse and residuals are taken into account in the database used to calculate the actuarial valuations of outstanding claims.
  - 4.5 According to the Company's estimate, 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.

### Note 3: Significant Accounting Policies (Cont.)

#### D. Insurance contracts and investment 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.)

5. Reserve due to the liability adequacy test in accordance with the principles specified in Note 39(e)(e2)(4).

##### 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. DAC are calculated according to the actual expense rates, or according to standard rates which were determined in the Reserve Calculation Regulations and in accordance with the Commissioner's provisions, as a percentage of unearned premiums for each branch separately, whichever is lower. Some of the reinsurers in DAC are classified under the item for other accounts payable. For details regarding changes in the calculation of reinsurers' share in DAC, see section B above.
- (2) DAC in long term health insurance branches include commissions to agents and acquisition supervisors, and some of the general and administrative expenses which are associated with the acquisition of new insurance contracts. DAC are amortized in equal rates over the period of the insurance contract, but no more than six years. DAC attributable to canceled insurance contracts are written off on the cancellation date.

In accordance with the Commissioner's directives, an actuary of the Company 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 of the Company, 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.

### 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.)

##### F. The Israeli Compulsory Motor Insurance Database of the Israel Insurance Association and other incoming business

Business received from the Israeli Compulsory Motor Insurance Database Ltd. (hereinafter: the “Pool”), from other insurance companies (including co-insurance and incoming business from abroad) and from underwriting agencies, are included according to accounts that are received by the reporting date, with the addition of provisions, as applicable, and in accordance with the participation rate of Clal Insurance.

#### E. Statements of cash flows

In the statements of cash flows, the Company chose to present interest received and dividends received as part of cash flow from operating activities. Interest paid and dividends paid are presented under cash flows from financing activities.

#### F. Financial Instruments

##### 1. Non-derivative financial assets

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.

## Note 3: Significant Accounting Policies (Cont.)

### F. Financial instruments (Cont.)

#### 1. Non-derivative financial assets (cont.)

##### Classification of financial assets to groups and accounting treatment with respect to each group (Cont.)

The Group classifies financial assets into groups, as follows: (Cont.)

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with payments that are fixed or fixable, and which are not traded on an active market. These assets are recognized for the first time at fair value plus attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less impairment losses (see Note 3(k)(1)). Profit and loss due to the disposal of investments is calculated as the difference between the disposal consideration, net, and the original or amortized cost, and is recognized upon the occurrence of the sale event.

Loans and receivables include cash and cash equivalents and investments in debt instruments which are non-marketable and which are not included in the investment portfolios held against profit sharing (nostro) policies, including designated bonds (HETZ agreements), deposits in banks and debit balances and debit balances receivable.

Cash includes cash balances that are available for immediate use. Cash equivalents include short term investments where the duration from the original deposit date to the redemption date is up to 3 months, which have a high degree of liquidity, which are easily convertible into known amounts of cash, which are exposed to immaterial risk of changes in value, and which are not restricted by pledge.

##### **Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets which were designated as available for sale or which were not classified under any of the other groups. The Group's investments in stocks and in certain debt instruments are classified as available for sale financial assets. Upon their initial recognition date, available for sale financial assets are recognized at fair value, with the addition of all attributable transaction costs. In subsequent periods, these investments are measured at fair value, while the changes in them, except for impairment losses and except for profit or loss from changes in the CPI and in the exchange rate and to the accrual of effective interest in debt instruments classified as available for sale, are applied directly to other comprehensive income, and are presented in the capital reserve with respect to financial assets classified as available for sale. Dividends which are received with respect to available for sale financial assets are applied to the statement of income. When the investment is written off, the profit or loss which accumulated in the capital reserve with respect to available for sale financial assets is transferred to profit and loss.

Available for sale financial assets include marketable debt instruments, excluding embedded derivatives, which must be separated, and investments in stocks which are not classified as held for trading investments, and which are not included in the investment portfolios held against profit sharing policies (nostro).

#### 2. Non-derivative financial liabilities

Non-derivative financial liabilities include liabilities to banking corporations and others, 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.

### Note 3: Significant Accounting Policies (Cont.)

#### F. Financial instruments (Cont.)

##### 2. Non-derivative financial liabilities (Cont.)

After initial recognition, non-derivative financial liabilities are measured at amortized cost using the effective interest method. Financing expenses are charged to the statement of income using the effective interest method.

##### **Write-off of financial liabilities**

Financial liabilities are written off when the Group's liabilities, as specified in the agreement, expire, or when it has been settled or canceled.

##### **Changes to terms of debt instruments**

An exchange of debt instruments with materially different terms, between an existing borrower and lender, are treated as a settlement of the original financial liability, and as a recognition of the new financial liability at fair value. Additionally, a significant change in the terms of an existing financial liability, or a part thereof, is treated as a settlement of the original financial liability, and as a recognition of the new financial liability.

In such cases, any difference between the amortized cost of the original financial liability, and the fair value of the new financial liability, is recognized under profit and loss, in the item for financing expenses.

The conditions are materially different if the discounted present value of the cash flows, according to the new conditions, including any commissions which were paid, less any commissions which were received and discounted by the original effective interest rate, is different by at least ten percent than the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforementioned quantitative test, the Group chose to evaluate whether changes also occurred in various qualitative parameters which are embodied in the replaced debt instruments. In general, debt instrument exchanges which result in a significant change in qualitative parameters are considered exchanges with materially different terms, even if they do not fulfill the quantitative test which was performed, as stated above.

In the event that the exchange or change is immaterial, it is treated as a change to the terms of the original liability, and no income or loss is recognized with respect to the exchange. Any costs or fees which have materialized adjust the book value of the liability, and are amortized over the remaining period of the modified liability.

##### 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.

## Note 3: Significant Accounting Policies (Cont.)

### F. Financial instruments (Cont.)

#### 3. Derivative financial instruments (Cont.)

##### **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 are offset, and the amounts presented net in the statement of financial position, when the Group has a currently enforceable legal right to offset the amounts which were recognized, and intends to settle the asset and the liability on a net basis, or to realize the asset and settle the liability simultaneously.

#### 6. The Group decided to designate financial assets as specified below:

##### **Assets included in the investment portfolios of profit sharing policies**

These assets, which include marketable financial instruments and non-marketable financial instruments (including investments in associates and joint ventures), were designated to the Group for fair value through profit or loss, for 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 an equity instrument. Incremental costs which are directly attributed to the issuance of ordinary shares and share options, less tax impact, are presented as an amortization of the equity 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.

### Note 3: Significant Accounting Policies (Cont.)

#### G. Property, plant and equipment (Cont.)

##### 2. Subsequent costs

The cost of replacing part of an item of property, plant and equipment, and other subsequent costs, is recognized as part of the book value of property, plant and equipment, if the future economic benefit embodied therein is expected to flow to the Group, and if the cost is reliably measurable. The book value of the replaced part of the property, plant and equipment is written off. Current maintenance costs are charged to income as incurred.

##### 3. Depreciation

Depreciation is the systematic allocation of an asset's depreciable amount over its useful lifetime. The depreciable amount is the asset's cost less the asset's residual value.

An asset is amortized when it is available for use, in other words, once it has reached the location and condition which are required in order to enable it to operate in the manner intended by management.

Depreciation is charged to the statement of income 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.

## Note 3: Significant Accounting Policies (Cont.)

### H. Intangible assets

#### 1. Goodwill

Goodwill created as a result of the acquisition of consolidated companies is presented under intangible assets. For information regarding the measurement of goodwill upon initial recognition, see Note 3(a)(1).

In subsequent periods, goodwill is measured at cost less accumulated impairment loss (see Note 3(k)(2)).

#### 2. Other intangible assets

Intangible assets which are acquired separately are measured upon initial recognition at cost, with the addition of direct acquisition costs. Intangible assets which are purchased in a business combination are measured at fair value on the date of the business combination.

The fair value of intangible assets that were acquired in a business combination is based on the discounted value of the cash flow expected to arise from the use and sale of such assets. The method requires a determination of a discount rate that is appropriate for the asset type, and for the risk level associated with the asset.

After initial recognition, intangible assets are measured at cost less accumulated amortization and less accumulated impairment losses (see Note 3(k)(2)).

Intangible assets with an undefined useful lifetime are not methodically amortized, and are subject to impairment tests on an annual basis, and also at any such time as indicators arise which signify that impairment may have occurred (see also Note 3(k)(2)). The useful lifetime of these assets is tested on an annual basis in order to determine whether the assessment of its lifetime as undefined is still valid. In the event that the events and circumstances no longer support said estimate, the change from undefined to defined useful lifetime is treated prospectively as a change in accounting estimate. At the same time, impairment is evaluated, and the asset is systematically amortized over its useful lifetime.

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)).

### Note 3: Significant Accounting Policies (Cont.)

#### H. Intangible assets (Cont.)

##### 2. Other intangible assets (Cont.)

Other costs with respect to software development activities are charged to income as incurred.

Intangible assets which are created in the Group are not systematically amortized so long as they are not available for use, in other words, they are not in the location and condition which are required in order for them to be used in the manner intended by management. Therefore, these intangible assets, such as development costs, are tested for impairment at least once per year, until the date when they become available for use.

##### **Subsequent costs**

Subsequent costs are recognized as intangible assets only if they increase the future economic benefit embodied in the asset for which they were spent. The remaining costs, including costs associated with goodwill or with independently developed brands, are charged to the statement of income upon their materialization.

##### **Useful lifetime**

The estimated useful lifetime for the current period and comparative periods is as follows (in 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.

### Note 3: Significant Accounting Policies (Cont.)

#### I. Investment property (Cont.)

Profit or loss from the write-off of investment property is determined by comparing the consideration from the write-off of the asset to its book value as of the last financial reporting date, and is recognized in the item for profit (loss) from investments, net, and financing income, in the statement of income. When investment property which was classified in the past as an investment property item is sold, the revaluation reserve which is included under capital with respect to the investment property is transferred directly to retained earnings.

#### J. Leases

Leases, including land leases from the Israel Land Administration, or from other third parties, in which the Group significantly bears all risks and returns from the property, are classified as finance leases. Upon initial recognition, the leased properties are measured according to an amount equal either to the property's fair value, or to the present value of the minimum future leasing fees, whichever is lower. Future payments for the exercise of an option to extend the lease period vis-a-vis the Israel Land Administration are not recognized as part of the relevant asset and liability, since they constitute conditional lease fees which are derived from the fair value of the land on the future renewal dates of the lease agreement.

After initial recognition, the asset is treated in accordance with the accounting policy uses for assets of this type. The liability with respect to leasing payments is presented at present value, with the lease payments allocated to financing expenses, and repayment of the liability with respect to the lease calculated using the effective interest method.

The remaining leases are classified as operating leases, and the leased properties are not recognized in the Group's statement of financial position.

In leases of land and buildings, the land and building components are tested separately for the purpose of classifying the leases, where a significant consideration in the classification of the land component is the fact that land generally has an undefined lifetime.

##### **Lease payments and receipts**

Payments within the framework of operating leases, excluding contingent lease fees, are applied to the statement of income using the straight line method throughout the lease period.

When the Company recognizes an asset in an operating lease, the lease receipts are recognized as income under profit or loss using a straight line over the lease period. Contingent lease receipts are applied to the statement of income as income on the date when the Company is entitled to receive them.

##### **Determination regarding whether an arrangement includes a lease**

At the beginning of the arrangement or upon its re-evaluation, the Group determines whether an arrangement is a lease, or whether it contains a lease. An arrangement is considered a lease, or as containing a lease, provided the following two conditions are met: The fulfillment of the arrangement depends on the use of a specific asset or assets; and the arrangement contains the right to use the asset.

#### K. Impairment

##### 1. Non-derivative financial assets

The Group reviews, for each reporting date, whether objective evidence exists which indicates impairment with respect to the following financial assets or groups of financial assets:

##### **Financial assets at amortized cost**

When objective evidence of impairment is found to exist, a test is performed to evaluate the need for recognition of an impairment loss. For material financial assets, the need for impairment is evaluated for each asset on a separate basis. For the remaining financial assets, the need for impairment is evaluated on a collective basis, based on groups with similar credit risk characteristics. Objective evidence for impairment, with regard to assets which are included under the loans and receivables groups, exists when one or more events occurred which adversely impacted the estimate of future cash flows expected to arise from the asset or group of assets with similar credit risk characteristics (hereinafter: the "Asset") after the recognition date.

### Note 3: Significant Accounting Policies (Cont.)

#### K. Impairment (Cont.)

##### 1. Non-derivative financial assets (Cont.)

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 equity instruments, the objective evidence of impairment includes significant or ongoing decline in the fair value of the asset below its cost, as well as evaluation of changes in the technological, economical or legal environment, or in the market environment in which the Company that issued the instrument operates. The evaluation of significant or ongoing impairment is dependent on the circumstances prevailing as of each financial reporting date, where such evaluation includes taking into account the historical volatility of fair value, and also the duration of time in which the asset's fair value is lower than its original cost. Furthermore, in accordance with the Group's policy, a decline in fair value at a rate of 20% or higher relative to cost, as of the reporting date, or a decline which continued for over nine months (even if at a lower rate), constitutes objective evidence of impairment. When objective evidence of impairment exists, the cumulative losses charged to capital reserves, which are measured as the difference between the acquisition cost (less previous impairment losses) and the fair value, are transferred from the capital reserves and recognized as an impairment loss in the statement of income. In subsequent periods, any additional decrease in fair value is recognized as an impairment loss; Cancellation of impairment loss is not applied to the statement of income, but rather, is applied to capital reserve as other comprehensive income.

With respect to available for sale financial assets which constitute debt instruments, objective evidence for impairment exists when one or more events occurred which adversely impacted the estimate of future cash flows expected to arise from the asset after the investment date, and when such impact can be reliably measured. Evidence of impairment includes indicators of financial difficulty, including liquidity difficulties and the inability to make principal or interest payments. When objective evidence of impairment exists, the cumulative losses charged to capital reserves, which are measured as the difference between the purchase cost (less previous impairment losses, amortization using the effective interest method and previous impairment losses) and the fair value, are transferred from the capital reserve and recognized as an impairment loss in the statement of income. In subsequent periods, any additional decrease in fair value is recognized as impairment loss; Impairment loss is canceled when the increase in fair value is objectively attributable to an event which occurred after the recognition of the impairment loss, and which was included in the original impairment calculation. A cancellation due to an increase in fair value as above, is charged to the statement of income up to the amount of amortized cost which should have existed as of the date of the impairment's cancellation, had the impairment not been recognized.

##### 2. Non-financial assets

##### **Timing of impairment test**

The book value of the Group's non-financial assets that do not constitute deferred acquisition costs, investment property and deferred tax assets, is tested for each reporting date in order to determine the existence of impairment financial indicators. In the event that such indicators are found to exist, the asset's estimated recoverable amount is calculated. Once per year, on a fixed date, with respect to each cash generating unit which includes goodwill, or intangible assets with an undefined lifetime or which are not yet available for use, the Group performs an assessment of the recoverable amount. This is performed on a more frequent basis if impairment indicators have been found.

## Note 3: Significant Accounting Policies (Cont.)

### K. Impairment (Cont.)

#### 2. Non-financial assets (Cont.)

##### **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.

##### **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 is allocated to cash generating units on a reasonable and consistent basis, and are evaluated for impairment as part of the impairment test performed with respect to the cash generating units to which they are allocated. Other headquarters’ assets, which cannot be reasonably and consistently allocated to cash generating units, are allocated to the Group for cash generating units in the event that indicators exist which signify that impairment has occurred in the asset belonging to the Company’s headquarters, or when indicators exist which signify that impairment has occurred in the Group for cash generating units. In this case, the recoverable amount of the cash generating unit used by the headquarter asset is determined.

##### **Recognition of impairment loss**

Impairment losses are recognized when the book value of the asset or of the cash generating unit exceed the recoverable amount, and are applied to the statement of income. As regards cash generating units which include goodwill, an impairment loss is recognized when the book value of the cash generating unit, after embodiment of the balance of goodwill, exceeds its recoverable amount. Impairment losses which are recognized with respect to cash generating units are initially allocated towards the amortization of the book value of the goodwill attributed to such units, and are later proportionally attributed to the amortization of the book value of the other assets in the cash generating unit.

##### **Allocation of impairment loss for non-controlling interests**

The Company chose to allocate impairment loss between the owners of the Company and non-controlling interests according to the same basis which is used to allocated profit or loss.

### Note 3: Significant Accounting Policies (Cont.)

#### K. Impairment (Cont.)

##### 2. Non-financial assets (Cont.)

###### **Cancellation of impairment loss**

Loss from goodwill impairment is not canceled. With respect to other assets for which impairment losses were recognized in previous periods, on each reporting date, an evaluation is performed to ascertain whether indicators exist which signify that such losses have decreased, or no longer exist. The impairment loss is canceled if a change occurred in the estimates used to determine the recoverable amount, only in the event that the asset's book value, after cancellation of the impairment losses, does not exceed the book value less depreciation or amortization which would have been determined had the impairment loss not been recognized.

##### 3. Associate companies and joint arrangements accounted by the equity method

The Company determines, on each reporting date, after applying the equity method, whether objective evidence of impairment exists, and whether it will be necessary to recognize impairment loss with respect to the investment in investee companies accounted by the equity method (hereinafter: the "**Investment**").

The impairment test is conducted with respect to the investment in its entirety, including the goodwill attributed to the investee company accounted by the equity method (hereinafter: the "**Investee Company**"). In the event that such objective evidence is found to exist, impairment loss is recognized in the amount of the difference between the recoverable amount of the investment and its value in the financial statements. The recoverable amount is the higher of either fair value or value in use, which is calculated based on a valuation of the net cash flows which are expected to arise from the investee, including cash flows from the activities of the investee, and the consideration from the final disposal of the investment, or an estimation of the present value of the estimated future cash flows which are expected to arise from the dividends which will be received, and from the final disposal. Such impairment loss is not specifically allocated to the goodwill which is included in the investment, and therefore, in subsequent periods, loss is cancelable up to its full amount, if and only if changes have occurred in the estimates which were used to determine the recoverable amount of the investment, from the date when the impairment loss was last recognized. The book value of the investment, after the cancellation of the impairment loss, may not exceed the book value of the investment which would have been determined according to the equity method, had it not been recognized as an impairment loss.

##### 4. Outstanding premiums

The provision for doubtful debts with respect to premiums whose collection is doubtful, in the opinion of management, is determined specifically based on specific risk assessments, and collectively based on past collection experience in population groups with similar credit risk characteristics.

##### 5. Debts of reinsurers

Non-fulfillment of reinsurers' undertakings towards the Company does not release it from its undertakings towards policyholders in accordance with the insurance policies. A reinsurer which does not fulfill its undertakings in accordance with the reinsurance contracts may cause the Company to incur losses.

Provisions for doubtful debts with respect to the debts of reinsurers whose collection is in doubt are performed on the basis of individual risk assessments. Additionally, when determining the share of reinsurers in outstanding claims and in insurance reserves, the consolidated companies take into account, inter alia, an evaluation of the possibility of collecting from the reinsurers. When the share of the above reinsurers is calculated on an actuarial basis, the share of such reinsurers in these difficulties is calculated by the actuary, in consideration of all risk factors. Additionally, the consolidated companies take into account, when preparing the provisions, inter alia, the willingness of reinsurers to reach "cut off" agreements (in which contractual agreements are terminated by means of final repayment of the debts).

### Note 3: Significant Accounting Policies (Cont.)

#### L. Employee benefits

##### 1. Post-employment benefits

The Group has several post-employment benefit plans. The plans are generally financed by deposits to insurance companies and to pension funds, and are classified as defined deposit plans and as defined benefit plans.

##### A. Defined deposit plans

A defined deposit plan is a post-employment plan in which the Group pays fixed payments to a separate entity, without having a legal or implicit obligation to make additional payments. The Group's obligations to deposit sums in a defined deposit plan are charged as an expense to the statement of income, in the periods during which the employees have provided related services.

##### B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan which is not a defined deposit plan. A net liability of the Group which refers to a defined benefit plan with respect to post-employment benefits is calculated for each plan separately, by estimating the future amount of the benefit which will be owed to the employee in consideration of his services, in the current period and in previous periods. This benefit is presented at present value less the fair value of plan assets. The Group determines the net liability on the liability (asset), net, with respect to the defined benefit, by multiplying the liability (asset), net with respect to the defined benefit by the discount rate which was used to measure the liability with respect to defined benefit, as both were determined at the beginning of the annual reporting period. The discount rate was determined according to the yields, as of the reporting date, of high quality corporate bonds, whose currency is the NIS, and whose repayment date is similar to the terms of the Group's liability. The calculations are performed by a certified actuary, based on the forecasted eligibility unit.

When the results of these calculations lead to the creation of an asset for the Group, an asset is recognized up to the net amount of the present value of the economic benefits which are available in the form of a repayment from the plan, or a reduction in the future deposits to the plan. An economic benefit in the form of repayments or reductions in future deposits will be considered available when it is realizable over the plan's lifetime, or after settlement of the liability. This calculation will take into account minimum deposit requirements, if they are relevant to the plan.

The remeasurement of the liability (asset), net, with respect to the defined benefit, includes actuarial profit and loss, return on plan assets (excluding interest), and any change in the impact on the assets limit (insofar as is relevant, excluding interest). According to the Group's choice, re-measurements are immediately applied, through other comprehensive income, directly to retained earnings. Interest costs with respect to defined benefit liabilities, interest income with respect to plan assets and interest with respect to the impact on the limit of assets which were applied to the statement of income, are presented under the item for general and administrative expenses.

When an improvement or reduction has occurred in the benefits provided by the Group to employees, that part of the increased benefits which is attributed to the past service of employees, or the profit or loss from the reduction, is immediately recognized under profit or loss when the correction or reduction of the plan takes place.

The Group recognizes profit or loss from the settlement of a defined benefit plan when the settlement takes place. Such profit or loss constitutes the difference between the settled part of the present value of the defined benefit liability on the settlement date and the settlement price, including transferred plan assets.

Insurance policies with respect to termination of employer - employee relationships that were issued by the Company do not constitute plan assets, and are presented as a reduction of the liability with respect to the insurance contracts.

### Note 3: Significant Accounting Policies (Cont.)

#### L. Employee benefits (Cont.)

##### 2. Other long term employee benefits

The Group's net liability with respect to long term employee benefits which do not refer to post-employment benefit plans, applies to the future benefit amount owed to employees with respect to services provided during the current period and previous periods. The total amount of such benefits is discounted to its present value, and is presented after deduction of the fair value of the assets attributable to the obligation in question. The discount rate is determined according to the returns as of the reporting date of high quality corporate bonds whose currency is the NIS, and whose repayment date is similar to the terms of the Group's liabilities. The calculation is performed based on the forecasted eligibility unit.

Actuarial gains and losses are charged to the statement of income for the period in which they were created.

##### 3. Severance benefits

Severance benefits are recognized as an expense when the Group has clearly committed, without any real possibility of cancellation, to the dismissal of employees before they reach the conventional retirement age according to a detailed formal plan, or to provide severance benefits as a result of an offer which was made in order to encourage voluntary retirement. Benefits provided to employees upon voluntary retirement are charged when the Group has provided to employees a plan encouraging voluntary retirement, when it is expected that the offer will be accepted, and when the number of individuals accepting the offer can be reliably estimated.

##### 4. Short term employee benefits

Short term employee benefits are benefits whose full settlement is expected earlier than 12 months after the end of the reporting period during which the employees provide the services in question. Liabilities with respect to short term employee benefits are measured on a non-discounted basis, and the expense is charged upon provision of the service in question, or in the event of non-cumulative absences (such as maternity leave) - upon actual absence. A provision with respect to short term employee benefits for cash bonus or profit sharing plans is recognized in the amount expected for payment when the Group has a current legal or implicit liability to pay the amount in question with respect to a service provided by the employee in the past, and where the liability is reliably measurable.

##### 5. Share-based payment transactions

The fair value on the allocation date of share-based payment bonuses to employees is applied as a payroll expense under profit and loss in parallel the increase in capital, over the period when the employees' eligibility to equity 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 equity instruments until the maturity date reflects the rate of passage of the vesting period, and the Group's best estimate of the number of equity instruments that will eventually vest. The debit or credit in the statement of income reflects the change in cumulative expenses recognized at the beginning and end of the reporting period. Expense with respect to allocations which will not finally mature are not recognized.

### Note 3: Significant Accounting Policies (Cont.)

#### M. Provisions

A provision is recognized when the Group has a current legal or implicit liability as a result of an event which occurred in the past, and which is reliably measurable, and when it is more likely than not that a negative flow of economic benefits will be required in order to settle the liability. The Company has chosen to determine the provisions when the impact of the value of time is significant, by discounting the future cash flow according to the pre-tax interest rate which reflects the current market estimates regarding the time value of money and the specific risks associated with the liability. The book value of the provision is adjusted in each period in order to reflect the passage of time.

The Group recognizes an indemnification asset if it is virtually certain that the indemnification will be received in the event that the Company settles the obligation. The amount recognized with respect to the indemnification does not exceed the provision amount.

##### Legal claims

Legal claims which possess unique characteristics are not grouped, but rather are evaluated separately. A provision with respect to unasserted claims is recognized in accordance with the claim's overall chance of success, if filed, against the Group's member companies (based on the probability that the claim will be filed, and the probability that the claim will succeed).

##### Onerous contracts

A provision for onerous contracts is recognized when the benefits which are expected to be received from the contracts by the Group are lower than the unavoidable costs due to the fulfillment of its onerous contract obligations. The provision is measured as the lower of either the present value of the expected cost to terminate the agreement and the present value of the net expected cost of continuing the agreement. Before the provision is recognized, the Group recognizes impairment of the assets associated with that agreement, if any.

#### N. Recognition of revenue

On January 1, 2018, the Group initially adopted IFRS 15, Revenue from Contracts with Customers (hereinafter: the "Standard"). The standard replaces (among other standards) IAS 18, Revenue. The standard does not apply to the recognition of revenue from insurance contracts, but does apply to some of the Group's other income which does not constitute insurance contracts.

The standard presents a five stage model which will apply to revenue from contracts with customers:

- Stage 1 - Identification of the contract with the customer, including reference to a group of contracts and handling modifications of contracts.
- Stage 2 - Identification of several distinct performance obligations in the contract.
- Stage 3 - Determination of the transaction price, including reference to variable proceeds, significant financing components, non-cash proceeds and proceeds to be paid to the customer.
- Stage 4 - Allocation of the transaction price to each distinct performance obligation based on the distinct relative selling price, using observable prices, if available, or estimates and approximations.
- Stage 5 - Recognition of revenue upon fulfillment of the performance obligation, while distinguishing between the fulfillment of an obligation on a certain date, and fulfillment of an obligation over time.

The adoption of the standard had no significant influence on the Company's financial statements.

**Note 3: Significant Accounting Policies (Cont.)****N. Recognition of revenue (Cont.)**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 revenue 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 revenue (Cont.)

##### 3. Revenue from management fees

###### A. Management fees for investment-linked insurance contracts

The management fees are calculated in accordance with the Commissioner's instructions and the contract terms, on the basis of the returns and the accrual of policyholders' savings in the profit investment portfolio for those contracts. 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 29).

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

Revenue 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. Revenue from commissions

###### A. Life insurance

Revenue 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

Revenue from commissions in non-life insurance in the consolidated insurance agencies are applied upon their materialization.

###### C. Reinsurance

Revenue 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 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 rebuttable assumption exists that the book value of the investment property will be repaid by way of sale.

Deferred taxes are measured according to the tax rates that are expected to apply to the temporary differences on the date of their realization, based on the laws that were enacted, or effectively enacted, as of the reporting date. Deferred taxes with respect to subsidiaries operating outside of Israel were calculated according to the relevant tax rates in each country.

Deferred tax assets are recognized in the books with respect to transferred losses and/or deductible temporary differences in the event that taxable income is expected to arise in the future against which the transferred losses and/or deductible temporary differences may be used, or in the absence of projected future taxable income, deferred tax assets are recognized only up to the amount of taxable temporary differences. Deferred tax assets are evaluated for each reporting date, and in the event that the attributable tax benefits are not expected to be realized, they are amortized.

Deferred tax assets which were not recognized are re-evaluated on each reporting date and are recognized if the expectation has changed such that taxable income is expected in the future against which it will be possible to use them.

**Note 3: Significant Accounting Policies (Cont.)****Q. Taxes on income (Cont.)****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, 2018, the Group has been adopting amendments to standards as described below:

Standard / Interpretation / Amendment	Publication Requirements	Application and Transitional Provisions	Implications
(1) <b>IFRS 15, Revenue from Contracts with Customers</b>	The standard replaces the provisions which applied regarding the recognition of revenue, and presents a new model for the recognition of revenue from contracts with customers. The standard determines two methods for the recognition of revenue: 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 revenue. The standard does not apply to the recognition of revenue from insurance contracts, but does apply to income from commissions of the insurance agencies, and to income from the management fees of the managing companies. The standard also establishes new disclosure requirements which are more extensive than the requirements which applied.	The amendment was adopted prospectively.	The standard does not apply to insurance contracts. In managing companies of pension and provident funds, investment contracts and in the Group's agencies: The adoption of the standard has no significant effect on the date of recognition of income from management fees, on agency commissions, or on the timing of recognition of expenses with respect to the costs to obtain those contracts.

## Note 4: New Standards and Interpretations Which Have Not Yet Been Adopted

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(1) <b>International Financial Reporting Standard (IFRS) 17, Insurance Contracts</b>	<p>The standard establishes principles for recognition, measurement, presentation and disclosure in connection with insurance contracts (including reinsurance treaties), and replaces the current provisions on the subject.</p> <p>According to the new standard, the entity will recognize and measure groups of insurance contracts in accordance with the risk-adjusted present value of the future cash flows from the contracts, pertaining to all available information regarding the cash flows, consistently with observable market inputs; plus (in case of a liability) or less (in case of an asset) the amount representing the unrealized profit from the group of contracts (the contractual service margin). Revenue with respect to insurance contracts, for each reporting period, is derived from changes in the liability with respect to future coverage, which are attributed to the various components of the proceeds which the insurer is entitled to receive with respect to the contract, such as costs of acquiring insurance contracts, adjustment of risk, attribution of the contractual service margin to periods, expected claims, and expenses during the period. However, an entity may apply a simpler measurement model to certain particular (for example, contracts with insurance coverage of up to one year), according to which the amount attributed to services which have not yet provided will be measured by allocating the premium over the coverage period (the premium allocation approach).</p>	<p>The new standard will be adopted beginning on January 1, 2021. Early adoption is possible, so long as IFRS 9 - Financial Instruments, is adopted in parallel.</p> <p>In November 2018, the IASB decided to propose the postponement of the initial adoption date of IFRS 17 by one year, to January 1, 2022.</p> <p>The standard it is necessary to adopted retrospectively, whereby in cases when retrospective adoption is impractical, one of the following two approaches may be chosen: retrospective adoption with certain easements; or the adoption of the fair value approach.</p>	<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																		
(2) IFRS (2014), Financial Instruments	<p data-bbox="360 357 1032 480">In July 2014, the IASB published the full and final text of IFRS 9 - Financial Instruments, which replaces IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 (hereinafter: the "New Standard") primarily changes the provisions for the classification and measurement of financial assets, and applies to all financial assets covered under IAS 39.</p> <p data-bbox="360 480 1032 576">The new standard determines that, upon initial recognition, all financial assets will be measured at fair value. In subsequent periods, debt instruments will be measured at amortized cost only if the following two cumulative conditions are fulfilled:</p> <ul data-bbox="360 576 1032 727" style="list-style-type: none"> <li>- The asset is held within the framework of a business model which is intended to hold assets in order to collect the contractual cash flows issuing therefrom (hereinafter: the "Principal and Debt Only Test").</li> <li>- According to the contractual terms of the financial asset, the Company is entitled, on certain dates, to receive cash flows which constitute only principal payments and interest payments on the principal balance.</li> </ul> <p data-bbox="360 751 1032 871">All other debt instruments and all other financial assets will be subsequently measured at fair value. The new standard provides a distinction between debt instruments which will be measured at fair value through profit or loss, and debt instruments which will be measured at fair value through other comprehensive income.</p> <p data-bbox="360 871 1032 1015">Financial assets which constitute equity instruments will be measured in subsequent periods at fair value, and the differences will be applied to the statement of income or to other comprehensive income (loss), in accordance with the Company's choice regarding each individual instrument. Equity instruments which are held for trading must be measured at fair value through profit or loss.</p> <p data-bbox="360 1015 1032 1190">The new standard also includes a new model which is comprised of three stages for measuring the impairment of financial debt instruments which are not measured at fair value through profit or loss, and is based on the expected credit losses model. Each stage determines the method for measurement of the expected credit losses, based on changes which occurred in the debt instrument's credit risk. Additionally, an easement is provided under this model for financial assets with short credit periods, such as trade receivables.</p> <p data-bbox="360 1190 1032 1286">With respect to derecognition and financial liabilities, the new standard establishes the same provisions as those which are required in accordance with IAS 39 with respect to derecognition and financial liabilities, for which the fair value alternative was not chosen.</p> <p data-bbox="360 1286 1032 1414">With respect to liabilities for which the fair value alternative was chosen, the amount of the change in the fair value of the liability - which is attributable to changes in the Company's credit risk - will be applied to other comprehensive income. All other changes in fair value will be applied to the statement of income.</p>	<p data-bbox="1059 384 1839 440">The Company meets the criteria for the easement as of the adoption date, and accordingly, it intends to defer the adoption of IFRS 9 to January 1, 2022.</p> <p data-bbox="1059 448 1839 552">When the liabilities covered under IFRS 4 constitute 90% or less of the Company's the Company's liabilities as of December 31, 2015, but the liabilities associated with the insurance constitute over 90% of the Company's total liabilities</p> <p data-bbox="1059 560 1839 639">As of December 31, 2015, the book value of the Company's liabilities which are associated with insurance constitutes 96% of the total book value of the Company's liabilities, as follows:</p> <table data-bbox="1059 663 1839 1230"> <thead> <tr> <th data-bbox="1059 751 1182 778">Liability</th> <th data-bbox="1514 671 1615 807">Value Book value NIS in thousands</th> <th data-bbox="1682 671 1794 775">Proportion of total liabilities %</th> </tr> </thead> <tbody> <tr> <td data-bbox="1059 815 1406 871">Liabilities due to contracts covered under IFRS 4</td> <td data-bbox="1536 839 1603 863">79,636</td> <td data-bbox="1715 839 1771 863">88%</td> </tr> <tr> <td data-bbox="1059 879 1451 999">Liability with respect to non-derivative investment contracts which are measured at fair value through profit or loss</td> <td data-bbox="1536 903 1603 927">2,154</td> <td data-bbox="1715 903 1760 927">2%</td> </tr> <tr> <td data-bbox="1059 1007 1435 1126">Liabilities which constitute capital for the purpose of complying with the capital regime that applies to the Company</td> <td data-bbox="1536 1031 1603 1054">3,220</td> <td data-bbox="1715 1031 1760 1054">4%</td> </tr> <tr> <td data-bbox="1059 1134 1200 1158">Tax liabilities</td> <td data-bbox="1536 1134 1603 1158">2,424</td> <td data-bbox="1715 1134 1760 1158">2%</td> </tr> <tr> <td data-bbox="1059 1198 1122 1222">Total</td> <td data-bbox="1536 1198 1603 1222">87,443</td> <td data-bbox="1715 1198 1771 1222">96%</td> </tr> </tbody> </table> <p data-bbox="1059 1254 1839 1310">Since that date, no changes have occurred in the Company's activities, which would require re-assessment.</p>	Liability	Value Book value NIS in thousands	Proportion of total liabilities %	Liabilities due to contracts covered under IFRS 4	79,636	88%	Liability with respect to non-derivative investment contracts which are measured at fair value through profit or loss	2,154	2%	Liabilities which constitute capital for the purpose of complying with the capital regime that applies to the Company	3,220	4%	Tax liabilities	2,424	2%	Total	87,443	96%	<p data-bbox="1868 384 2123 456">The Group evaluates the implications of the standard on the financial statements.</p> <p data-bbox="1868 480 2123 576">No change is expected in the method used to measure the value of the assets against investment-linked liabilities.</p> <p data-bbox="1868 600 2123 967">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 data-bbox="1868 991 2123 1390">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>
Liability	Value Book value NIS in thousands	Proportion of total liabilities %																			
Liabilities due to contracts covered under IFRS 4	79,636	88%																			
Liability with respect to non-derivative investment contracts which are measured at fair value through profit or loss	2,154	2%																			
Liabilities which constitute capital for the purpose of complying with the capital regime that applies to the Company	3,220	4%																			
Tax liabilities	2,424	2%																			
Total	87,443	96%																			

**Note 4: New Standards and Interpretations Which Have Not Yet Been Adopted (Cont.)**

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
<p>(2) <b>IFRS 9 (2014), Financial Instruments (Cont.)</b></p>	<p>The new standard includes new requirements with respect to hedge accounting.</p>		
	<p>The standard will be applied with respect to annual periods beginning on or after January 1, 2018.</p> <p>In September 2016, an amendment was published to IFRS 4, which permits an entity issuing insurance contracts to adopt IFRS 9 with adjustments (hereinafter: the “Overlay Approach”), or to defer the adoption of IFRS 9 to January 1, 2021 (hereinafter: the “Deferral Approach” or the “Temporary Exemption”).</p> <p>In September 2018, the IASB decided to present an extension of the temporary exemption from the adoption of IFRS 9, for insurance companies which adopted the deferral approach, until January 1, 2022. For the purpose of adopting the deferral approach, the entity is required to meet the following criteria:</p> <p>A) The entity has not previously adopted any version of IFRS 9. B) The entity’s activities are significantly activities associated with insurance.</p> <p>In accordance with the standard, the entity’s activities are considered activities significantly associated with insurance, when:</p> <p>A) The book value of its liabilities which arise from insurance contracts, including deposit components or embedded derivatives which were separated from the insurance contracts, is significant relative to the total book value of all liabilities; And:</p> <p>B) The book value of the liabilities which are associated with insurance, relative to the total book value of all liabilities, is:</p> <ul style="list-style-type: none"> <li>• Greater than 90%. or;</li> <li>• 80% to 90%, inclusive, and the insurer has no significant activities unrelated to insurance.</li> </ul>		

## Note 4: New Standards and Interpretations Which Have Not Yet Been Adopted (Cont.)

Standard / Interpretation / Amendment	Topic	Application and Transitional Provisions	Main Expected Effects
(3) IFRS 16, Leases	The standard replaces International Accounting Standard (IAS) 17, Leases, and the associated interpretations. The standard presents, with respect to lessees, a single model with respect to the accounting treatment of the majority of leases, according to which the lessee must recognize an asset and liability with respect to the lease in its financial statements.	The standard will be applied with respect to annual period beginning on January 1, 2019. Early adoption is possible.	<p>Discount rate -</p> <p>The Group will use, for the purpose of measuring the lease liability, nominal discount rates in accordance with the yield which is used for loans in the rating group of Clal Insurance, with the relevant average lifetime for the various leases.</p> <p>Transitional provisions regarding the date of the engagement: The Group intends to choose to adopt the easement in the transitional provisions, which stipulates that lease liabilities will be calculated according to the present value of the future lease payments, discounted by the incremental interest as of the date of initial adoption, and in parallel, will recognize an identical amount in liabilities in a right-of-use asset.</p> <p>Except for leases of buildings and sites, for which the Group will recognize, on the date of initial adoption, a right-of-use asset according to its book value, as if the standard had been adopted since the lease commencement date. In other words, with respect to buildings and sites, the Group will measure the value which would have been obtained had the requirements of the standard been adopted on the trade date, while determining the right-of-use asset at amortized cost as of the date of initial adoption. As a result, the adoption of the standard is expected to lead to an adjustment of retained earnings on the date of initial adoption.</p> <p>Quantitative impact: The following table presents the expected impact of the adoption of the standard on the relevant sections in the statement of financial position as of December 31, 2018:</p>

NIS in millions	According to	Change	According to
	IAS 17		IFRS 16
	(Audited)		(Audited)
Right-of-use asset	-	566	566
Rent expenses payable	(26)	26	-
Deferred tax assets	6	8	14
Lease liabilities	-	(615)	(615)
Retained earnings	(3,158)	15	(3,143)

**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) <b>Amendment to IAS 28, Investments in associates and Joint Ventures: Long Term Rights in Associates or Joint Ventures</b>	The amendment clarifies, with respect to long term rights which essentially constitute a part of the entity’s net investment in the associate or joint venture, that the entity will first adopt the requirements of IFRS 9, and will then adopt the provisions of IAS 28 with respect to the balance of those rights, in a manner whereby the long term rights will be covered both under IFRS 9 and IAS 28.	The amendment will be adopted retrospectively (with an option for several easements) with respect to annual periods beginning on January 1, 2019.	The Group evaluated the implications of the amendment, and the Group believes that the adoption of the amendment is not expected to have a significant impact on the financial statements.
(5) <b>Amendment to IFRS 3, Business Combinations</b>	The amendment clarifies whether a transaction involving the acquisition of an operation constitutes a transaction for the acquisition of a “business” or an asset. For the purpose of performing this evaluation, an option was added of choosing to use the concentration test, such that if the entire fair value of the acquired assets is significantly attributable to a group of similar identifiable assets, or to a single identifiable asset, the transaction will constitute the acquisition of an asset. Also clarified were the minimum requirements for the definition of a business, such as the requirement stipulating that the acquired processes must be significant, in a manner whereby, in order for to qualify as a business, the operation must include at least one input element and one significant process, which together significantly contribute to the operation’s ability to generate outputs. Additionally, reference was reduced to the output element which is required in order to meet the definition of a business, and examples to illustrate the aforementioned evaluation were added.	The amendment will be adopted with respect to transactions involving the acquisition of assets or businesses whose acquisition date is in annual periods beginning on January 1, 2020. Early adoption is possible.	The Group is evaluating the implications of the amendment, and the Group believes that the adoption of the amendment is not expected to have a significant impact on the 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 the liability and property insurance, credit insurance, personal accidents and other insurance branches.

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

- **Compulsory motor branch**

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

- **Motor property branch**

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

- **Property and others branches**

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

- **Credit insurance through a consolidated company**

Credit insurance branches and foreign trade risks.

- **Other liability branches**

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

#### 4. Other

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

#### 5. Operations which were not allocated to segments

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

**Note 5: Segmental Reporting (Cont.)****B. Seasonality****1. Long-term savings segment**

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

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

**2. Non-life insurance segment**

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

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

## Note 5: Segmental Reporting (Cont.)

### C. Report on operating segments

NIS in thousands	Long term savings											
	Provident			Pension			Life insurance <sup>1)</sup>			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Gross premiums earned	-	-	-	-	-	-	<b>5,845,913</b>	5,534,579	4,998,993	<b>5,845,913</b>	5,534,579	4,998,993
Premiums earned by reinsurers	-	-	-	-	-	-	<b>135,807</b>	168,245	168,386	<b>135,807</b>	168,245	168,386
Premiums earned on retention	-	-	-	-	-	-	<b>5,710,106</b>	5,366,334	4,830,607	<b>5,710,106</b>	5,366,334	4,830,607
Income from investments, net, and financing income	<b>158,559</b>	139,160	125,670	<b>2,634</b>	488	10	<b>802,520</b>	5,421,019	2,134,693	<b>963,713</b>	5,560,667	2,260,373
Income from management fees	<b>175,627</b>	183,021	194,052	<b>271,359</b>	282,422	276,851	<b>436,111</b>	760,035	484,697	<b>883,097</b>	1,225,478	955,600
Income from commissions	-	-	-	-	-	-	<b>28,213</b>	43,050	38,029	<b>28,213</b>	43,050	38,029
Other income	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total income</b>	<b>334,186</b>	322,181	319,722	<b>273,993</b>	282,910	276,861	<b>6,976,950</b>	11,590,438	7,488,026	<b>7,585,129</b>	12,195,529	8,084,609
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	<b>152,437</b>	131,475	118,063	-	-	-	<b>5,815,721</b>	10,351,365	6,729,656	<b>5,968,158</b>	10,482,840	6,847,719
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	-	-	-	-	-	-	<b>(81,589)</b>	(106,515)	(109,637)	<b>(81,589)</b>	(106,515)	(109,637)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	<b>152,437</b>	131,475	118,063	-	-	-	<b>5,734,132</b>	10,244,850	6,620,019	<b>5,886,569</b>	10,376,325	6,738,082
Commissions, marketing expenses and other acquisition costs	<b>56,488</b>	58,644	61,539	<b>106,356</b>	109,622	104,854	<b>742,225</b>	721,188	642,916	<b>905,069</b>	889,454	809,309
General and administrative expenses	<b>107,633</b>	106,569	98,314	<b>177,013</b>	165,492	127,061	<b>381,421</b>	373,426	361,014	<b>666,067</b>	645,487	586,389
Impairment of intangible assets	<b>114,824</b>	108,000	28,877	-	-	535	-	10,593	2,585	<b>114,824</b>	118,593	31,997
Other expenses	<b>7,854</b>	19,156	4,865	<b>1,365</b>	-	-	<b>184</b>	483	519	<b>9,403</b>	19,639	5,384
Financing expenses (income)	<b>(2)</b>	(1)	1	<b>4</b>	(1)	(25)	<b>2,322</b>	10,383	3,818	<b>2,324</b>	10,381	3,794
<b>Total expenses</b>	<b>439,234</b>	423,843	311,659	<b>284,738</b>	275,113	232,425	<b>6,860,284</b>	11,360,923	7,630,871	<b>7,584,256</b>	12,059,879	8,174,955
Share in the results of investee companies accounted by the equity method, net	-	-	-	<b>(1,281)</b>	(1,184)	(986)	<b>(8,929)</b>	6,160	11,099	<b>(10,210)</b>	4,976	10,113
<b>Income (loss) before taxes on income</b>	<b>(105,048)</b>	(101,662)	8,063	<b>(12,026)</b>	6,613	43,450	107,737	235,675	(131,746)	<b>(9,337)</b>	140,626	(80,233)
Other comprehensive income (loss) before taxes on income	-	-	-	<b>(3,707)</b>	4,881	37	<b>35,885</b>	31,034	19,069	<b>32,178</b>	35,915	19,106
<b>Total comprehensive income (loss) before taxes on income</b>	<b>(105,048)</b>	(101,662)	8,063	<b>(15,733)</b>	11,494	43,487	<b>143,622</b>	266,709	(112,677)	<b>22,841</b>	176,541	(61,127)
1) Total premiums (including pure savings premiums (investment contracts) which were applied directly to reserve).							<b>6,282,926</b>	5,825,561	5,468,697	<b>6,282,926</b>	5,825,561	5,468,697

## Note 5: Segmental Reporting (Cont.)

### C. Report on operating segments (Cont.)

NIS in thousands	Health			Non-life			Other		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Gross premiums earned	<b>2,106,995</b>	1,917,218	1,798,776	<b>2,324,119</b>	2,279,434	2,314,579	-	-	-
Premiums earned by reinsurers	<b>300,418</b>	262,060	212,416	<b>943,808</b>	759,976	661,445	-	-	-
Premiums earned on retention	<b>1,806,577</b>	1,655,158	1,586,360	<b>1,380,311</b>	1,519,458	1,653,134	-	-	-
Income from investments, net, and financing income	<b>11,461</b>	359,955	101,165	<b>135,505</b>	116,924	138,421	<b>4,553</b>	5,273	6,162
Income from management fees	-	-	-	-	-	-	<b>5,974</b>	5,974	5,974
Income (expenses) from commissions	<b>8,760</b>	(7,647)	4,461	<b>201,612</b>	170,235	133,647	<b>134,315</b>	123,030	120,524
Other income	-	-	-	<b>73</b>	61	72	<b>2</b>	3,189	1,347
<b>Total income</b>	<b>1,826,798</b>	2,007,466	1,691,986	<b>1,717,501</b>	1,806,678	1,925,274	<b>144,844</b>	137,466	134,007
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	<b>1,822,451</b>	1,654,538	1,227,856	<b>1,562,129</b>	1,874,324	1,611,703	-	-	-
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	<b>(471,418)</b>	(293,904)	(189,484)	<b>(553,777)</b>	(703,535)	(357,905)	-	-	-
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	<b>1,351,033</b>	1,360,634	1,038,372	<b>1,008,352</b>	1,170,789	1,253,798	-	-	-
Commissions, marketing expenses and other acquisition costs	<b>520,420</b>	449,263	395,825	<b>572,422</b>	584,804	587,893	<b>103,404</b>	94,273	89,803
General and administrative expenses	<b>73,487</b>	66,646	56,071	<b>73,377</b>	60,146	66,581	<b>20,032</b>	18,901	16,727
Impairment of intangible assets	-	-	-	-	-	1,249	-	8	-
Other expenses (income)	-	-	-	<b>10</b>	-	-	<b>849</b>	963	3,183
Financing expenses (income)	<b>12,318</b>	6,147	5,263	<b>11,325</b>	(7,290)	(600)	<b>388</b>	473	780
<b>Total expenses</b>	<b>1,957,258</b>	1,882,690	1,495,531	<b>1,665,486</b>	1,808,449	1,908,921	<b>124,673</b>	114,618	110,493
Share in the results of investee companies accounted by the equity method, net	<b>(5,039)</b>	4,331	6,163	<b>(9,159)</b>	15,837	-	-	74	207
<b>Income (loss) before taxes on income</b>	<b>(135,499)</b>	129,107	202,618	<b>42,856</b>	14,066	16,353	<b>20,171</b>	22,922	23,721
Other comprehensive income (loss) before taxes on income	<b>(29,613)</b>	54,640	13,473	<b>3,847</b>	48,157	(29,486)	<b>1,170</b>	(1,050)	617
<b>Total comprehensive income (loss) before taxes on income</b>	<b>(165,112)</b>	183,747	216,091	<b>46,703</b>	62,223	(13,133)	<b>21,341</b>	21,872	24,338

## Note 5: Segmental Reporting (Cont.)

### C. Report on operating segments (Cont.)

NIS in thousands	Not allocated to segments			Adjustments and offsets			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Gross premiums earned	-	-	-	(2,009)	(2,028)	(2,345)	10,275,018	9,729,203	9,110,003
Premiums earned by reinsurers	-	-	-	-	-	-	1,380,033	1,190,281	1,042,247
Premiums earned on retention	-	-	-	(2,009)	(2,028)	(2,345)	8,894,985	8,538,922	8,067,756
Income from investments, net, and financing income	130,090	192,270	110,824	(453)	(541)	(571)	1,244,869	6,234,548	2,616,374
Income from management fees	-	-	-	(4,874)	(4,969)	(5,117)	884,197	1,226,483	956,457
Income (expenses) from commissions	-	-	-	(81,554)	(61,555)	(70,243)	291,346	267,113	226,418
Other income	-	308	-	-	-	-	75	3,558	1,419
<b>Total income</b>	<b>130,090</b>	<b>192,578</b>	<b>110,824</b>	<b>(88,890)</b>	<b>(69,093)</b>	<b>(78,276)</b>	<b>11,315,472</b>	<b>16,270,624</b>	<b>11,868,424</b>
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	-	-	-	(2,044)	(2,954)	(2,471)	9,350,694	14,008,748	9,684,807
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	-	-	-	-	-	-	(1,106,784)	(1,103,954)	(657,026)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	-	-	-	(2,044)	(2,954)	(2,471)	8,243,910	12,904,794	9,027,781
Commissions, marketing expenses and other acquisition costs	-	-	-	(81,250)	(61,242)	(68,631)	2,020,065	1,956,552	1,814,199
General and administrative expenses	83,250	88,520	57,066	(5,983)	(7,639)	(9,482)	910,230	872,061	773,352
Impairment of intangible assets	-	3,036	1,000	-	-	-	114,824	121,637	34,246
Other expenses (income)	29	2,929	5,272	406	242	923	10,697	23,773	14,762
Financing expenses (income)	132,048	125,045	150,919	(472)	(301)	(461)	157,931	134,455	159,695
<b>Total expenses</b>	<b>215,327</b>	<b>219,530</b>	<b>214,257</b>	<b>(89,343)</b>	<b>(71,894)</b>	<b>(80,122)</b>	<b>11,457,657</b>	<b>16,013,272</b>	<b>11,824,035</b>
Share in the results of investee companies accounted by the equity method, net	(1,260)	363	24,996	-	-	-	(25,668)	25,581	41,479
<b>Income (loss) before taxes on income</b>	<b>(86,497)</b>	<b>(26,589)</b>	<b>(78,437)</b>	<b>453</b>	<b>2,801</b>	<b>1,846</b>	<b>(167,853)</b>	<b>282,933</b>	<b>85,868</b>
Other comprehensive income (loss) before taxes on income	(103,406)	122,938	12,614	2,247	227	432	(93,577)	260,827	16,756
<b>Total comprehensive income (loss) before taxes on income</b>	<b>(189,903)</b>	<b>96,349</b>	<b>(65,823)</b>	<b>2,700</b>	<b>3,028</b>	<b>2,278</b>	<b>(261,430)</b>	<b>543,760</b>	<b>102,624</b>

**Note 5: Segmental Reporting (Cont.)**

D. Additional information regarding the main insurance branches included in the non-life insurance segment

NIS in thousands	Liability branches					
	Compulsory motor			Liabilities and others branches <sup>1)</sup>		
	2018	2017	2016	2018	2017	2016
Gross premiums	<b>466,725</b>	472,546	438,306	<b>333,907</b>	323,847	310,259
Reinsurance premiums	<b>281,482</b>	220,271	15,572	<b>119,565</b>	112,356	97,292
Premiums on retention	<b>185,243</b>	252,275	422,734	<b>214,342</b>	211,491	212,967
Change in unearned premium balance, on retention	<b>25,270</b>	80,566	27	<b>(2,850)</b>	5,201	4,299
Premiums earned on retention	<b>210,513</b>	332,841	422,761	<b>211,492</b>	216,692	217,266
Income from investments, net, and financing income	<b>58,708</b>	56,056	69,798	<b>43,132</b>	38,259	42,827
Income from commissions	<b>55,791</b>	29,790	-	<b>12,852</b>	12,245	13,254
<b>Total income</b>	<b>325,012</b>	418,687	492,559	<b>267,476</b>	267,196	273,347
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	<b>422,470</b>	523,463	352,883	<b>342,604</b>	355,811	426,299
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	<b>(222,708)</b>	(167,692)	(33,614)	<b>(91,090)</b>	(155,807)	(191,478)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	<b>199,762</b>	355,771	319,269	<b>251,514</b>	200,004	234,821
Commissions, marketing expenses and other acquisition costs	<b>75,823</b>	80,967	75,411	<b>96,960</b>	99,771	98,896
General and administrative expenses	<b>10,818</b>	8,126	9,813	<b>7,471</b>	5,570	6,946
Impairment of intangible assets	-	-	-	-	-	143
Other expenses	-	-	-	-	-	-
Financing expenses (income)	<b>3,563</b>	419	-	<b>394</b>	(629)	174
Total expenses	<b>289,966</b>	445,283	404,493	<b>356,339</b>	304,716	340,980
Share in the profits (losses) of associate companies, net	<b>(4,396)</b>	7,602	-	<b>(2,932)</b>	5,068	-
<b>Income (loss) before taxes on income</b>	<b>30,650</b>	(18,994)	88,066	<b>(91,795)</b>	(32,452)	(67,633)
Other comprehensive income (loss) before taxes on income	4,582	20,265	(14,730)	3,422	13,786	(9,031)
Total comprehensive income before taxes on income	<b>35,232</b>	1,271	73,336	<b>(88,373)</b>	(18,666)	(76,664)
Liabilities with respect to insurance contracts						
Gross	<b>2,284,274</b>	2,345,355	2,380,386	<b>2,328,034</b>	2,538,361	2,490,718
Reinsurance	<b>575,942</b>	356,485	119,659	<b>877,243</b>	1,085,830	974,912
Retention	<b>1,708,332</b>	1,988,870	2,260,727	<b>1,450,791</b>	1,452,531	1,515,806

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 2017: 66%; in 2016: 68%).

## Note 5: Segmental Reporting (Cont.)

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

NIS in thousands	Property branches											
	Motor property			Credit insurance			Property and others branches <sup>1)</sup>			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Gross premiums	<b>713,301</b>	726,840	634,508	<b>109,793</b>	110,188	107,027	<b>727,652</b>	665,546	742,580	<b>2,351,378</b>	2,298,967	2,232,680
Reinsurance premiums	<b>1,952</b>	2,416	2,756	<b>54,675</b>	54,653	52,722	<b>554,786</b>	471,783	477,295	<b>1,012,460</b>	861,479	645,637
Premiums on retention	<b>711,349</b>	724,424	631,752	<b>55,118</b>	55,535	54,305	<b>172,866</b>	193,763	265,285	<b>1,338,918</b>	1,437,488	1,587,043
Change in unearned premium balance, on retention	<b>7,152</b>	(33,245)	(7,631)	<b>(307)</b>	51	(81)	<b>12,128</b>	29,397	69,477	<b>41,393</b>	81,970	66,091
Premiums earned on retention	<b>718,501</b>	691,179	624,121	<b>54,811</b>	55,586	54,224	<b>184,994</b>	223,160	334,762	<b>1,380,311</b>	1,519,458	1,653,134
Income from investments, net, and financing income	<b>13,804</b>	11,250	10,901	<b>9,375</b>	(75)	691	<b>10,486</b>	11,434	14,204	<b>135,505</b>	116,924	138,421
Income from commissions	-	6	26	<b>16,823</b>	15,604	16,611	<b>116,146</b>	112,590	103,756	<b>201,612</b>	170,235	133,647
Other income	-	-	-	<b>73</b>	61	72	-	-	-	<b>73</b>	61	72
<b>Total income</b>	<b>732,305</b>	702,435	635,048	<b>81,082</b>	71,176	71,598	<b>311,626</b>	347,184	452,722	<b>1,717,501</b>	1,806,678	1,925,274
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	<b>462,293</b>	487,288	437,796	<b>23,762</b>	25,734	47,891	<b>311,000</b>	482,028	346,834	<b>1,562,129</b>	1,874,324	1,611,703
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	<b>236</b>	(94)	582	<b>(13,779)</b>	(13,659)	(23,028)	<b>(226,436)</b>	(366,283)	(110,367)	<b>(553,777)</b>	(703,535)	(357,905)
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	<b>462,529</b>	487,194	438,378	<b>9,983</b>	12,075	24,863	<b>84,564</b>	115,745	236,467	<b>1,008,352</b>	1,170,789	1,253,798
Commissions, marketing expenses and other acquisition costs	<b>182,935</b>	181,150	163,595	<b>9,640</b>	9,639	8,743	<b>207,064</b>	213,277	241,248	<b>572,422</b>	584,804	587,893
General and administrative expenses	<b>16,535</b>	12,498	14,207	<b>18,129</b>	17,321	14,797	<b>20,424</b>	16,631	20,818	<b>73,377</b>	60,146	66,581
Impairment of intangible assets	-	-	642	-	-	-	-	-	464	-	-	1,249
Other expenses	-	-	-	<b>10</b>	-	-	-	-	-	<b>10</b>	-	-
<b>Financing expenses (income)</b>	<b>1,013</b>	(210)	(249)	<b>3,180</b>	(3,235)	(1,253)	<b>3,175</b>	(3,635)	728	<b>11,325</b>	(7,290)	(600)
<b>Total expenses</b>	<b>663,012</b>	680,632	616,573	40,942	35,800	47,150	315,227	342,018	499,725	1,665,486	1,808,449	1,908,921
Share in the profits (losses) of associate companies, net	<b>(824)</b>	1,425	-	-	-	-	<b>(1,007)</b>	1,742	-	<b>(9,159)</b>	15,837	-
Income (loss) before taxes on income	<b>68,469</b>	23,228	18,475	<b>40,140</b>	35,376	24,448	<b>(4,608)</b>	6,908	(47,003)	<b>42,856</b>	14,066	16,353
Other comprehensive income (loss) before taxes on income	<b>1,476</b>	4,219	(2,350)	<b>(6,831)</b>	5,513	(449)	<b>1,198</b>	4,374	(2,926)	<b>3,847</b>	48,157	(29,486)
Total comprehensive income before taxes on income	69,945	27,447	16,125	33,309	40,889	23,999	(3,410)	11,282	(49,929)	46,703	62,223	(13,133)
Liabilities with respect to insurance contracts												
Gross	<b>495,220</b>	517,043	483,164	<b>63,741</b>	80,605	97,897	<b>936,041</b>	1,039,333	1,037,179	<b>6,107,310</b>	6,520,697	6,489,344
Reinsurance	684	683	894	31,979	42,747	53,462	620,069	625,467	489,129	2,105,917	2,111,212	1,638,056
Retention	<b>494,536</b>	516,360	482,270	<b>31,762</b>	37,858	44,435	<b>315,972</b>	413,866	548,050	<b>4,001,393</b>	4,409,485	4,851,288

1. Property and other branches primarily include the results of the business property insurance and apartment insurance branches, the activity in which accounts for approximately 77% of total premiums in these branches (in 2017 - 74%; in 2016 - 73%).

**Note 5: Segmental Reporting (Cont.)**
**E. Report on operating segments as of December 31**

NIS in thousands	Long term savings		Health insurance		Non-life insurance		Other		Not allocated to segments		Adjustments and offsets		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Assets:</b>														
Intangible assets	936,306	1,015,652	86,359	82,026	255,281	235,928	32,946	30,194	31,867	27,953	-	-	1,342,759	1,391,753
Deferred acquisition costs	1,238,847	1,234,111	496,826	471,014	237,866	239,449	-	-	-	-	-	-	1,973,539	1,944,574
Investments in investee companies	69,845	105,425	3,869	26,847	81,960	148,148	-	-	58,830	15,752	-	-	214,504	296,172
Investment property for investment-linked contracts	3,000,340	2,869,967	-	-	-	-	-	-	-	-	-	-	3,000,340	2,869,967
Other investment property	1,032,295	991,046	57,334	53,352	177,266	167,711	-	-	-	-	-	-	1,266,895	1,212,109
Financial investments for investment-linked contracts	54,006,724	52,441,482	4,178,509	3,789,479	-	-	-	-	-	-	-	-	58,185,233	56,230,961
Other financial investments:														
Marketable debt assets	1,407,249	1,513,211	1,016,184	885,968	456,636	451,293	1,134	1,281	2,350,659	2,680,859	-	-	5,231,862	5,532,612
Non-marketable debt assets	17,947,174	17,986,492	525,521	475,975	2,818,470	2,582,204	3,235	6,106	698,828	788,020	(2,885)	(5,703)	21,990,343	21,833,094
Stocks	310,646	295,827	280,698	267,797	258,010	262,504	-	-	567,621	541,713	-	-	1,416,975	1,367,841
Others	1,270,989	1,133,847	417,496	430,118	421,045	386,241	-	-	752,847	773,398	-	-	2,862,377	2,723,604
<b>Total other financial investments</b>	<b>20,936,058</b>	<b>20,929,377</b>	<b>2,239,899</b>	<b>2,059,858</b>	<b>3,954,161</b>	<b>3,682,242</b>	<b>4,369</b>	<b>7,387</b>	<b>4,369,955</b>	<b>4,783,990</b>	<b>(2,885)</b>	<b>(5,703)</b>	<b>31,501,557</b>	<b>31,457,151</b>
Cash and cash equivalents for investment-linked contracts	3,423,775	4,290,418	225,124	239,028	-	-	-	-	-	-	-	-	3,648,899	4,529,446
Other cash and cash equivalents	487,682	604,262	138,227	139,068	124,859	186,161	121,801	90,107	425,717	386,265	-	-	1,298,286	1,405,863
Reinsurance assets	187,636	227,169	685,826	463,395	2,105,917	2,111,212	-	-	-	-	-	-	2,979,379	2,801,776
Outstanding premiums	325,954	311,473	123,957	122,186	423,530	457,473	3,415	2,710	-	-	-	-	876,856	893,842
Other assets	999,195	401,684	196,589	75,555	257,118	287,063	33,856	35,824	281,957	184,068	(64,336)	(60,302)	1,704,379	923,892
<b>Total assets</b>	<b>86,644,657</b>	<b>85,422,066</b>	<b>8,432,519</b>	<b>7,521,808</b>	<b>7,617,958</b>	<b>7,515,387</b>	<b>196,387</b>	<b>166,222</b>	<b>5,168,326</b>	<b>5,398,028</b>	<b>(67,221)</b>	<b>(66,006)</b>	<b>107,992,626</b>	<b>105,957,506</b>
<b>Total assets for investment-linked contracts</b>	<b>61,670,214</b>	<b>60,239,420</b>	<b>4,451,034</b>	<b>4,070,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,121,248</b>	<b>64,310,320</b>
<b>Liabilities:</b>														
Liabilities with respect to non-investment-linked insurance contracts and investment contracts	21,865,392	21,523,458	2,675,508	2,140,712	6,107,310	6,520,697	-	-	-	-	(1,215)	575	30,646,995	30,184,292
Liabilities with respect to investment-linked insurance contracts and investment contracts	60,985,176	59,310,868	4,401,472	4,055,916	-	-	-	-	-	-	(19,751)	20,705	65,366,897	63,346,079
Financial liabilities	261,610	137,442	12,543	7,227	59,738	26,024	2,886	-	3,209,815	3,242,364	(2,893)	(3)	3,543,699	3,413,054
Other liabilities	1,134,203	1,729,906	818,227	605,468	901,657	850,235	64,173	44,753	596,344	719,086	(26,489)	(26,568)	3,488,115	3,922,880
<b>Total liabilities</b>	<b>84,246,381</b>	<b>82,701,674</b>	<b>7,907,750</b>	<b>6,809,323</b>	<b>7,068,705</b>	<b>7,396,956</b>	<b>67,059</b>	<b>44,753</b>	<b>3,806,159</b>	<b>3,961,450</b>	<b>(50,348)</b>	<b>(47,851)</b>	<b>103,045,706</b>	<b>100,866,305</b>

**Note 6: Intangible Assets** <sup>2)</sup>**A. Composition and movement**

NIS in thousands	Goodwill	Customer portfolios and future management fees	Licenses, trade names, brand names, and others	Original differences attributed to the value of insurance portfolios	Software programs	Total
<b>Cost</b>						
Balance as of January 1, 2017	632,732	272,288	9,851	633,360	2,052,083	3,600,314
Acquisitions and self-development <sup>1)</sup>	-	-	-	1,297	228,401	229,698
Write-offs	-	-	-	-	(1,120)	(1,120)
<b>Balance as of December 31, 2017</b>	<b>632,732</b>	<b>272,288</b>	<b>9,851</b>	<b>634,657</b>	<b>2,279,364</b>	<b>3,828,892</b>
Acquisitions and self-development <sup>1)</sup>	-	-	-	2,476	279,528	282,004
Write-off of completely depreciated assets	(35,010)	-	(1,038)	-	(3,182)	(39,230)
<b>Balance as of December 31, 2018</b>	<b>597,722</b>	<b>272,288</b>	<b>8,813</b>	<b>637,133</b>	<b>2,555,710</b>	<b>4,071,666</b>
<b>Amortization and impairment losses</b>						
Balance as of January 1, 2017	110,400	235,060	9,616	631,400	1,108,435	2,094,911
Amortization for the year	-	3,773	235	1,446	215,158	220,612
Write-offs	-	-	-	-	(21)	(21)
Impairment loss <sup>3)</sup>	108,008	-	-	-	13,629	121,637
<b>Balance as of December 31, 2017</b>	<b>218,408</b>	<b>238,833</b>	<b>9,851</b>	<b>632,846</b>	<b>1,337,201</b>	<b>2,437,139</b>
Amortization for the year	-	3,698	-	872	211,604	216,174
Write-off of completely depreciated assets	(35,010)	-	(1,038)	-	(3,182)	(39,230)
Impairment loss <sup>3)</sup>	114,824	-	-	-	-	114,824
<b>Balance as of December 31, 2018</b>	<b>298,222</b>	<b>242,531</b>	<b>8,813</b>	<b>633,718</b>	<b>1,545,623</b>	<b>2,728,907</b>
<b>Book value, net</b>						
Balance as of January 1, 2017	522,332	37,228	235	1,960	943,648	1,505,403
Balance as of December 31, 2017	414,324	33,455	-	1,811	942,163	1,391,753
<b>Balance as of December 31, 2018</b>	<b>299,500</b>	<b>29,757</b>	<b>-</b>	<b>3,415</b>	<b>1,010,087</b>	<b>1,342,759</b>

- 1) Additions with respect to software programs include additions with respect to self-development in amounts of approximately NIS 147,456 thousand and approximately NIS 134,080 thousand, during the years ended December 31, 2018 and 2017, 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.

**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		Goodwill	
	As of December 31		As of December 31		As of December 31	
	2018	2017	2018	2017	2018	2017
Provident fund operations <sup>1)</sup>	-	-	29,757	33,455	124,587	239,411
Pension fund operations with respect to Meitavit Atudot <sup>2)</sup>	-	-	-	-	134,700	134,700
Non-life insurance operations - Clal Credit	-	-	-	-	2,447	2,447
Excess cost attributed to the life insurance portfolio	-	183	-	-	-	-
Insurance agencies <sup>3)</sup>	3,415	1,628	-	-	37,766	37,766
<b>Total</b>	<b>3,415</b>	<b>1,811</b>	<b>29,757</b>	<b>33,455</b>	<b>299,500</b>	<b>414,324</b>

1. Provident fund management operation

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. 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 and segmental expenses.

**Note 6: Intangible Assets (Cont.)**

**B. Impairment test and additional information**

1. Provident fund management operation (Cont.)

In accordance with the valuation which was obtained, the calculated recoverable amount is higher than the book value of the provident operations, and therefore, impairment of goodwill did not occur as of December 31, 2018.

in accordance with the valuation as of June 30, 2018, in accordance with the valuation, the book value of the provident fund operation was higher than the value in use by approximately NIS 115 million, and therefore, the Company recognized impairment loss of goodwill before tax in the aforementioned amount.

In 2017, in accordance with the valuations which were prepared as of December 31, 2017 and June 30, 2017, the book value of the provident fund operation as of that date was higher than the value in use, and therefore, the Company recognized impairment loss of goodwill in the amount of approximately NIS 108 million.

Presented below are details regarding the key assumptions and main parameters which were used to calculate recoverable value:

	<u>As of December 2018</u>	<u>As of December 31, 2017</u>
Valuation methodology	DCF	DCF
Operational discount rate WACC before tax	12.1%	11.8%
Long term growth rate in the branch, excluding provident fund for investment	0%	0%
Long term growth rate - provident fund for investment	3.0%	3.0%
Effective marginal tax	34.2%	34.2%
Average long term rate of management fees in Tamar provident fund for compensation	0.51%	0.57%
Average long term rate of management fees in study fund	0.59%	0.65%
Rate of maximum management fees from the accrual	1.05%	1.05%
Number of years in the cash flow forecast	5	5

2. Pension fund management operation

For the purpose of preparing the financial statements as of December 31, 2018, 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 4.8%, and cash flows were discounted to their present values at a rate of 12% before tax (9.8% 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, 2018.

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.

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, 2018 and 2017, the value in use attributed to the agencies operation was higher than the value of this operation in the books, and therefore, impairment loss of goodwill was not recorded.

## Note 7: Deferred Acquisition Costs

### A. Composition

NIS in thousands	As of December 31	
	2018	2017
Life insurance and long term savings	1,238,847	1,234,111
Health insurance	496,826	471,014
Non-life insurance *)	237,866	239,449
<b>Total</b>	<b>1,973,539</b>	<b>1,944,574</b>

\*) 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			Long term care	Health	
	Life insurance	Pension and provident	Total		Illness and hospitalization	Total
Balance as of January 1, 2017	948,783	297,722	1,246,505	124,910	314,461	439,371
Additions:						
Acquisition fees	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
Additions:						
Acquisition fees	217,285	40,562	257,847	12,234	125,623	137,857
Other acquisition costs	93,553	-	93,553	11,764	107,450	119,214
Total additions	310,838	40,562	351,400	23,998	233,073	257,071
Current amortization	(116,092)	(40,303)	(156,395)	(12,517)	(91,316)	(103,833)
Amortization with respect to cancellations	(190,269)	-	(190,269)	(12,093)	(115,333)	(127,426)
Balance as of December 31, 2018	930,089	308,758	1,238,847	116,011	380,815	496,826

**Note 8: Property, plant and equipment**

**A. Composition and movement <sup>1)</sup>**

NIS in thousands	Land and office building s	Compute rs and servers	Vehicl es	Furnitu re and office equipm ent	Leasehol d installatio ns and improve ments	Total
<b>Cost</b>						
Balance as of January 1, 2017	65,922	215,259	910	64,734	203,621	550,446
Acquisitions	-	4,891	25	3,480	11,621	20,017
Write-offs	(283)	(550) <sup>*)</sup>	(53)	-	-	(886)
<b>Balance as of December 31, 2017</b>	<b>65,639</b>	<b>219,600</b>	<b>882</b>	<b>68,214</b>	<b>215,242</b>	<b>569,577</b>
Acquisitions	-	17,863	48	3,228	14,259	35,398
Write-offs	-	(2,720) <sup>*)</sup>	(526)	(26)	-	(3,272)
<b>Balance as of December 31, 2018</b>	<b>65,639</b>	<b>234,743</b>	<b>404</b>	<b>71,416</b>	<b>229,501</b>	<b>601,703</b>
<b>Depreciation and impairment losses</b>						
Balance as of January 1, 2017	48,326	148,987	115	34,038	66,413	297,879
Depreciation for the year	1,323	23,631	131	3,970	11,762	40,817
Write-offs	(220)	(550) <sup>*)</sup>	(19)	-	-	(789)
<b>Balance as of December 31, 2017</b>	<b>49,429</b>	<b>172,068</b>	<b>227</b>	<b>38,008</b>	<b>78,175</b>	<b>337,907</b>
Depreciation for the year	1,316	22,842	115	4,189	13,131	41,593
Write-offs	-	(2,718) <sup>*)</sup>	(217)	(26)	-	(2,961)
<b>Balance as of December 31, 2018</b>	<b>50,745</b>	<b>192,194</b>	<b>125</b>	<b>42,171</b>	<b>91,308</b>	<b>376,543</b>
<b>Book value, net</b>						
Balance as of January 1, 2017	17,596	66,272	795	30,696	137,208	252,567
<b>Balance as of December 31, 2017</b>	<b>16,210</b>	<b>47,532</b>	<b>655</b>	<b>30,206</b>	<b>137,067</b>	<b>231,670</b>
<b>Balance as of December 31, 2018</b>	<b>14,894</b>	<b>42,549</b>	<b>279</b>	<b>29,245</b>	<b>138,193</b>	<b>225,160</b>

1. For details regarding the amortization periods, see Note 3(g)(3).

\*) Primarily write-offs of completely depreciated assets.

**B. For additional details regarding leased property, plant and equipment, see Note 27.**

## Note 9: Investments in Investee Companies

### A. Summary financial data regarding investments in investee companies and joint ventures

As of December 31, 2018

Company name	ADC Holdings <sup>2)</sup>	Atudot Pension Fund for Workers & Independent Workers Ltd.	22 Kingsway Limited	Ibex London Limited	Clal Wacker Investments LP	WC Edgewater Venture, L.L.C <sup>3)</sup>	WC 75 Tresser, L.L.C <sup>3)</sup>	660 Columbus Ave. Investors LLC <sup>3)</sup>	Dominion Tower Holdings, LP	Credit Suisse Emerging Markets <sup>1)</sup>	IDE Technologies	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 Cayman Islands	Water technologies Israel	
Country of incorporation	Israel	Israel	Israel	Israel	United States	United States	United States	United States	United States	United States	Cayman Islands	Israel
Main location of the business operation	Israel	Israel	Israel	Israel	United States	United States	United States	United States	United States	United States	Cayman Islands	Israel
<b>Holding rate in equity (%)</b>	33.33%	50.00%	50.00%	50.00%	12.25%	17.15%	17.15%	9.75%	49.00%	2.69%	3.61%	
Holding rate in voting rights (%)	33.33%	50.00%	50.00%	50.00%	12.25%	17.15%	17.15%	9.75%	49.00%	2.69%	3.61%	
Total assets	48,377	35,599	36,900	92,784	4,857	203,625	481,561	262,731	-	90,339	2,755,560	
Total liabilities	78	11,956	-	-	-	130,701	315,394	233,898	-	9,725	1,806,322	
<b>Total net assets (total assets less total liabilities)</b>	48,299	23,643	36,900	92,784	4,857	72,924	166,167	28,833	-	80,614	949,238	
<b>The Group's share in net assets (net assets * holding rate)</b>	16,100	11,809	18,449	46,392	595	12,505	28,497	2,808	-	2,169	34,280	
Balance of excess cost and other adjustments	-	31,975	-	-	-	-	-	-	-	475	8,450	
<b>Value of the investee company in the Group's books</b>	16,100	43,784	18,449	46,392	595	12,505	28,497	2,808	-	2,644	42,730	214,504
Revenues	1,454	43,179	-	4,270	-	741	(14,991)	(20,152)	(37,506)	(56,571)	457,690	
Total profit and loss	1,066	1,320	-	4,270	-	741	(14,991)	(20,152)	(37,506)	(58,408)	49,425	
The Group's share in profit and loss of the investee company	347	599	-	2,134	-	128	(2,571)	(1,967)	(18,380)	(523)	(3,555)	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	
<b>The Group's share in the profit and loss of the investee company, as presented in the books</b>	347	(1,281)	-	2,134	-	128	(2,571)	(1,967)	(18,380)	(523)	(3,555)	(25,668)
Foreign currency translation differences for investee companies	-	-	(275)	1,023	-	986	2,389	328	4,058	149	3,765	12,423
<b>The Group's share in the comprehensive income of the investee company, as presented in the books</b>	347	(1,281)	(275)	3,157	-	1,114	(182)	(1,639)	(14,322)	(374)	210	(13,245)

1) As of December 31, 2018, 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 40(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 16.1 million, and which are included under the item for other accounts payable. In 2018, Clal Insurance repaid to ADC Holdings a loan in the amount of approximately NIS 0.1 million. On February 15, 2019, the loan was extended for an additional two years.

3) The holding rate reflects the direct holdings of the investment portfolios against non-investment-linked liabilities (hereinafter: "Nostró"). 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 nostró portfolio and in the members portfolio confer upon the Company significant influence.

**Note 9: Investments in Investee Companies (Cont.)**

**A. Summary financial data regarding investments in investee companies and joint ventures (Cont.)  
As of December 31, 2017**

Company name	ADC Holdings <sup>2)</sup>	Atudot Pension Fund for Workers & Independent Workers Ltd.	Kingsway 22 Limited	Ibex London Limited	Clal Wacker Investments LP	WC Edgewater Venture, L.L.C. <sup>3)</sup>	WC 75 Tresser, L.L.C. <sup>3)</sup>	DCE 1 APS	660 Columbus Ave. Investors LLC <sup>3)</sup>	Dominion Tower Holdings, LP	Credit Suisse Emerging Markets <sup>1)</sup>	IDE Technologies	Trans Betach Ltd.	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 Cayman Islands	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	
<b>Holding rate in equity (%)</b>	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%	
Holding rate in voting rights (%)	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	-	
<b>Total net assets (total assets less total liabilities)</b>	47,258	22,532	62,254	86,468	8,212	69,209	181,551	-	45,601	118,459	315,059	891,941	-	
<b>The Group's share in net assets (net assets * holding rate)</b>	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	-	
<b>Value of the investee company in the Group's books</b>	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	1,140	3,931	74	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	-	-	
<b>The Group's share in the profit and loss of the investee company, as presented in the books</b>	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)
<b>The Group's share in the comprehensive income of the investee company, as presented in the books</b>	363	(1,184)	-	4,571	-	(2,052)	(3,898)	(213)	(275)	12,459	326	3,931	74	14,102

- 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 40(e).
- 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.

## Note 9: Investments in Investee Companies (Cont.)

### A. Summary financial data regarding investments in investee companies and joint ventures (Cont.)

As of December 31, 2016

Company name	ADC Holdings <sup>2)</sup>	Atudot Pension Fund for Workers & Independent Workers Ltd.	Ibex London Limited	Clal Wacker Investments LP	WC Edgewater Venture, L.L.C. <sup>3)</sup>	WC 75 Tresser, L.L.C. <sup>3)</sup>	DCE 1 APS	660 Columbus Ave. Investors LLC <sup>3)</sup>	Dominion Tower Holdings, LP	Credit Suisse Emerging Markets <sup>1)</sup>	Trans Betach Ltd.	Total
<b>Operating segment</b>	<b>Holding company</b>	<b>Veteran pension fund managing company</b>	<b>Investment property</b>	<b>Investment property</b>	<b>Investment property</b>	<b>Investment property</b>	<b>Investment property</b>	<b>Investment property</b>	<b>Investment property</b>	<b>Capital market</b>	<b>Marine insurance agency</b>	
Country of incorporation	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	United States	United States	Cayman Islands	Israel
Main location of the business operation	Israel	Israel	Israel	United States	United States	United States	Denmark	United States	United States	United States	Cayman Islands	Israel
<b>Holding rate in equity (%)</b>	33.33%	50.00%	50.00%	12.25%	17.15%	17.15%	49.00%	9.75%	49.00%	2.69%	50.00%	
Holding rate in voting rights (%)	33.33%	50.00%	50.00%	12.25%	17.15%	17.15%	49.00%	9.75%	49.00%	2.69%	50.00%	
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	4,804	207	
Amortization of adjustments to fair value which were performed on the acquisition date	-	(1,880)	-	-	-	-	-	-	-	-	-	
<b>The Group's share in the profit and loss of the investee company, as presented in the books</b>	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)
<b>The Group's share in the comprehensive income of the investee company, as presented in the books</b>	170	(986)	(6,103)	1,601	231	2,451	17,021	1,028	12,366	4,686	207	32,672

- 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 40(e).
- 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.

## Note 9: Investments in Investee Companies (Cont.)

### B. Movement in investments in investee companies

NIS in thousands	2018	2017
Balance as of January 1	296,172	270,044
Investment during the period	-	34,050
Equity gains	(25,668)	25,581
Other comprehensive income	12,423	(11,479)
Erosion of loans	1,024	(153)
Capital gains	-	2,080
Dividend received	(19,253)	(190)
Other	(104)	320
Consideration from sale of investment	(50,090)	(24,081)
Balance as of December 31	214,504	296,172

### C. Additional details regarding main subsidiaries which are directly held by the Company <sup>1)</sup>

	Note	Country of incorporation	The Company's rights in equity %	Investment in the consolidated company
<b>2018</b>				
Clal Insurance Company Ltd. ("Clal Insurance")		Israel	99.98	4,704,502
Clal Agency Holdings (1998) Ltd. ("Clal Agencies")		Israel	100.00	81,468
Clalbit Systems Ltd.		Israel	100.00	8,017
Clal Credit and Financing Ltd.	2)	Israel	100.00	59,531
<b>2017</b>				
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

- As of December 31, 2018 and 2017, the Company did not provide any loans or guarantees to subsidiaries.
- 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.

Further to the aforementioned decision, in December 2018, several processes were implemented with the intention of completing the dissolution of the finance division, as specified below: (A) Merging the activity of the mortgage unit (which operates through Clal Credit and Finance) and the consumer credit activity (which operates through Clal Consumer Credit) into Clal Insurance; and (B) Transfer of the Group's holdings in Clal Business Credit and in Clal Factoring and Finance, which are in the run-off stages of their activity, to the direct holding of the Company. As part of the above, merger agreements were signed between Clal Credit and Finance and Clal Consumer Credit, and Clal Insurance, and a motion was filed with the court to approve a capital reduction in Clal Credit, in order to allow a distribution of shares of Clal Business Credit and Clal Factoring Ltd., as a payment in kind dividend to the Company, which it approved. As of the approval date of the report, all of the authorizations which are required to complete the aforementioned processes have not yet been received, and there is no certainty that they will be received.

## Note 10: Investment Property, Including with Respect to Investment-Linked Contracts

### A. Composition and movement

NIS in thousands	Investment property									
	Investment-linked contracts									
	Offices in Israel		Commercial centers in Israel <sup>2)</sup>		Offices abroad		Residence abroad		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Balance as of January 1	<b>1,588,718</b>	1,496,959	<b>619,874</b>	558,501	<b>495,022</b>	508,669	<b>166,353</b>	178,051	<b>2,869,967</b>	2,742,180
<b>Additions</b>										
Net acquisitions and additions for current assets	-	24,413	<b>57,023</b>	57,516	-	-	-	-	<b>57,023</b>	81,929
Discounted costs and expenses	<b>11,832</b>	7,938	<b>3,850</b>	3,612	-	-	<b>2,246</b>	-	<b>17,928</b>	11,550
Total additions	<b>11,832</b>	32,351	<b>60,873</b>	61,128	-	-	<b>2,246</b>	-	<b>74,951</b>	93,479
Translation differences	-	-	-	-	<b>25,776</b>	(28,101)	<b>13,144</b>	(17,433)	<b>38,920</b>	(45,534)
Changes in fair value with respect to unrealized real estate <sup>1)</sup>	<b>41,897</b>	59,408	<b>(7,759)</b>	245	<b>(6,786)</b>	14,454	<b>(10,850)</b>	5,735	<b>16,502</b>	79,842
<b>Changes in fair value</b>	<b>41,897</b>	59,408	<b>(7,759)</b>	245	<b>18,990</b>	(13,647)	<b>2,294</b>	(11,698)	<b>55,422</b>	34,308
Balance as of December 31	<b>1,642,447</b>	1,588,718	<b>672,988</b>	619,874	<b>514,012</b>	495,022	<b>170,893</b>	166,353	<b>3,000,340</b>	2,869,967

Details regarding the discount rates which were used to determine fair value

	<b>6%-9.5%</b>	6%-10%	<b>6%-9.5%</b>	6%-9%	<b>5%-6.88%</b>	6.65%-4.75%	<b>5%</b>	4.75%
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NIS in thousands	Other									
	Investment-linked contracts									
	Offices in Israel		Commercial centers in Israel <sup>2)</sup>		Offices abroad		Residence abroad		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Balance as of January 1	<b>743,119</b>	718,274	<b>127,433</b>	114,546	<b>249,941</b>	254,880	<b>91,616</b>	98,207	<b>1,212,109</b>	1,185,907
<b>Additions</b>										
Net acquisitions and additions for current assets	-	10,462	<b>23,839</b>	12,200	-	-	-	-	<b>23,839</b>	22,663
Discounted costs and expenses	<b>3,942</b>	2,918	<b>914</b>	867	-	-	<b>850</b>	-	<b>5,706</b>	3,784
Total additions	<b>3,942</b>	13,380	<b>24,753</b>	13,067	-	-	<b>850</b>	-	<b>29,545</b>	26,447
<b>Write-offs</b>										
Disposals	-	(15,600)	-	-	-	-	-	-	-	(15,600)
Total write-offs	-	(15,600)	-	-	-	-	-	-	-	(15,600)
Translation differences	-	-	-	-	<b>11,401</b>	(11,584)	<b>7,602</b>	(9,644)	<b>19,003</b>	(21,228)
Changes in fair value with respect to unrealized real estate <sup>1)</sup>	<b>20,137</b>	27,065	<b>(1,796)</b>	(179)	<b>(3,861)</b>	6,645	<b>(8,242)</b>	3,053	<b>6,238</b>	36,583
<b>Changes in fair value</b>	<b>20,137</b>	27,065	<b>(1,796)</b>	(179)	<b>7,540</b>	(4,939)	<b>(640)</b>	(6,591)	<b>25,241</b>	15,355
Balance as of December 31	<b>767,198</b>	743,119	<b>150,390</b>	127,433	<b>257,481</b>	249,941	<b>91,826</b>	91,616	<b>1,266,895</b>	1,212,109

Details regarding the discount rates which were used to determine fair value

	<b>6%-9.5%</b>	6%-10%	<b>6%-9.5%</b>	6%-9%	<b>5%-6.88%</b>	6.65%-4.75%	<b>5%</b>	4.75%
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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.

**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**

<u>Type of property</u>	<u>Valuation techniques used in the determination of fair value</u>	<u>Significant unobservable inputs</u>	<u>Reciprocal relationships between significant unobservable inputs and fair value measurement</u>
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"> <li>• Market value of future rent payments at the end of the agreement period</li> <li>• Cash flow discount rate (5% to 9.50%)</li> </ul>	<p>The fair value calculation will increase if:</p> <ul style="list-style-type: none"> <li>• The NOI from the property increases</li> <li>• The cash flow discount rate decreases</li> </ul>

**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	
	2018	2017
Increase of 0.5%	(179,509)	(155,424)
Decrease of 0.5%	206,376	180,213

Investment property for non-investment-linked contracts

NIS in thousands	Increase (decrease) in profit and loss before tax for the year ended December 31	
	2018	2017
Increase of 0.5%	(76,854)	(67,867)
Decrease of 0.5%	87,776	75,879

**C. Amounts recognized in the statement of income (excluding changes in fair value)**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Rental income from investment property	290,206	272,152	251,336
Direct operating expenses arising from investment property which generated rental income during the period	(30,486)	(33,000)	(23,519)
	259,720	239,152	227,817

**D. Details regarding land rights which are used by the Group as investment property**

NIS in thousands	As of December 31	
	2018	2017
Owned	3,144,079	3,000,877
<b>Under capitalized lease:</b>		
Up to 15 years	384,864	390,354
15-50 years	718,772	670,125
Over 50 years	19,520	20,720
<b>Total</b>	<b>4,267,235</b>	<b>4,082,076</b>

Some of the ownership rights and leasing rights have not yet been recorded under the name of the Group's member companies at the Land Registry and at the Israel Land Authority, as applicable, mostly due to technical registration arrangements.

**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, 2018, to a total of approximately NIS 182 million, of which a total of approximately NIS 136 million was out of the funds of profit sharing policies (and 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, last year).

## Note 11: Other Accounts Receivable

### A. Composition

NIS in thousands	As of December 31	
	2018	2017
Management fees receivable from provident funds and pension funds	56	6,471
Prepaid expenses	43,084	41,291
Advance payments to suppliers	8,818	7,776
Collateral with respect to securities	657,101	157,802
Receivables with respect to the acquisition of securities	168,703	23,424 *)
Advances on account of commissions for insurance agents	20,264	28,283
Insurance companies and insurance mediators	199,602	80,974
Trade receivables and income receivable	70,385	104,900
Subrogation and residuals	24,817	30,608
Other	38,769	44,755 *)
<b>Total</b>	<b>1,231,599</b>	<b>526,284</b>
Less the provision for doubtful debts, primarily with respect to reinsurers (see section B below)	(18,272)	(19,195)
<b>Total other accounts receivable</b>	<b>1,213,327</b>	<b>507,089</b>

\*) Re-classified.

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

NIS in thousands	As of December 31	
	2018	2017
Balance as of January 1	19,195	28,362
Lost debts	(1,444)	(5,875)
Change in provision for the period - charged to profit and loss	521	(3,292)
	<b>18,272</b>	<b>19,195</b>

**Note 12: Outstanding Premiums****A. Composition**<sup>1),2)</sup>

<b>NIS in thousands</b>	<b>As of December 31</b>	
	<b>2018</b>	<b>2017</b>
Outstanding premiums	<b>949,070</b>	941,011
Less provision for doubtful debts	<b>(72,214)</b>	(47,169)
<b>Total outstanding premiums</b>	<b>876,856</b>	893,842
Includes outstanding checks and standing orders	<b>353,429</b>	359,472

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**

<b>NIS in thousands</b>	<b>2018</b>	<b>2017</b>
Balance as of January 1	<b>47,169</b>	62,146
Change in provision for the period - charged to profit and loss	<b>25,045</b>	(14,977)
Balance as of December 31	<b>72,214</b>	47,169

**C. Aging**

<b>NIS in thousands</b>	<b>As of December 31</b>	
	<b>2018</b>	<b>2017</b>
Total non-impaired outstanding premiums		
Without arrears	<b>502,391</b>	497,987
In arrears *):		
Less than 90 days	<b>95,480</b>	94,467
90 to 180 days	<b>90,587</b>	95,490
Over 180 days	<b>140,966</b>	172,139
	<b>327,033</b>	362,096
<b>Total non-impaired outstanding premiums</b>	<b>829,424</b>	860,083
Impaired outstanding premiums	<b>47,432</b>	33,759
<b>Total outstanding premiums</b>	<b>876,856</b>	893,842

\*) Includes a total of NIS 263,581 thousand (December 31, 2017 - NIS 265,748 thousand) of debts in arrears in the life insurance segment. These debts are primarily backed by the redemption value of the policy.

**Note 13: Assets for Investment-Linked Contracts**
**A. Composition**

Details of assets held against investment-linked insurance contracts and investment contracts, presented at fair value through profit or loss <sup>1)</sup>:

NIS in thousands	As of December 31	
	2018	2017
Investment property	3,000,340	2,869,967
<b>Financial investments</b>		
Marketable debt assets	26,681,982	24,285,740
Non-marketable debt assets	6,236,989	6,534,433
Stocks	10,553,676	9,518,961
Other financial investments <sup>2)</sup>	14,712,586	15,891,827
<b>Total financial investments</b>	<b>58,185,233</b>	56,230,961
Cash and cash equivalents	3,648,899	4,529,446
Other <sup>3)</sup>	1,286,776	679,946
<b>Total assets for investment-linked contracts</b>	<b>66,121,248</b>	64,310,320

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/ETN's, participation certificates in mutual funds, investment funds, derivatives, futures contracts, options and structured products.

3) The balance primarily includes outstanding premiums, reinsurer balances, collateral with respect to activities with futures contracts, and transactions with securities which have not yet been settled as of the date of the financial statements.

**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, 2018			
	Level 1	Level 2	Level 3	Total
<b>Financial investments:</b>				
Marketable debt assets	23,419,841	3,262,141	-	26,681,982
Non-marketable debt assets	-	6,111,400	125,589	6,236,989
Stocks	9,895,056	-	658,620	10,553,676
Other financial investments <sup>*)</sup>	9,176,074	2,319,475	3,217,037	14,712,586
<b>Total financial investments</b>	<b>42,490,971</b>	<b>11,693,016</b>	<b>4,001,246</b>	<b>58,185,233</b>
<sup>*)</sup> Of which, with respect to derivatives	220,212	168,962	-	389,174

During the period, there were no significant transfers between level 1 and level 2.

### Note 13: Assets for Investment-Linked Contracts (Cont.)

#### B. Fair value of financial assets (Cont.)

(1) Fair value hierarchy of financial assets which are measured at fair value (Cont.)

NIS in thousands	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial investments:</b>				
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 *)	10,570,241	2,712,386	2,609,200	15,891,827
<b>Total financial investments</b>	<b>41,217,688</b>	<b>11,705,443</b>	<b>3,307,830</b>	<b>56,230,961</b>
*) Of which, with respect to derivatives	186,612	256,471	-	443,083

During the period, there were no significant transfers between level 1 and level 2.

(2) Movement in assets measured at fair value level 3

NIS in thousands	Non-		Other	Total
	marketable	Stocks	financial	
	debt		investments	
	assets			
Balance as of January 1, 2018	138,451	560,179	2,609,200	3,307,830
Total income recognized in the statement of income	8,588	84,528	419,064	512,180
Acquisitions	6,010	42,415	553,174	601,599
Sales	-	-	(353,347)	(353,347)
Redemptions	(38,109)	-	-	(38,109)
Interest and dividend receipts	(5,313)	(28,502)	(11,054)	(44,869)
Transfers to level 3 **)	15,962	-	-	15,962
<b>Balance as of December 31, 2018</b>	<b>125,589</b>	<b>658,620</b>	<b>3,217,037</b>	<b>4,001,246</b>
Total income for the period included under profit and loss with respect to held financial assets - balance as of December 31, 2018 *)	8,562	84,528	418,975	512,065

NIS in thousands	Non-		Other	Total
	marketable	Stocks	financial	
	debt		investments	
	assets			
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	-	(36,789)	(653,237)	(690,026)
Redemptions	(46,154)	-	(4,662)	(50,816)
Interest and dividend receipts	(10,581)	(4,805)	(6,132)	(21,518)
<b>As of December 31, 2017</b>	<b>138,451</b>	<b>560,179</b>	<b>2,609,200</b>	<b>3,307,830</b>
Total income for the period included under profit and loss with respect to held financial assets as of December 31, 2017 *)	12,033	8,694	175,431	196,158

\*) 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).

**Note 14: Other Financial Investments**

NIS in thousands	As of December 31, 2018			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets <sup>a)</sup>	128,088	5,103,774	-	5,231,862
Non-marketable debt assets <sup>b)</sup>	3,411	-	21,986,932	21,990,343
Stocks <sup>d)</sup>	-	1,416,975	-	1,416,975
Others <sup>e)</sup>	166,784	2,695,593	-	2,862,377
<b>Total</b>	<b>298,283</b>	<b>9,216,342</b>	<b>21,986,932</b>	<b>31,501,557</b>

NIS in thousands	As of December 31, 2017			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets <sup>a)</sup>	136,101	5,396,511	-	5,532,612
Non-marketable debt assets <sup>b)</sup>	5,291	-	21,827,803	21,833,094
Stocks <sup>d)</sup>	-	1,367,841	-	1,367,841
Others <sup>e)</sup>	224,447	2,499,157	-	2,723,604
<b>Total</b>	<b>365,839</b>	<b>9,263,509</b>	<b>21,827,803</b>	<b>31,457,151</b>

**A. Marketable debt assets**
**Composition**

NIS in thousands	As of December 31	
	2018	2017
<b>Government bonds</b>		
Presented at fair value through profit and loss:		
Available for sale	3,194,082	3,355,633
<b>Total government bonds</b>	<b>3,194,082</b>	<b>3,355,633</b>
<b>Other debt assets:</b>		
<b>Non-convertible</b>		
Presented at fair value through profit and loss:		
Designated upon initial recognition	128,088	108,231
Available for sale	1,909,692	2,068,748
<b>Total other non-convertible debt assets</b>	<b>2,037,780</b>	<b>2,176,979</b>
<b>Total marketable debt assets</b>	<b>5,231,862</b>	<b>5,532,612</b>
Impairment applied to income statement (cumulative)	17,148	-

## 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, 2018				As of December 31, 2017			
	Book value	Fair value			Book value	Fair value		
		Total	Level 2	Level 3		Total	Level 2	Level 3
Government bonds treated as loans and receivables								
Designated bonds	13,681,106	19,489,873	-	19,489,873	13,698,819	20,794,148	-	20,794,148
Deposits in treasury	2,094,730	2,766,397	-	2,766,397	2,069,039	2,829,739	-	2,829,739
<b>Total government bonds</b>	<b>15,775,836</b>	<b>22,256,270</b>	<b>-</b>	<b>22,256,270</b>	<b>15,767,858</b>	<b>23,623,887</b>	<b>-</b>	<b>23,623,887</b>
Other non-convertible debt assets								
Presented at fair value through profit and loss:								
Designated upon initial recognition	3,411	3,411	3,411	-	5,291	5,291	5,291	-
Presented as loans and receivables, excluding deposits in banks <sup>1)</sup>	5,450,806	5,885,017	5,097,750	787,267	5,228,294	5,935,151	5,364,376	570,775
Deposits in banks	760,290	843,219	843,219	-	831,651	953,322	953,322	-
Total other non-convertible debt assets	6,214,507	6,731,647	5,944,380	787,267	6,065,236	6,893,764	6,322,989	570,775
Total non-marketable debt assets	21,990,343	28,987,917	5,944,380	23,043,537	21,833,094	30,517,651	6,322,989	24,194,662
Impairment applied to income statement (cumulative)	85,256				103,496			

1) For additional details, see Note 39(e)(e1)(d)(4).

#### 2. Aging of investments in non-marketable financial debt assets

NIS in thousands	As of December 31	
	2018	2017
Government bonds	15,775,836	15,767,858
<b>Debt assets which were not specifically impaired, gross:</b>		
Without arrears	6,155,035	6,021,550
In arrears *):		
Less than 90 days	632	2,336
90 to 180 days	716	1,115
Over 180 days	2,378	3,775
	3,726	7,226
Total debt assets which were not specifically impaired, gross	21,934,597	21,796,634
Collective provision	(2,752)	(3,069)
Total debt assets which were not specifically impaired, net	21,931,845	21,793,565
<b>Impaired debt assets:</b>		
Impaired assets, gross	141,002	139,956
Provision for loss	(82,504)	(100,427)
<b>Impaired debt assets, net</b>	<b>58,498</b>	<b>39,529</b>
<b>Total non-marketable debt assets</b>	<b>21,990,343</b>	<b>21,833,094</b>

\*) Primarily loans on policies against which full redemption values and/or mortgages exist.

It should be noted that the above amounts do not represent the actual amount in arrears, but rather the balance of the debt associated with the arrears.

## Note 14: Other Financial Investments (Cont.)

### C. Details regarding interest and linkage with respect to debt assets

	As of December 31	
	2018	2017
Effective interest rate, in percent		
<b>Marketable debt assets</b>		
Linkage basis		
Linked to the consumer price index	0.93	0.37
NIS	2.37	1.74
Linked to foreign currency	5.43	4.90
<b>Non-marketable debt assets</b>		
Linkage basis		
Linked to the consumer price index	4.85	4.79
NIS	2.34	1.73
Linked to foreign currency	5.85	4.32

### D. Stocks

	As of December 31	
	2018	2017
NIS in thousands		
<b>Marketable</b>		
Available for sale	1,125,733	1,114,300
Total marketable stocks	1,125,733	1,114,300
<b>Non-marketable</b>		
Available for sale	291,242	253,541
Total non-marketable stocks	291,242	253,541
Total stocks	1,416,975	1,367,841
Impairment applied to income statement (cumulative)	148,232	144,854

### E. Other financial investments

#### 1. Composition

	As of December 31	
	2018	2017
NIS in thousands		
<b>Marketable</b>		
Presented at fair value through profit and loss:		
Designated upon initial recognition	87,682	139,636
Derivative instruments	34,557	6,165
Available for sale	1,049,234	1,210,031
Total marketable financial investments	1,171,473	1,355,832
<b>Non-marketable</b>		
Presented at fair value through profit and loss:		
Designated upon initial recognition	17,981	18,859
Derivative instruments	26,564	59,787
Available for sale	1,646,359	1,289,126
Total non-marketable financial investments	1,690,904	1,367,772
Total other financial investments	2,862,377	2,723,604
Impairment applied to income statement (cumulative)	85,994	72,627

Other financial investments primarily include investments in ETF's/ETN'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	
	2018	2017
Stocks	57,385	83,832
CPI	-	26,080
Foreign currency	(1,358,920)	(2,995,351)
Fixed interest	124,476	-
Goods	5,387	-

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 financial liabilities, as specified in Note 25.

**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, 2018			
	Level 1	Level 2	Level 3	Total
<b>Financial investments:</b>				
Marketable debt assets	4,905,717	326,145	-	5,231,862
Non-marketable debt assets	-	3,411	-	3,411
Stocks	1,125,733	-	291,242	1,416,975
Other financial investments *)	1,118,082	82,034	1,662,261	2,862,377
<b>Total financial investments</b>	<b>7,149,532</b>	<b>411,590</b>	<b>1,953,503</b>	<b>9,514,625</b>
*) Of which, with respect to derivatives	34,557	26,564	-	61,121

During the period, there were no significant transfers between level 1 and level 2.

NIS in thousands	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial investments:</b>				
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
<b>Total financial investments</b>	<b>7,672,249</b>	<b>396,954</b>	<b>1,560,145</b>	<b>9,629,348</b>
*) Of which, with respect to derivatives	6,165	58,743	1,044	65,952

During the period, there were no significant transfers between level 1 and level 2.

**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 of financial assets at fair value through profit and loss and available-for-sale financial assets		
	Stocks	Other financial investments	Total
Balance as of January 1, 2018	253,539	1,306,606	1,560,145
Total recognized income:			
Under profit and loss	12,464	46,284	58,748
Under other comprehensive income	20,342	158,343	178,685
Acquisitions	17,506	345,425	362,931
Sales	-	(193,450)	(193,450)
Dividend and interest received	(12,609)	(947)	(13,556)
<b>Balance as of December 31, 2018</b>	<b>291,242</b>	<b>1,662,261</b>	<b>1,953,503</b>
Total income for the period included under profit and loss with respect to financial assets held as of December 31, 2018	12,464	48,089	60,553

NIS in thousands	Fair value measurement on the reporting date of financial assets at fair value through profit and loss and available-for-sale financial assets		
	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	179,185	346,513	525,698
Sales	-	(373,862)	(373,862)
Redemptions	-	(2,713)	(2,713)
Dividend and interest received	(3,400)	(864)	(4,264)
<b>Balance as of December 31, 2017</b>	<b>253,539</b>	<b>1,306,606</b>	<b>1,560,145</b>
Total income for the period included under profit and loss with respect to financial assets held as of December 31, 2017	3,017	78,190	81,207

## Note 14: Other Financial Investments (Cont.)

### F. Fair value (Cont.)

#### 3. Fair value valuation technique and valuation techniques which are applied in the Company

##### A. Investments in stocks and debt instruments

The fair value of investments which are actively traded on orderly financial markets is determined in reference to their quoted closing bid price as of the close of trading on the reporting date. With regard to investments traded by in the over counter (OTC) market, the Group receives price quotes from recognized pricing services.

For investments which have no active market, fair value is determined by external valuers using valuation methods. These methods include reliance upon transactions recently performed in market conditions, reference to the current market value of another, materially similar instrument, cash flow discounting, or other valuation methods.

The fair value of non-marketable debt assets in Israel, including bonds, loans and deposits, is calculated according to a model which is based on the present value which is obtained by discounting the cash flows, in accordance with the discount rates which are determined by a company providing interest rate quotes (see section 4(a)(1) below).

The fair value of non-marketable debt assets outside of Israel is calculated according to a model which is based on the present value of the present value which is obtained from the discounted cash flows according to a discount rate which is obtained from an expert (see section 4(a)(2) below).

The fair value of HETZ bonds is calculated according to the actuarial average lifetime, and according to the forecasted discounted cash flow, based on the risk-free interest curve.

The valuations, methodology and trends are reviewed and approved by the relevant investment managers and investment accountants.

The fair value of investment funds is based on the net asset value (NAV), which is usually reported by the funds once per quarter. The funds' reports are reviewed and approved by the investment manager, based on his familiarity with the fund.

The fair value of hybrid instruments is determined according to quotes.

##### B. Derivatives

The fair value of forward contracts, cross currency swaps and warrants is based on quoted prices, if available. In the absence of quoted prices, as stated above, the fair value of forward contracts and cross currency swaps are estimated by discounting the difference between the forward price specified in the contract and the current forward price with respect to the remaining contract period to redemption, using quotes of appropriate interest rates, while with respect to warrants, fair value is determined according to the Black-Scholes model.

The fair value of interest rate swaps (IRS) is calculated in accordance with the discounted future cash flows economic model, according to the terms of the contract, and is based on price quotes which are received from recognized pricing services.

#### 4. Inputs which were used in the calculation of fair value

##### A. Interest rates which were used in the determination of fair value

1. The discount rates which were used to calculate the fair value of non-marketable debt assets, which is determined by discounting the estimated expected cash flows with respect to them, are based principally on the yields of government bonds and the margins of corporate bonds, as measured on the Tel Aviv Stock Exchange. The price quotes and the interest rates which were used for discounting purposes are determined by the Company that won the tender published by the Finance Ministry, for the setting up and operation of a database of price quotes and interest rates for institutional entities.

**Note 14: Other Financial Investments (Cont.)**

**F. Fair value (Cont.)**

4. Inputs which were used in the calculation of fair value (Cont.)

A. Interest rates which were used in the determination of fair value (Cont.)

2. The discount rates used to calculate the fair value of non-marketable foreign debt assets, which is determined by discounting the estimated cash flows which are expected from them, are mostly based on the yields of corporate bonds, as measured in trading arenas outside of Israel.

3. Interest rates for non-marketable debt assets - in Israel, by rating: <sup>1)</sup>

<u>In percent</u>	<u>As of December 31</u>	
	<u>2018</u>	<u>2017</u>
AA and higher	1.0	0.3
BBB to A	3.5	2.1
Unrated	6.2	3.3

Interest rate for non-marketable debt assets - foreign, according to international rating <sup>2)</sup>:

<u>In percent</u>	<u>As of December 31</u>	
	<u>2018</u>	<u>2017</u>
Unrated	6.6	5.1

- 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 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+.

**G. Required disclosure in connection with the temporary exemption from the adoption of IFRS 9**

The following table presents the fair value of the financial assets as of December 31, 2018, divided into two groups: assets which fulfill the test only, not including assets held for trading or managed on a fair value basis (hereinafter: “**Group A**”); and all other financial assets (hereinafter: “**Group B**”).

<u>NIS in thousands</u>	<u>As of December 31, 2018</u>	
	<u>Group A</u>	<u>Group B</u>
Financial investments for investment-linked contracts	-	58,185,233
Cash and cash equivalents for investment-linked contracts	-	3,648,899
Other financial investments - stocks	-	1,416,975
Other financial investments - others	-	2,862,377
Other financial investments - marketable debt assets	5,106,716	125,146
Other financial investments - non-marketable debt assets	28,929,419	58,498
Cash and cash equivalents	1,298,286	-

For details regarding the evaluation of debt assets which fulfill the principal and interest test in accordance with IFRS 9 as of December 31, 2018, see Note 39(f)(2)(a1).

**Note 15: Cash and Cash Equivalents****A. Cash and cash equivalents for investment-linked contracts****1. Composition**

NIS in thousands	As of December 31	
	2018	2017
Cash and deposits available for immediate withdrawal	<b>2,632,439</b>	3,241,402
Short term deposits	<b>1,016,460</b>	1,288,044
Cash and cash equivalents	<b>3,648,899</b>	4,529,446

**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%-0.22% (as of December 31, 2017 - 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 0.19%-0.25% (as of December 31, 2017 - 0.05%-0.1%).

**B. Other cash and cash equivalents****1. Composition**

NIS in thousands	As of December 31	
	2018	2017
Cash and deposits available for immediate withdrawal	<b>1,256,491</b>	1,354,372
Short term deposits	<b>41,795</b>	51,491
Cash and cash equivalents	<b>1,298,286</b>	1,405,863

**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%-0.22% (as of December 31, 2017 - 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 0.19%-0.25% (as of December 31, 2017 - 0.05%-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 *)		
	2018	2017	2016
	<b>In thousands of shares with a par value of NIS 1</b>		
Issued and paid-up share capital as of January 1	55,563	55,412	55,412
Exercise of warrants for senior employees **)	16	151	-
Issued and paid-up share capital as of December 31	55,579	55,563	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.

\*\*) For additional details, see Note 39 - Share-Based Payment.

### B. Capital reserves

1. The translation reserve for foreign operations is primarily comprised of effects from the GBP and USD.
2. Other capital reserves include a capital reserve with respect to transactions with controlling shareholders, reserve for revaluation of property, plant and equipment, and other immaterial reserves.

### C. Dividends

No dividends were distributed during the last three years.

The balance of distributable earnings as of the reporting date, in accordance with the Companies Law, and in accordance with the capital requirements and the undertakings regarding capital supplementation which were given by the Company within the framework 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

1. It is the Company's policy 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 which the Company undertook to meet in the past, and in order to support the capital needs of its consolidated companies, as specified in section E 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 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.

2. The Company undertook to supplement the required capital 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.
3. Upon the Commissioner's demand, the Company is obligated to supplement, at any time, the equity of Clal Pension and Provident Funds Ltd., to the amount stipulated in the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964. The undertaking will remain in effect so long as the Company controls Clal Pension and Provident Funds, either directly or indirectly. For details regarding the capital requirements, see section F below.

## Note 16: Capital and Reserves (Cont.)

### 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 accounting solvency regime circular, as defined below. 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 were included in the 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 Capital Regulations were canceled within the framework of the publication of the Control of Financial Services Regulations (Insurance) (Minimum Equity Required to Receive Insurer License), 2018 (hereinafter: the “**Minimum Equity Regulations**”), in April 2018. The provisions of 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, 2017, Clal Insurance has a capital surplus, both in consideration of the provisions during the distribution period, and without the provisions during the distribution period, as specified in section 3 below.

(1) Presented below are data regarding the capital requirements in accordance with the accounting solvency regime circular / the Capital Regulations:

NIS in thousands	As of December 31, 2018		As of December 31, 2017	
	Clal Insurance	Clal Credit Insurance	Clal Insurance	Clal Credit Insurance
Minimum capital: Required total <sup>a)</sup>	4,729,358	33,924	4,644,895	34,267
<b>Calculated current total:</b>				
Basic Tier 1 capital	4,705,180	240,111	4,869,768	218,188
Tier 2 subordinated capital <sup>b)</sup>	22,186	-	43,779	-
Tier 2 hybrid capital	3,002,663	-	3,014,095	-
Tier 3 capital	111,938	-	111,938	-
Total Tier 2 and Tier 3 capital	3,136,787	-	3,169,812	-
Total current capital <sup>c)</sup>	7,841,967	240,111	8,039,580	218,188
Surplus	3,112,609	206,187	3,394,685	183,921
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	138,267	-	131,622	-
Capital reduction required with respect to original difference	112,356	-	154,497	-
Tax reserve with respect to the acquisition of provident funds	27,246	-	70,903	-
Surplus in consideration of operations which were performed subsequent to the reporting date and after deducting tied-up surplus	2,889,232	206,187	3,179,469	183,921
1) Total required amount, including capital requirements with respect to:				
Non-life insurance operations / required Tier 1 capital	470,653	30,147	507,722	29,791
Long term care insurance operations	128,155	-	114,464	-
Extraordinary risks in life insurance	438,816	-	425,963	-
Deferred acquisition costs in life insurance and illness and hospitalization insurance	1,417,276	-	1,386,192	-
Requirements with respect to guaranteed return plans	1,039	-	2,133	-
Non-recognized assets, as defined in the Capital Regulations	47,198	247	52,720	1
Investment in consolidated insurance and managing companies (including acquired management operations)	512,273	-	631,895	-
Capital reduction required with respect to original difference	(112,356)	-	(154,497)	-
Capital required with respect to investments	1,335,257	1,329	1,187,035	2,273
Catastrophe risks in non-life insurance	102,833	-	106,750	-
Operational risks	289,401	2,201	292,391	2,202
Guarantees	98,813	-	92,127	-
Total required capital	4,729,358	33,924	4,644,895	34,267

b) Issued until December 31, 2009.

c) See section E(2) 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 accounting solvency regime circular in consolidated insurance companies

(A) Minimum capital

The accounting solvency regime circular determines the solvency capital requirement on an accounting basis (hereinafter in this section: the “Circular”) which applies to insurance companies, and the method used to calculate it. The insurance business operations are conditional upon the fulfillment of the solvency capital requirement. 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, as determined in the Minimum Equity Regulations, 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 circular will require the insurer to increase its capital up to the amount stipulated in the circular, 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 circular are based on the insurance company’s solo report. In order to calculate recognized capital in accordance with the circular, 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 in accordance with the circular (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 “**Capital 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 equity instruments (excluding periodic accrued interest payments), Tier 2 subordinated equity instruments (as defined in the capital circular), and other components or instruments approved by the Commissioner.
3. Tier 3 capital - Includes Tier 3 hybrid equity 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 equity instrument (Tier 1, Tier 2 or Tier 3) under equity requires the Commissioner’s approval.

It was noted that the capital circular includes transitional provisions such that:

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 capital circular.
2. Tier 1, Tier 2 and Tier 3 hybrid equity 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

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.

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”. 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.

In August 2018, a letter was received the Authority, in which it was stated that the deadlines for the performance of the calculation as of December 31, 2017 would be postponed, and with respect to insurance companies which have not yet received approval for the initial performance of an audit, the economic solvency ratio report as of December 31, 2017 will be published by November 29, 2018; the economic solvency ratio report as of December 31, 2018 by July 15, 2019; and the economic solvency ratio report as of June 30, 2019, by the end of 2019.

##### (B) Economic solvency ratio as of December 31, 2017

Clal Insurance performed a calculation of recognized equity and of the solvency capital requirement. According to the results of the calculation as of December 31, 2017, Clal Insurance 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 3.2.3 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, in general, the balance sheet items are calculated based on economic value, and particularly, 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. In the economic balance sheet, in general, intangible assets are not recognized. It is prepared based on the Company’s separate financial statements, which include subsidiary insurance companies whose data are consolidated with the data of the insurance company, and which, according to the instructions, does not include the economic value of the provident fund and pension activity under the insurance company.
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.

**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.)

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. Actual results may differ from the forecasts and assumptions which were used to calculate the economic solvency ratio. In particular, and as specified in the provisions of the economic solvency regime circular, the calculation of the economic solvency ratio is significantly based on the embedded value calculation model. The model for the calculation of embedded value is implemented in accordance with the practice regarding adoption in Israel, whose principles and rules were determined by the Capital Market Authority, which adopted the rules and principles that were determined by the joint committee of insurance companies and the Capital Market Authority, which worked with the accompaniment of Israeli and foreign advisors. The model is based, inter alia, on internal studies which reflect the Company's best estimates, subject to certain qualifications and restrictions which were established in the aforementioned principles and rules. 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 the consolidated insurance companies are preparing for the completion of a full audit by the calculation date of the solvency ratio as of December 31, 2018, and as part of, they have 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 for the purpose of complying with a full audit.

It is emphasized that the results of the models which are used to calculate recognized equity and the solvency capital requirement are highly sensitive to the forecasts and assumptions which are included therein, and to the manner in which the instructions are implemented. The economic solvency ratio is highly sensitive to market variables and other variables, and accordingly, it may be volatile.

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.

(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

## Note 16: Capital and Reserves (Cont.)

### E. Capital management and requirements in consolidated insurance companies (Cont.)

#### (3) Solvency II-based economic solvency regime (Cont.)

##### (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. With reference to the fulfillment of MCR, it was determined that the maximum scope of Tier 2 capital will amount to 20% of MCR.

##### (F) Provisions during the distribution period

The provisions of the economic solvency regime include the determination of a distribution period, during which the following guidelines will be implemented:

1. The capital requirements with respect to the stock risk sub-component, as defined in the provisions, gradually over seven years, beginning on the application date, starting from a rate of 22%, up to rates of 30%, 39% and 49%, with respect to investments in infrastructure stocks of type 1 and type 2, respectively. The gradual increase will also apply to the anti-cyclical adjustment, as defined in the provisions.
2. The solvency capital requirement, which is calculated in accordance with the distribution provisions of the stock risk sub-component, as specified above, will increase gradually, 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.
3. Regarding the composition of capital, it was determined that the maximum scope of Tier 2 capital during the distribution period will amount to 50% of the solvency capital requirement during the distribution period.

#### (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 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.)

(4) Dividends (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 granted by the Commissioner to the previous controlling shareholders in IDB Holding for the holding of control in the Company and in consolidated institutional entities

As the Company was informed, on May 8, 2014, the representatives of the previous controlling shareholders in IDB Development (the Ganden, Manor and Livnat Groups) received notice from the Commissioner stating that, further to the creditors' settlement in IDB Holding, and due to the fact that they no longer held 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 (hereinafter: the "**Institutional Entities**" and 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 120% of the minimum capital required of Clal Insurance, pursuant to the Capital Regulations. As of the end of the reporting period, the minimum capital required of the Company, as specified above, amounted to approximately NIS 2.9 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.

(6) Clal Insurance undertook to supplement the capital requirement for Clal Credit Insurance in accordance with the Capital Regulations, up to 50% of the required capital according to the Capital Regulations, 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 (as defined in the Control Law) of Clal Credit Insurance. The undertaking was given in accordance with a requirement specified in the permit for control of Clal Credit Insurance, which stipulates that Clal Insurance will ensure to supplement the required equity of Clal Credit Insurance, in accordance with the Capital Regulations or in accordance with any other regulations which may replace them in the future.

**Note 16: Capital and Reserves (Cont.)****F. Capital requirements for managing companies of pension funds and provident funds**

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, prescribe capital requirements for managing companies, 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 prescribed.

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 <sup>1)</sup>**

	As of December 31					
	2018	2017	2018	2017	2018	2017
NIS in thousands	Gross		Reinsurance		Retention	
Life insurance and long-term savings						
Insurance contracts	19,507,188	19,189,014	(13,784)	(46,244)	19,493,404	19,142,770
Investment contracts	2,358,204	2,334,444	-	-	2,358,204	2,334,444
	21,865,392	21,523,458	(13,784)	(46,244)	21,851,608	21,477,214
Less amounts deposited in a consolidated company as part of a defined benefit plan for employees of the Group <sup>1)</sup>	(1,215)	(575)	-	-	(1,215)	(575)
Total long term savings	21,864,177	21,522,883	(13,784)	(46,244)	21,850,393	21,476,639
Insurance contracts included in the health insurance segment (Note 21)	2,675,508	2,140,712	(674,050)	(452,995)	2,001,458	1,687,717
Insurance contracts which are included in the non-life insurance segment (Note 19)	6,107,310	6,520,697	(2,105,917)	(2,111,212)	4,001,393	4,409,485
Total liabilities with respect to non-investment-linked insurance contracts and investment contracts	30,646,995	30,184,292	(2,793,751)	(2,610,451)	27,853,244	27,573,841

**Note 18: Liabilities with respect to Investment-Linked Insurance Contracts and Investment Contracts <sup>1)</sup>**

NIS in thousands	As of December 31					
	2018	2017	2018	2017	2018	2017
	Gross		Reinsurance		Retention	
Life insurance and long-term savings						
Insurance contracts	<b>59,203,441</b>	57,589,077	<b>(173,852)</b>	(180,925)	<b>59,029,589</b>	57,408,152
Investment contracts	<b>1,781,735</b>	1,721,791	-	-	<b>1,781,735</b>	1,721,791
	<b>60,985,176</b>	59,310,868	<b>(173,852)</b>	(180,925)	<b>60,811,324</b>	59,129,943
Less amounts deposited in a consolidated company as part of a defined benefit plan for employees of the Group <sup>1)</sup>	<b>(19,751)</b>	(20,705)	-	-	<b>(19,751)</b>	(20,705)
Total long term savings	<b>60,965,425</b>	59,290,163	<b>(173,852)</b>	(180,925)	<b>60,791,573</b>	59,109,238
Insurance contracts included in the health insurance segment (Note 21)	<b>4,401,472</b>	4,055,916	<b>(11,776)</b>	(10,400)	<b>4,389,696</b>	4,045,516
Total liabilities with respect to investment-linked insurance contracts and investment contracts	<b>65,366,897</b>	63,346,079	<b>(185,628)</b>	(191,325)	<b>65,181,269</b>	63,154,754

- 1) In investment-linked insurance contracts, insurance benefits which the beneficiary is entitled to receive are contingent upon or linked to returns produced by certain investments of the Group, less management fees. These contracts include, inter alia, insurance plans which credit / charge to the policyholder a bonus / malus, according to the investment results achieved by the policies which share in the Group's investment income. In non-investment-linked insurance contracts, the insurance benefits to which a policyholder is entitled are not dependent on the income or loss resulting from investments made by the Group.

The distinction between investment-linked contracts and non-investment-linked contracts is made on the level of the individual coverage, such that insurance policies exist which include several coverages, some of which are investment-linked, while others are non-investment-linked.

**Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment**

**A. Liabilities with respect to insurance contracts included under non-life insurance segments, by type**

	As of December 31					
	2018	2017	2018	2017	2018	2017
NIS in thousands	Gross		Reinsurance		Retention	
<b>Compulsory motor and liabilities branches</b>						
Unearned premium reserve	375,850	360,431	199,149	161,310	176,701	199,121
Outstanding claims and premium deficiency reserve	4,236,458	4,523,285	1,254,037	1,281,005	2,982,421	3,242,280
<b>Total compulsory motor and liabilities branches</b>	<b>4,612,308</b>	<b>4,883,716</b>	<b>1,453,186</b>	<b>1,442,315</b>	<b>3,159,122</b>	<b>3,441,401</b>
Of which, total liabilities with respect to the compulsory motor insurance branch	2,284,274	2,345,355	575,942	356,485	1,708,332	1,988,870
<b>Property and others branches</b>						
Unearned premium reserve	651,798	639,958	271,232	240,419	380,566	399,539
Premium deficiency reserve	-	13,223	-	-	-	13,223
Outstanding claims	843,204	983,800	381,499	428,478	461,705	555,322
<b>Total property and others branches</b>	<b>1,495,002</b>	<b>1,636,981</b>	<b>652,731</b>	<b>668,897</b>	<b>842,271</b>	<b>968,084</b>
<b>Total liabilities with respect to insurance contracts included under non-life insurance segments</b>	<b>6,107,310</b>	<b>6,520,697</b>	<b>2,105,917</b>	<b>2,111,212</b>	<b>4,001,393</b>	<b>4,409,485</b>
<b>Deferred acquisition costs</b>						
Compulsory motor and liabilities branches	78,032	74,180	35,736	29,285	42,296	44,895
Property and others branches	159,834	165,269	56,241	53,737	103,593	111,532
<b>Total deferred acquisition costs</b>	<b>237,866</b>	<b>239,449</b>	<b>91,977</b>	<b>83,022</b>	<b>145,889</b>	<b>156,427</b>
<b>Liabilities with respect to non-life insurance contracts less deferred acquisition costs</b>						
Compulsory motor and liabilities branches (see section C1 below)	4,534,276	4,809,536	1,417,450	1,413,030	3,116,826	3,396,506
Property and others branches (See 2C below)	1,335,168	1,471,712	596,490	615,160	738,678	856,552
<b>Total liabilities with respect to non-life insurance contracts less deferred acquisition costs</b>	<b>5,869,444</b>	<b>6,281,248</b>	<b>2,013,940</b>	<b>2,028,190</b>	<b>3,855,504</b>	<b>4,253,058</b>

**Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)**

**B. Liabilities with respect to insurance contracts included in the non-life insurance segment, by calculation method**

NIS in thousands	As of December 31							
	2018		2017		2018		2017	
	Gross		Reinsurance		Retention			
Actuarial valuations Mr. Yaakov Mauser <sup>1)</sup>	<b>4,985,815</b>	5,400,402	<b>1,587,793</b>	1,647,077	<b>3,398,022</b>		3,753,325	
Provisions on the basis of other estimates:								
Estimate of the claims department regarding known outstanding claims	<b>33,529</b>	46,807	<b>20,506</b>	31,510	<b>13,023</b>		15,297	
Addition for outstanding claims with respect to incurred but not reported (IBNR) claims	<b>15,145</b>	19,967	<b>10,222</b>	13,477	<b>4,923</b>		6,490	
Unearned premium reserve	<b>1,027,647</b>	1,000,389	<b>470,381</b>	401,729	<b>557,266</b>		598,660	
Other estimates	<b>496</b>	695	-	-	<b>496</b>		695	
Net surplus revenues (accrual) with respect to foreign trade risks insurance	<b>44,678</b>	52,437	<b>17,015</b>	17,419	<b>27,663</b>		35,018	
<b>Total liabilities with respect to insurance contracts included in the non-life insurance segment in Israel</b>	<b>6,107,310</b>	6,520,697	<b>2,105,917</b>	2,111,212	<b>4,001,393</b>		4,409,485	

- 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.

**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**

NIS in thousands	As of December 31							
	2018		2017		2018		2017	
	Gross		Reinsurance		Retention			
Balance at beginning of year	<b>4,809,536</b>	4,796,105	<b>1,413,030</b>	1,085,836	<b>3,396,506</b>		3,710,269	
Cumulative claim costs with respect to the current underwriting year	<b>677,957</b>	633,889	<b>334,226</b>	270,156	<b>343,731</b>		363,733	
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.	<b>107,663</b>	69,953	<b>31,239</b>	16,862	<b>76,424</b>		53,091	
Impact of the provision with respect to the Winograd Committee *)	<b>(55,641)</b>	106,720	<b>(3,945)</b>	28,927	<b>(51,696)</b>		77,793	
Balance of change in estimated cumulative claims cost with respect to previous underwriting years **)	<b>46,668</b>	78,001	<b>(16,332)</b>	81,224	<b>63,000</b>		(3,223)	
<b>Total change in cumulative claim costs</b>	<b>776,647</b>	888,562	<b>345,188</b>	397,169	<b>431,459</b>		491,393	
Claim settlement payments during the year:								
With respect to the current underwriting year	<b>(4,983)</b>	(5,867)	<b>(1,989)</b>	(901)	<b>(2,994)</b>		(4,966)	
With respect to previous underwriting years	<b>(1,046,924)</b>	(869,264)	<b>(338,779)</b>	(69,074)	<b>(708,145)</b>		(800,190)	
<b>Total payments</b>	<b>(1,051,907)</b>	(875,131)	<b>(340,768)</b>	(69,975)	<b>(711,139)</b>		(805,156)	
<b>Balance at end of year</b>	<b>4,534,276</b>	4,809,536	<b>1,417,450</b>	1,413,030	<b>3,116,826</b>		3,396,506	

\*) 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 increase in individual claim costs, and its impact on the actuarial model

1. The opening and closing balances include outstanding claims, the premium deficiency reserve and unearned premiums, less deferred acquisition costs.
2. The cumulative (ultimate) cost of claims is the balance of outstanding claims, 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.

**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**

NIS in thousands	As of December 31							
	2018		2017		2018		2017	
	Gross		Reinsurance		Retention			
Balance at beginning of year	<b>1,471,712</b>	1,455,751	<b>615,160</b>	490,676	<b>856,552</b>	965,075		
Cumulative claim costs with respect to events during the reporting year	<b>838,687</b>	960,042	<b>268,125</b>	345,909	<b>570,562</b>	614,133		
Change in cumulative claim costs with respect to events prior to the reporting year	<b>(30,132)</b>	41,163	<b>(28,023)</b>	34,099	<b>(2,109)</b>	7,064		
Total change in cumulative claim costs	<b>808,555</b>	1,001,205	<b>240,102</b>	380,008	<b>568,453</b>	621,197		
Claim settlement payments during the year:								
With respect to events during the reporting year	<b>(481,020)</b>	(534,836)	<b>(93,580)</b>	(130,857)	<b>(387,440)</b>	(403,979)		
With respect to events prior to the reporting year	<b>(467,938)</b>	(450,742)	<b>(193,376)</b>	(131,041)	<b>(274,562)</b>	(319,701)		
Total payments	<b>(948,958)</b>	(985,578)	<b>(286,956)</b>	(261,898)	<b>(662,002)</b>	(723,680)		
Change in the unearned premium reserve, net of deferred acquisition costs	<b>17,082</b>	8,559	<b>28,184</b>	6,374	<b>(11,102)</b>	2,185		
Change in the premium deficiency reserve	<b>(13,223)</b>	(8,225)	-	-	<b>(13,223)</b>	(8,225)		
Balance at end of year	<b>1,335,168</b>	1,471,712	<b>596,490</b>	615,160	<b>738,678</b>	856,552		

1. The opening and closing balances include outstanding claims (including accrual) 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 (including accrual) as of the end of the reporting year, with the addition of total claim payments during the reporting period, including direct and indirect claim settlement expenses.
3. Claim settlement payments during the year include payments with respect to events prior to the reporting year, with the addition of the change in the balance of outstanding claims with respect to events prior to the reporting year.
4. The claim settlement payments include direct and indirect expenses for the settlement of those claims (general and administrative expenses recorded for claims), as attributed to the damage years.

**Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)**

**D1. Examination of the development of estimated liabilities with respect to insurance contracts less deferred acquisition costs, gross, in the compulsory motor and liabilities branches in Israel, and branches assessed on the basis of underwriting years in Europe**

(^NIS in thousands, adjusted to CPI for November 2018)	As of December 31, 2018										
	erwriting YearUnd										
	<sup>2</sup> 2009	<sup>2</sup> 2010	<sup>2</sup> 2011	2012	2013	2014	2015	2016	2017	2018	Total
<b>at end of year (cumulative) Claims paid</b>											
After one year	127,622	75,681	146,729	5,285	4,386	4,320	2,212	3,684	5,937	4,983	
After two years	210,082	146,512	74,913	53,249	44,441	41,607	33,809	37,834	41,551		
After three years	319,363	156,338	170,020	156,346	139,749	133,006	118,579	123,445			
After four years	313,873	253,689	294,051	273,044	269,445	239,269	217,059				
After five years	425,484	353,712	416,866	412,280	387,323	343,916					
After six years	521,510	448,884	528,149	561,252	519,344						
After seven years	619,140	551,717	653,978	674,334							
After eight years	713,116	629,978	957,292								
After nine years	766,281	674,288									
After ten years	820,914										
<b>at end of year (with payments including accrual) Estimated cumulative claims</b>											
After one year <sup>3)</sup>	1,266,759	1,023,073	1,035,424	949,138	884,612	784,728	669,938	647,796	641,470	677,959	
After two years	1,225,635	1,037,188	925,378	1,025,761	869,307	810,968	678,707	635,302	664,285		
After three years	1,198,575	971,257	993,152	1,037,545	865,774	801,361	644,506	657,533			
After four years	1,024,630	926,502	982,157	960,216	830,646	796,889	672,479				
After five years	1,009,952	903,484	986,392	1,009,061	888,168	823,318					
After six years	1,004,099	857,764	1,080,297	1,086,954	907,250						
After seven years	959,656	862,529	1,207,521	1,077,289							
After eight years	977,644	883,713	1,214,211								
After nine years	1,022,029	891,452									
After ten years	996,445										
Surplus (deficit) relative to the first year which did not include accrual <sup>4)</sup>	28,185	35,050	(232,054)	(117,073)	(41,476)	(12,350)	(2,541)	(9,737)	(22,815)	-	(374,811)
Rate of the deviation relative to the first year which did not include accrual, in percent	2.75%	3.78%	(23.63%)	(12.19%)	(4.79%)	(1.52%)	(0.38%)	(1.50%)	(3.56%)		(4.98%)
Cumulative cost of claims as of December 31, 2018	996,445	891,452	1,214,211	1,077,289	907,250	823,318	672,479	657,533	664,285	677,959	8,582,221
Cumulative payments until December 31, 2018	820,914	674,288	957,292	674,334	519,344	343,916	217,059	123,445	41,551	4,983	4,377,126
<b>Total liabilities as of December 31</b>	<b>175,531</b>	<b>217,164</b>	<b>256,919</b>	<b>402,955</b>	<b>387,906</b>	<b>479,402</b>	<b>455,420</b>	<b>534,088</b>	<b>622,734</b>	<b>672,976</b>	<b>4,205,095</b>
Outstanding claims for years up to and including the 2008 underwriting year											329,181
<b>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, 2018</b>											<b>4,534,276</b>
	<b>Up to and including the 2009 underwriting year</b>										
Less outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:	15,799	125,491	334,691								475,981

1) The above amounts are presented according to inflation adjusted values (arising from operations in Israel), or revalued 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.

**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**

('NIS in thousands, adjusted to CPI for November 2018)	As of December 31, 2018										
	Underwriting Year										
	<sup>2</sup> 2009	<sup>2</sup> 2010	<sup>2</sup> 2011	2012	2013	2014	2015	2016	2017	2018	Total
<b>at end of year (cumulative) Claims paid</b>											
After one year	112,295	67,518	76,059	5,200	4,375	4,320	2,207	3,682	5,025	2,994	
After two years	194,259	133,544	58,434	49,290	43,613	37,550	33,225	37,398	28,886		
After three years	286,161	152,159	150,229	143,125	131,618	123,002	113,580	121,025			
After four years	276,324	246,517	268,198	247,266	254,184		227,408				
After five years	379,126	341,840	385,509	354,915	362,482	324,847					
After six years	468,964	435,549	488,050	490,962	466,447						
After seven years	563,318	535,338	602,176	590,221							
After eight years	645,036	604,920	662,485								
After nine years	694,309	647,010									
After ten years	725,603										
<b>at end of year (with payments including accrual) Estimated cumulative claims</b>											
After one year <sup>3)</sup>	1,082,387	794,437	632,974	804,721	756,539	678,885	585,083	584,465	368,082	343,733	
After two years	1,040,315	827,722	767,400	802,091	748,977	669,370	591,015	544,963	395,932		
After three years	1,011,635	830,829	794,718	811,371	753,954	664,643	559,250	565,650			
After four years	856,879	816,666	783,596	785,709	717,605	658,986	574,295				
After five years	850,756	797,991	787,488	782,751	780,818	673,083					
After six years	852,761	769,618	803,801	869,137	771,239						
After seven years	830,751	773,083	849,952	874,654							
After eight years	835,236	791,178	850,361								
After nine years	838,971	798,245									
After ten years	836,869										
Surplus (deficit) relative to the first year which did not include accrual <sup>4)</sup>	20,010	18,421	(66,765)	(88,945)	(17,285)	(3,713)	10,788	18,815	(27,850)		(136,524)
Rate of the deviation relative to the first year which did not include accrual, in percent	2.34%	2.26%	(8.52%)	(11.32%)	(2.29%)	(0.55%)	1.84%	3.22%	(7.57%)		(2.20%)
Cumulative cost of claims as of December 31, 2018	836,869	798,245	850,361	874,654	771,239	673,083	574,295	565,650	395,932	343,733	6,684,061
Cumulative payments until December 31, 2018	725,603	647,010	662,485	590,221	466,447	324,847	210,867	121,025	28,886	2,994	3,780,385
Balance of outstanding claims	111,266	151,235	187,876	284,433	304,792	348,236	363,428	444,625	367,046	340,739	2,903,676
Outstanding claims for years up to and including the 2008 underwriting year											213,150
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, 2018											3,116,826

Up to and including the 2009 underwriting year

Less outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:

13,246 69,118 135,097 217,461

- 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.

**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**

(*ember 2018 NIS in thousands, adjusted to CPI for No	As of December 31, 2018										
	Underwriting Year										
at end of year (cumulative) Claims paid	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
After one year	10,598	3,809	3,768	2,901	3,279	1,670	1,477	1,509	1,920	2,769	
After two years	63,710	41,989	39,862	34,931	33,761	25,142	24,021	24,804	27,492		
After three years	132,389	106,746	109,475	108,077	92,560	85,732	85,400	85,122			
After four years	208,246	178,192	190,077	174,198	181,050	161,094	155,821				
After five years	280,259	232,087	260,923	241,545	254,877	232,975					
After six years	339,817	285,040	328,668	340,331	322,517						
After seven years	404,243	355,969	410,221	413,440							
After eight years	460,613	399,680	445,920								
After nine years	490,567	421,581									
After ten years	506,694										
<b>at end of year (with payments including accrual) Estimated cumulative claims</b>											
After one year <sup>2)</sup>	621,276	556,579	524,034	530,796	519,061	477,168	401,570	403,625	390,137	398,093	
After two years	627,471	565,441	529,353	531,895	510,061	481,113	405,362	374,084	397,054		
After three years	641,206	578,340	541,256	544,654	518,119	463,648	397,342	384,992			
After four years	596,775	535,684	510,639	511,427	484,220	462,151	428,221				
After five years	581,651	508,197	505,522	496,199	534,265	467,886					
After six years	574,517	468,918	515,441	574,998	514,247						
After seven years	551,376	470,160	550,142	563,239							
After eight years	551,155	478,838	544,288								
After nine years	548,488	480,655									
After ten years	546,753										
Surplus (deficit) relative to the first year which did not include accrual <sup>3)</sup>	50,022	55,029	(33,649)	(51,812)	3,872	13,227	(26,651)	18,633	(6,917)		21,754
Rate of the deviation relative to the first year which did not include accrual, in percent	8.38%	10.27%	(6.6%)	(10.1%)	0.75%	2.75%	(6.6%)	4.62%	(1.8%)		0.50%
Cumulative cost of claims as of December 31, 2018	546,753	480,655	544,288	563,239	514,247	467,886	428,221	384,992	397,054	398,093	4,725,428
Cumulative payments until December 31, 2018	506,694	421,581	445,920	413,440	322,517	232,975	155,821	85,122	27,492	2,769	2,614,331
<b>Total liabilities as of December 31, 2018</b>	<b>40,059</b>	<b>59,074</b>	<b>98,368</b>	<b>149,799</b>	<b>191,730</b>	<b>234,911</b>	<b>272,400</b>	<b>299,870</b>	<b>369,562</b>	<b>395,324</b>	<b>2,111,097</b>
Outstanding claims for years up to and including the 2008 underwriting year											146,215
<b>Total gross liabilities with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2018</b>											<b>2,257,312</b>

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.

**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**

('NIS in thousands, adjusted to CPI for November 2018)	As of December 31, 2018										Total
	Underwriting Year										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
<b>at end of year (cumulative) Claims paid</b>											
After one year	10,598	3,809	3,768	2,901	3,279	1,670	1,477	1,509	1,019	1,112	
After two years	63,710	41,989	39,862	34,931	33,761	25,142	24,021	24,804	14,977		
After three years	132,389	106,746	109,475	108,077	92,560	85,732	85,400	85,122			
After four years	208,246	178,192	190,077	174,198	177,632	161,094	154,899				
After five years	280,259	232,087	260,923	241,545	249,857	232,975					
After six years	338,479	285,040	327,719	338,847	315,649						
After seven years	400,192	355,969	408,150	400,960							
After eight years	453,763	399,680	440,678								
After nine years	483,710	421,581									
After ten years	499,373										
<b>at end of year (with payments including accrual) Estimated cumulative claims</b>											
After one year <sup>2)</sup>	610,832	546,767	513,288	518,419	506,061	465,232	393,005	395,093	199,265	162,960	
After two years	610,633	549,122	511,388	511,359	496,762	461,414	394,596	362,882	208,557		
After three years	624,786	562,262	523,622	524,101	507,177	452,073	369,244	366,189			
After four years	582,947	527,440	501,705	501,368	472,278	449,075	387,185				
After five years	573,078	499,816	496,582	484,808	519,767	461,434					
After six years	568,140	467,745	494,618	544,762	498,348						
After seven years	544,817	464,488	528,957	532,467							
After eight years	541,598	472,976	525,440								
After nine years	539,349	474,989									
After ten years	537,378										
Surplus (deficit) relative to the first year which did not include accrual <sup>3)</sup>	45,569	52,451	(23,735)	(31,099)	8,829	(20)	5,820	28,904	(9,292)		77,427
Rate of the deviation relative to the first year which did not include accrual, in percent	7.82%	9.94%	(4.7%)	(6.2%)	1.74%	(0.0%)	1.48%	7.32%	(4.7%)		1.90%
Cumulative cost of claims as of December 31, 2018	537,378	474,989	525,440	532,467	498,348	461,434	387,185	366,189	208,557	162,960	4,154,947
Cumulative payments until December 31, 2018	499,373	421,581	440,678	400,960	315,649	232,975	154,899	85,122	14,977	1,112	2,567,326
Total liabilities as of December 31, 2018	38,005	53,408	84,762	131,507	182,699	228,459	232,286	281,067	193,580	161,848	1,587,621
Outstanding claims for years up to and including the 2008 underwriting year											119,662
Total gross liabilities with respect to insurance contracts in the compulsory motor branches, less deferred acquisition costs as of December 31, 2018											1,707,283

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.

**Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)**

**D5. Composition of comprehensive income (loss) in the compulsory motor insurance branch (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	
2018	(10,753)	19,455	7,280	27,952
2017	13,714	(73,027)	36,198	(34,927)
2016	(25,836)	81,125	(26,936)	100,272

**D6. Data regarding the 2012-2018 underwriting years in the compulsory motor branch (NIS in thousands)**

	Underwriting years						
	2018	2017	2016	2015	2014	2013	2012
Gross premiums (including fees)	470,277	477,281	443,287	450,849	541,154	568,481	572,910
Comprehensive income (loss) on retention in the underwriting year, accumulated until the reporting date	7,280	21,628	8,722	2,174	13,756	30,613	36,925
Includes the balance of the net surplus revenues on retention which was applied directly to retained earnings in 2015, in the amount of	-	-	-	313	-	-	-
Impact of investment income on cumulative income for the underwriting year	2,743	6,704	28,946	35,170	45,021	68,516	92,571

**D7. Composition of comprehensive income (loss) on retention in the foreign trade risks insurance (NIS in thousands)**

Reporting year	Comprehensive income (loss) with respect to the current underwriting year	Comprehensive income (loss) with respect to the current underwriting year which was released during the reporting year	Adjustments with respect to underwriting years which were released in previous years	Activity not included in the calculation of reserves	Total reported comprehensive income
	2018	-	9,862	(471)	(230)
2017	-	9,177	205	(343)	9,039
2016	-	8,550	49	(85)	8,514

**D8. 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	
2018	(62,058)	(19,028)	(53,597)	(34,549)
2017	(43,053)	(44,839)	(40,199)	21,533
2016	(45,910)	(131,155)	(58,545)	(18,119)

**Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)**

**D9. Data regarding the 2012-2018 underwriting years in the other liabilities insurance branch**

	Underwriting years						
	2018	2017	2016	2015	2014	2013	2012
Gross premiums (including fees)	<b>315,462</b>	307,686	307,694	308,799	373,422	380,385	455,291
Comprehensive income (loss) on retention in the underwriting year, accumulated until the reporting date	<b>(53,824)</b>	(57,606)	(60,799)	(43,827)	(47,845)	(72,984)	(105,106)
Includes the balance of the net surplus revenues on retention which was applied directly to retained earnings in 2015, in the amount of	-	-	-	223	-	-	-
Impact of investment income on cumulative income for the underwriting year	<b>1,366</b>	7,072	14,036	17,419	19,584	33,770	53,525

**Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)**

**E1. Examination of the development of the assessment of gross outstanding claims in property and others branches**

As of December 31, 2018

(^NIS in thousands, adjusted to CPI for November 2018 at end of year (cumulative) Claims paid	Damage year										Total
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
After one year	849,531	805,796	950,091	793,956	849,044	564,160	602,197	479,647	503,053	446,659	
After two years	1,269,104	1,315,525	1,608,080	986,103	1,262,111	672,504	1,037,048	807,339	821,603		
After three years	1,399,495	1,454,350	1,326,724	1,034,045	1,300,799	734,144	1,095,269	879,002			
After four years	1,461,854	1,085,356	1,351,992	1,054,150	1,340,075	771,147	1,133,875				
After five years	1,124,984	1,085,356	1,366,181	1,076,822	1,365,848	787,825					
After six years	1,137,894	1,094,961	1,382,489	1,089,158	1,389,322						
After seven years	1,143,991	1,086,346	1,391,571	1,100,485							
After eight years	1,154,147	1,093,335	1,397,658								
After nine years	1,162,105	1,099,436									
After ten years	1,165,358										
<b>(including payments) Cumulative claims</b>											
After one year	1,818,627	1,846,353	1,592,360	1,265,739	1,401,062	965,755	1,160,152	873,999	933,346	801,792	
After two years	1,737,922	1,854,187	1,796,539	1,150,335	1,473,893	836,837	1,219,526	953,865	936,884		
After three years	1,701,735	1,839,697	1,420,794	1,158,042	1,450,126	847,141	1,214,638	974,100			
After four years	1,710,563	1,170,036	1,433,644	1,131,933	1,427,961	832,098	1,215,241				
After five years	1,189,588	1,154,177	1,421,365	1,131,712	1,436,583	828,028					
After six years	1,186,637	1,110,770	1,417,501	1,132,781	1,437,123						
After seven years	1,183,137	1,116,257	1,424,749	1,127,193							
After eight years	1,180,688	1,120,171	1,414,105								
After nine years	1,186,097	1,113,005									
After ten years	1,178,220										
Estimated cumulative cost of claims as of December 31, 2018	1,178,220	1,113,005	1,414,105	1,127,193	1,437,123	828,028	1,215,241	974,100	936,884	801,792	11,025,691
Cumulative payments until December 31, 2018	1,165,358	1,099,436	1,397,658	1,100,485	1,389,322	787,825	1,133,875	879,002	821,603	446,659	10,221,223
<b>Balance of outstanding claims</b>	<b>12,862</b>	<b>13,569</b>	<b>16,447</b>	<b>26,707</b>	<b>47,801</b>	<b>40,203</b>	<b>81,366</b>	<b>95,098</b>	<b>115,281</b>	<b>355,133</b>	<b>804,468</b>
Outstanding claims for years up to and including the 2008 damage year											38,736
Total outstanding claims in the property and others branches as of December 31, 2018											843,204
*) Outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:		244									244

1) The above amounts are presented in values adjusted for inflation, in order to allow an evaluation of their development based on real values.

**Note 19: Liabilities with Respect to Insurance Contracts Which are Included in the Non-Life Insurance Segment (Cont.)**

**E2. Evaluation of the development of the assessment of outstanding claims on retention in the property and others branches**

('NIS in thousands, adjusted to CPI for November 2018 at end of year (cumulative) Claims paid	December 31, 2018 As of Dec										
	Damage year										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
After one year	838,483	787,879	925,272	744,612	845,420	553,342	596,663	470,107	498,978	435,500	
After two years	1,063,222	1,156,484	1,310,144	805,296	933,746	546,210	855,523	673,660	673,406		
After three years	1,098,350	1,146,310	759,466	773,846	773,685	541,931	755,836	662,275			
After four years	1,141,865	759,004	758,805	782,705	785,816	567,399	780,567				
After five years	800,622	753,625	771,531	799,320	793,932	577,510					
After six years	805,078	762,304	787,915	806,181	814,259						
After seven years	809,663	751,808	792,662	817,122							
After eight years	816,204	757,527	798,320								
After nine years	824,424	763,715									
After ten years	826,382										
<b>(including payments) Cumulative claims</b>											
After one year	1,763,435	1,754,772	1,463,225	1,037,685	1,371,390	932,020	1,070,170	829,845	905,139	773,378	
After two years	1,304,384	1,435,532	1,126,370	835,710	868,304	612,219	821,436	721,758	590,577		
After three years	1,311,696	1,422,071	801,760	852,542	840,873	604,122	814,457	687,733			
After four years	1,327,200	795,955	816,614	820,496	809,754	592,449	810,842				
After five years	824,676	795,517	808,038	830,362	836,103	601,668					
After six years	826,186	758,755	806,912	842,226	840,184						
After seven years	826,165	793,077	822,876	835,075							
After eight years	823,507	778,447	812,379								
After nine years	839,065	771,494									
After ten years	832,516										
Cumulative cost of claims as of December 31, 2018	832,516	771,494	812,379	835,075	840,184	601,668	810,842	687,733	590,577	773,378	7,555,846
Cumulative payments until December 31, 2018	826,382	763,715	798,320	817,122	814,259	577,510	780,567	662,275	673,406	435,500	7,149,057
Balance of outstanding claims	6,134	7,779	14,059	17,954	25,924	24,158	30,275	25,457	(82,830)	337,878	406,789
Outstanding claims for years up to and including the 2008 damage year											54,916
Total outstanding claims in the property and others branches as of December 31, 2018											461,705
*) Outstanding claims as of the date of the deconsolidation of a subsidiary in Europe, as follows:		(3,254)									(3,254)

1) The above amounts are presented in values adjusted for inflation, in order to allow an evaluation of their development based on real values.

**Note 20: Additional Details Regarding the Long Term Savings Segment**
**A. Liabilities with respect to insurance contracts and investment contracts, by exposure**

As of December 31, 2018

NIS in thousands	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		Total
	Until 1990 <sup>1)</sup>	Until 2003	From 2004		Risk sold as a single policy		
			Non-investment-linked	Investment-linked	Individual	Collective	
<b>1 By insurance exposure</b>							
Liabilities with respect to insurance contracts							
Annuity without guaranteed factors	-	-	-	612,452	-	-	612,452
Annuity with guaranteed factors							
Until May 2001	10,951,174	24,501,007	-	-	-	-	35,452,181
From June 2001	-	4,643,574	49,117	16,187,765	-	-	20,880,456
Paid annuity	3,345,981	1,964,042	-	264,986	-	-	5,575,009
Capital-based (without annuity option)	2,217,173	6,896,834	-	2,225,146	-	-	11,339,153
Supplementary pension reserve <sup>2)</sup>	1,785,419	766,959	-	12,020	-	-	2,564,398
Other risk components	147,536	665,462	2,832	597,538	580,137	293,475	2,286,980
<b>Total with respect to insurance contracts</b>	<b>18,447,283</b>	<b>39,437,878</b>	<b>51,949</b>	<b>19,899,907</b>	<b>580,137</b>	<b>293,475</b>	<b>78,710,629</b>
Liabilities with respect to investment contracts in life insurance	-	-	2,610	1,781,735	-	-	1,784,345
<b>Total in life insurance</b>	<b>18,447,283</b>	<b>39,437,878</b>	<b>54,559</b>	<b>21,681,642</b>	<b>580,137</b>	<b>293,475</b>	<b>80,494,974</b>
Liabilities with respect to consolidated managing companies of provident funds <sup>3)</sup>							2,355,594
<b>Total</b>							<b>82,850,568</b>
<b>2 By financial exposure</b>							
Non-investment-linked	18,141,807	288,518	52,638	351,215	386,477	289,143	19,509,798
Investment-linked	305,476	39,149,360	1,921	21,330,427	193,660	4,332	60,985,176
<b>Total life insurance</b>	<b>18,447,283</b>	<b>39,437,878</b>	<b>54,559</b>	<b>21,681,642</b>	<b>580,137</b>	<b>293,475</b>	<b>80,494,974</b>
Guaranteed-return liabilities with respect to managing companies of provident funds which were consolidated <sup>3)</sup>							2,355,594
<b>Total</b>							<b>82,850,568</b>

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 2,036 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)(e1)(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).

**Note 20: Additional Details Regarding the Long Term Savings Segment (Cont.)****A. Liabilities with respect to insurance contracts and investment contracts, by exposure (Cont.)**

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 Risk sold as a single policy		
	Until 1990 <sup>1)</sup>	Until 2003	From 2004		Individual	Collective	Total
			Non-investment-linked	Investment-linked			
<b>1 By insurance exposure</b>							
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 <sup>2)</sup>	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
<b>Total with respect to insurance contracts</b>	<b>18,065,801</b>	<b>39,346,942</b>	<b>107,691</b>	<b>18,346,281</b>	<b>605,932</b>	<b>305,443</b>	<b>76,778,090</b>
Liabilities with respect to investment contracts in life insurance	-	-	2,622	1,721,791	-	-	1,724,413
<b>Total in life insurance</b>	<b>18,065,801</b>	<b>39,346,942</b>	<b>110,313</b>	<b>20,068,072</b>	<b>605,932</b>	<b>305,443</b>	<b>78,502,503</b>
Liabilities with respect to consolidated managing companies of provident funds <sup>3)</sup>							2,331,823
<b>Total</b>							<b>80,834,326</b>
<b>2 By financial exposure</b>							
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
<b>Total life insurance</b>	<b>18,065,801</b>	<b>39,346,942</b>	<b>110,313</b>	<b>20,068,072</b>	<b>605,932</b>	<b>305,443</b>	<b>78,502,503</b>
Guaranteed-return liabilities with respect to managing companies of provident funds which were consolidated <sup>3)</sup>							2,331,823
<b>Total</b>							<b>80,834,326</b>

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)(e1)(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).

**Note 20: Additional Details Regarding the Long Term Savings Segment (Cont.)**

**B. Details of results by policy types**

For the year ended December 31, 2018

NIS in thousands	Policies which include a savings component (including appendices) by policy issue date				Policies with no savings component		Total
	Until 1990 <sup>1)</sup>	Until 2003	From 2004		Risk sold as a single policy		
			Non-investment-linked	Investment-linked	Individual	Collective	
Gross premiums:							
Traditional / mixed	31,288	19,339	-	-	-	-	50,627
Savings component	160,160	1,381,673	5,985	2,918,885	-	-	4,466,703
Other	33,777	267,427	382	334,263	611,943	81,573	1,329,365
<b>Total</b>	<b>225,225</b>	<b>1,668,439</b>	<b>6,367</b>	<b>3,253,148</b>	<b>611,943</b>	<b>81,573</b>	<b>5,846,695</b>
Receipts with respect to investment contracts charged directly to insurance reserves <sup>4)</sup>	-	-	-	437,013	-	-	437,013
Financial margin including management fees <sup>3)</sup>	77,978	221,280	2,785	212,603	-	-	514,646
Payments and changes in liabilities with respect to insurance contracts, gross	1,032,393	1,594,873	1,087	2,884,899	253,321	67,813	5,834,386
Payments and changes in liabilities with respect to investment contracts <sup>6)</sup>	-	-	126	(18,792)	-	-	(18,665)
Comprehensive income (loss) from life insurance businesses	153,002	86,619	9,670	(163,772)	17,196	5,022	107,737
Other comprehensive income (loss) from life insurance businesses	26,261	1,590	662	2,325	2,773	2,274	35,885
<b>Total comprehensive income (loss) from life insurance businesses</b>	<b>179,263</b>	<b>88,209</b>	<b>10,332</b>	<b>(161,447)</b>	<b>19,969</b>	<b>7,296</b>	<b>143,622</b>
Income (loss) from pension and provident funds							(117,074)
Other comprehensive income (loss) from pension and provident funds							(3,707)
<b>Total comprehensive income (loss) from pension and provident funds</b>							<b>(120,781)</b>
<b>Total income (loss) from long term savings</b>							<b>(9,337)</b>
<b>Total comprehensive income (loss) from long term savings</b>							<b>22,841</b>
Annualized premium with respect to insurance contracts - new business <sup>2)</sup>	34	830	-	486,747	82,009	-	569,620
One-time premium with respect to insurance contracts	128	2,426	-	467,337	-	-	469,891
Annualized premium with respect to investment contracts - new business	-	-	-	-	-	-	-
One-time premium with respect to investment contracts	-	-	-	368,409	-	-	368,409
Transfers to the Company with respect to insurance contracts and investment contracts <sup>5)</sup>	-	-	-	202,339	-	-	202,339
Transfers from the Company with respect to insurance contracts and investment contracts <sup>5)</sup>	54,540	267,503	-	390,166	-	-	712,209

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 2,451 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.

**Note 20: Additional Details Regarding the Long Term Savings Segment (Cont.)****B. Details of results by policy types (Cont.)**

NIS in thousands	For the year ended December 31, 2017				Policies with no savings component		Total
	Policies which include a savings component (including appendices) by policy issue date			Risk sold as a single policy			
	Until 1990 <sup>1)</sup>	Until 2003	From 2004	Individual	Collective		
			Non-investment-linked	Investment-linked			
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
<b>Total</b>	<b>249,053</b>	<b>1,654,929</b>	<b>9,395</b>	<b>2,916,797</b>	<b>614,269</b>	<b>90,060</b>	<b>5,534,503</b>
Receipts with respect to investment contracts charged directly to insurance reserves <sup>4)</sup>	-	-	-	290,982	-	-	290,982
Financial margin including management fees <sup>3)</sup>	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 <sup>6)</sup>	-	-	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
<b>Total comprehensive income (loss) from life insurance business operations</b>	<b>129,759</b>	<b>231,405</b>	<b>2,335</b>	<b>(165,360)</b>	<b>46,192</b>	<b>22,378</b>	<b>266,709</b>
Income (loss) from pension and provident funds							(95,049)
Other comprehensive income (loss) from pension and provident funds							4,881
<b>Total comprehensive income (loss) from pension and provident funds</b>							<b>(90,168)</b>
Total income (loss) from long term savings							140,626
<b>Total comprehensive income (loss) from long term savings</b>							<b>176,541</b>
Annualized premium with respect to insurance contracts - new business <sup>2)</sup>	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 premium with respect to investment contracts - new business	-	-	-	25	-	-	25
One-time premium with respect to investment contracts	-	-	-	208,725	-	-	208,725
Transfers to the Company with respect to insurance contracts and investment contracts <sup>5)</sup>	-	-	-	38,772	-	-	38,772
Transfers from the Company with respect to insurance contracts and investment contracts <sup>5)</sup>	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.

**Note 20: Additional Details Regarding the Long Term Savings Segment (Cont.)**

**B. Details of results by policy types (Cont.)**

NIS in thousands	For the year ended December 31, 2016				Policies with no savings component		Total
	Policies which include a savings component (including appendices) by policy issue date				Risk sold as a single policy		
	Until 1990 <sup>1)</sup>	Until 2003	From 2004		Individual	Collective	
			Non-investment-linked	Investment-linked			
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
<b>Total</b>	<b>260,663</b>	<b>1,654,678</b>	<b>12,845</b>	<b>2,414,608</b>	<b>552,660</b>	<b>103,160</b>	<b>4,998,614</b>
Receipts with respect to investment contracts charged directly to insurance reserves <sup>4)</sup>	-	-	-	469,704	-	-	469,704
Financial margin including management fees <sup>3)</sup>	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 <sup>6)</sup>	-	-	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 business operations	(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 long term savings							(80,233)
Total comprehensive income (loss) from long term savings							(61,127)
Annualized premium with respect to insurance contracts - new business <sup>2)</sup>	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 <sup>5)</sup>	-	-	-	22,464	-	-	22,464
Transfers from the Company with respect to insurance contracts and investment contracts <sup>5)</sup>	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.

**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, 2018

NIS in thousands	Long term care		Illness and hospitalization *)		Total
	Individual	Collective	Long term	Short term	
Investment-linked	818,804	3,582,668	-	-	4,401,472
Other	848,363	1,316,011	470,829	40,305	2,675,508
<b>Total insurance liabilities</b>	<b>1,667,167</b>	<b>4,898,679</b>	<b>470,829</b>	<b>40,305</b>	<b>7,076,980</b>

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
<b>Total insurance liabilities</b>	<b>1,479,961</b>	<b>4,286,837</b>	<b>390,150</b>	<b>39,680</b>	<b>6,196,628</b>

\*) See details in section A(3) below.

**2. Details of liabilities with respect to insurance contracts, by insurance exposure**

As of December 31, 2018

NIS in thousands	Long term care		Illness and hospitalization		Total
	Individual	Collective	Long term	Short term	
Reserve for payable claims	136,915	992,267	6,713	-	1,135,895
Other risk components	1,530,252	3,906,412	464,116	40,305	5,941,085
<b>Total insurance liabilities</b>	<b>1,667,167</b>	<b>4,898,679</b>	<b>470,829</b>	<b>40,305</b>	<b>7,076,980</b>

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, 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	1,370,471	3,478,469	383,883	39,680	5,272,503
<b>Total insurance liabilities</b>	<b>1,479,961</b>	<b>4,286,837</b>	<b>390,150</b>	<b>39,680</b>	<b>6,196,628</b>

The most material coverage included in long term illness and hospitalization insurance is medical expenses; with respect to short term, it is international travel.

**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**

	As of December 31					
	2018	2017	2018	2017	2018	2017
NIS in thousands	Gross		Reinsurance		Retention	
Unearned premium reserve	<b>21,192</b>	20,412	-	-	<b>21,192</b>	20,412
Insurance reserves and premium deficiency reserve	<b>276,792</b>	230,870	<b>12,045</b>	10,095	<b>264,747</b>	220,775
Outstanding claims	<b>213,150</b>	178,548	<b>12,644</b>	12,640	<b>200,506</b>	165,908
Total for the illness and hospitalization branch *)	<b>511,134</b>	429,830	<b>24,689</b>	22,735	<b>486,445</b>	407,095
*) Of which - actuarial estimates	<b>489,942</b>	409,418	<b>24,689</b>	22,735	<b>465,253</b>	386,683
Provisions on the basis of other estimates:						
Unearned premium reserve	<b>21,192</b>	20,412	-	-	<b>21,192</b>	20,412
Total for the illness and hospitalization branch	<b>511,134</b>	429,830	<b>24,689</b>	22,735	<b>486,445</b>	407,095

**Note 21: Additional Data Regarding the Health Insurance Segment (Cont.)****B. Details of results by policy types**

As of December 31, 2018

NIS in thousands	Long term care		Illness and hospitalization		Total
	Individual	Collective	Long term	Short term	
Gross premiums	256,634	919,513	812,682 <sup>1)</sup>	118,946 <sup>1)</sup>	2,107,775
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	244,235	1,103,958	419,689	54,569	1,822,451
Income (loss) from health insurance businesses	(46,373)	(117,552)	11,518	16,908	(135,499)
Other comprehensive income (loss) from health insurance businesses	(7,918)	(12,181)	(9,249)	(265)	(29,613)
Total comprehensive income (loss) from health insurance businesses	(54,291)	(129,733)	2,269	16,643	(165,112)
<b>Annualized individual premium - new</b>	<b>21,469</b>		<b>147,041 <sup>2)</sup></b>		<b>168,510</b>

1) Of which, individual premiums in the amount of NIS 725,433 thousand, and collective premiums in the amount of NIS 206,195 thousand.

2) Does not include the following branches: dental, foreign workers, international travel and Israelis abroad.

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	747,355 <sup>1)</sup>	123,462 <sup>1)</sup>	1,917,128
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	229,392	1,006,975	358,948	59,223	1,654,538
Income (loss) 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 (loss) from health insurance businesses	43,618	31,535	94,410	14,184	183,747
<b>Annualized individual premium - new</b>	<b>18,439</b>		<b>147,744 <sup>2)</sup></b>		<b>166,183</b>

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.

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	668,887 <sup>1)</sup>	141,749 <sup>1)</sup>	1,798,880
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	189,005	644,457	322,569	71,825	1,227,856
Income (loss) from health insurance businesses	7,214	83,632	91,157	20,615	202,618
Other comprehensive income (loss) from health insurance businesses	4,277	7,543	1,331	322	13,473
Total comprehensive income (loss) from health insurance businesses	11,491	91,175	92,488	20,937	216,091
<b>Annualized individual premium - new</b>	<b>16,200</b>		<b>132,484 <sup>2)</sup></b>		<b>148,684</b>

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.

**Note 22: Movement in Liabilities with Respect to Life Insurance Contracts, Investment Contracts and Health Insurance**

NIS in thousands	Life insurance and long term savings			Health insurance
	Insurance Contracts	Investment contracts	Total	
<b>Balance as of January 1, 2017</b>	70,789,681	4,355,795	75,145,476	5,430,323
Interest, linkage differentials and investment income <sup>1)</sup>	4,847,042	295,381	5,142,423	309,573
Increase with respect to premiums charged to liabilities <sup>2)</sup>	4,434,520	293,515	4,728,035	396,577
Decrease in rate of management fees from accrual	(739,075)	(28,497)	(767,572)	-
Decrease with respect to claims, redemptions and end of period	(3,332,469)	(818,039)	(4,150,508)	-
Changes due to change in assumptions	327,181 **)	-	327,181	14,731*)
Other changes <sup>3)</sup>	451,210	(41,919)	409,291	45,424
<b>Balance as of December 31, 2017</b>	<b>76,778,090</b>	<b>4,056,236</b>	<b>80,834,326</b>	<b>6,196,628</b>
Interest, linkage differentials and investment income <sup>1)</sup>	<b>777,622</b>	<b>140,380</b>	<b>918,002</b>	<b>50,682</b>
Increase with respect to premiums charged to liabilities <sup>2)</sup>	<b>4,660,323</b>	<b>439,465</b>	<b>5,099,788</b>	<b>508,725</b>
Decrease in rate of management fees from accrual	<b>(414,082)</b>	<b>(25,140)</b>	<b>(439,222)</b>	-
Decrease with respect to claims, redemptions and end of period	<b>(3,442,305)</b>	<b>(471,002)</b>	<b>(3,913,307)</b>	-
Changes due to change in assumptions	<b>(214,512) **)</b>	-	<b>(214,512)</b>	<b>161,396 *)</b>
Other changes <sup>3)</sup>	<b>565,493</b>	-	<b>565,493</b>	<b>159,549</b>
<b>Balance as of December 31, 2018</b>	<b>78,710,629</b>	<b>4,139,939</b>	<b>82,850,568</b>	<b>7,076,980</b>

\*) Derived from accumulated experience regarding the cost and frequency of claims, and their impact on expected results. It is noted that the effect in 2018, on retention, amounted to a total of approximately NIS 102 million.

\*\*\*) 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. 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, up to and including 2020, over ten years. The aforementioned expenses, which pertain to canceled life insurance contracts, are deductible during the year of cancellation. 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 over three years, beginning from the year subsequent to the adjustment year.
- 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 and 2018, was calculated in accordance with the principles specified above.

**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. In accordance with the approved law, the corporate tax was 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%.

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

<u>Year</u>	<u>Corporate tax rate</u>	<u>Capital gains tax rate</u>	<u>Overall tax rate in financial institutions</u>
		Percent	
2016	25.00	17.00	35.90
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.19

Current taxes for reporting periods are calculated in accordance with the tax rates presented in the above table.

**Note 23: Taxes on Income (Cont.)**

**C. Components of expenses (income) in taxes on income**

	For the year ended December 31		
	2018	2017	2016
<b>Current tax expenses (income)</b>			
With respect to the current period	7,674	107,977	(2,130)
Adjustments with respect to previous years, net	(12,669)	(10,900)	(7,778)
	<b>(4,995)</b>	97,077	(9,908)
<b>Deferred tax expenses (income)</b>			
Creation and reversal of temporary differences	(76,697)	(21,830)	15,544
Adjustments with respect to previous years, net	-	-	1,617
Adjustment of deferred tax balances due to the change in tax rates	-	-	(20,966)
	<b>(76,697)</b>	(21,830)	(3,805)
<b>Total taxes on income from continuing operations</b>	<b>(81,692)</b>	75,247	(13,713)

**D. Components of tax on income with respect to components of other comprehensive income**

	For the year ended December 31		
	2018	2017	2016
Foreign currency translation differences for foreign operations	6,574	(7,169)	(6,710)
Available for sale financial assets	(44,646)	99,492	(3,271)
Actuarial gains (losses) from defined benefit plan	2,448	753	938
<b>Total tax benefit (tax expense) with respect to components of other comprehensive income</b>	<b>(35,624)</b>	93,076	(9,043)

**E. Adjustment between theoretical tax on income before tax, and tax expenses**

	For the year ended December 31		
	2018	2017	2016
Income (loss) before taxes on income	(167,853)	282,933	85,868
The Group's primary tax rates	34.19%	35.04%	35.90%
Tax (tax saving) is calculated according to the Group's primary tax rate	(57,386)	99,147	30,822
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	(2,089)	(2,256)	(1,807)
Tax neutralization is calculated with respect to the Company's share in the income of investee companies accounted by the equity method	8,407	(8,872)	(12,085)
Differences in the measurement of assets and liabilities for tax purposes, and for the purpose of the adjusted reports	5,042	5,436	3,503
Difference with respect to the tax rate used to calculate deferred taxes	(698)	(3,893)	(475)
Rental income exempt from capital gains tax	(2,738)	(2,988)	(3,250)
Tax-exempt income	(21,922)	(5,677)	(7,717)
Unrecognized expenses	3,156	4,074	2,236
Unrecognized expenses with respect to share-based payment (see Note 41)	(57)	565	1,662
Use of losses and benefits from previous years with respect to which no deferred taxes were recorded	(1,269)	(757)	(696)
Losses and benefits for tax purposes for the period with respect to which no deferred taxes were recorded	531	1,369	1,222
Taxes with respect to previous years	(12,669)	(10,900)	(6,162)
Update of deferred tax balances with respect to changes in tax rates	-	-	(20,966)
<b>Total taxes on income (tax benefit)</b>	<b>(81,692)</b>	75,247	(13,713)
<b>Effective tax rate</b>	<b>48.67%</b>	26.60%	(15.97%)

**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:

	Intangible assets	Property, plant and equipment	Investment property	Financial instruments	Deferred acquisition costs in life insurance	Transferabl e deductions and losses for tax purposes	Employee benefits	Investee companies <sup>1)</sup>	Others <sup>2)</sup>	Total
<b>Balance of deferred tax asset (liability) as of January 1, 2017</b>	(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	-	-	(1,455)	(21,359)	-	(2,725)	-	-	7,038	(18,501)
<b>Balance of deferred tax asset (liability) as of December 31, 2017</b>	<b>(166,677)</b>	<b>(7,634)</b>	<b>(59,760)</b>	<b>(189,434)</b>	<b>(161,425)</b>	<b>1,790</b>	<b>31,126</b>	<b>(3,446)</b>	<b>52,764</b>	<b>(502,696)</b>
Changes applied to income statement	14,214	(1,968)	(349)	10,736	27,482	11,875	2,082	2,888	9,737	76,697
Changes applied to other comprehensive income	-	-	(3,751)	42,967	-	-	(2,291)	-	(1,301)	35,624
Classification of current taxes to deferred taxes	(415)	-	1,045	-	-	425	-	-	(6,029)	(4,974)
<b>Balance of deferred tax asset (liability) as of December 31, 2018</b>	<b>(152,878)</b>	<b>(9,602)</b>	<b>(62,815)</b>	<b>(135,731)</b>	<b>(133,943)</b>	<b>14,090</b>	<b>30,917</b>	<b>(558)</b>	<b>55,171</b>	<b>(395,349)</b>

1) As of December 31, 2017 and 2018, 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.)**

	<u>As of December 31</u>	
	<u>2018</u>	<u>2017</u>
Deferred tax assets	<b>6,554</b>	8,637
Liability with respect to deferred taxes	<b>(401,903)</b>	(511,333)
	<b>(395,349)</b>	(502,696)

**2. Deferred tax assets which were not recognized**

Deferred tax assets which were not recognized are with respect to the following items:

	<u>As of December 31</u>	
	<u>2018</u>	<u>2017</u>
Losses for tax purposes	<b>124,761</b>	98,225
Capital losses and real difference from marketable securities	<b>679,203</b>	679,182
<b>Total</b>	<b>803,964</b>	777,407

According to the currently existing tax laws in Israel, there is no time restriction 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**Final tax assessments:

The tax reports of the Group's member companies up to and including the 2013 tax year are considered final tax assessments in accordance with the provisions of section 145 of the Income Tax Ordinance, excluding Clal Finance Consumer Credit Ltd., in which the tax assessment report up to and including the 2012 tax year is considered final.

**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	
		2018	2017
Present value of funded obligations		79,089	85,267
Present value of unfunded obligations		27,080	30,074
Total present value of obligations	A(2)	106,169	115,341
Fair value of plan assets	A(2)	45,515	47,698
Impact of the maximum limit for assets		(670)	(460)
Liability which was recognized with respect to defined benefit plan		61,324	68,103
Recognized liability with respect to other long term benefits	C	19,059	15,759
Liabilities with respect to short term benefits *)		162,674	201,143
<b>Total employee benefits</b>		<b>243,057</b>	<b>285,005</b>

Presented under the following sections:

Other accounts receivable	1,019	1,143
Other accounts payable	163,319	201,896
Liabilities with respect to employee benefits, net	80,757	84,252

\*) 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.

**1. Composition of plan assets**

**The composition of plan assets is as follows:**

In percent	As of December 31	
	2018	2017
Central severance pay funds	4	4
Managers insurance	33	33
Provident funds and pension funds	63	63
	<b>100</b>	<b>100</b>

**Note 24: Employee Benefits (Cont.)****A. Post-employment benefit plans - defined benefit plans (Cont.)****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	
	2018	2017	2018	2017	2018	2017
Balance as of January 1	115,341	110,377	47,238	41,380	68,103	68,997
Expense/income applied to the statement of income <sup>1)</sup>						
Current service cost	13,192	12,656	-	-	13,192	12,656
Past service cost	2,903	(5,367)	511	-	2,392	(5,367)
Interest costs / income	3,766	4,702	1,306	1,639	2,460	3,063
Settlements <sup>2)</sup>	(5,423)	-	(2,137)	-	(3,286)	-
Total expense/income applied to the statement of income	14,438	11,991	(320)	1,639	14,758	10,352
Recognized under other comprehensive income:						
Actuarial gains due to changes in demographic assumptions	9	31	-	-	9	31
Actuarial gains due to changes in financial assumptions <sup>3)</sup>	(5,128)	6,870	-	-	(5,128)	6,870
Other actuarial gains	(4,086)	(7,948)	-	-	(4,086)	(7,948)
Actual returns less interest income	-	-	(924)	885	924	(885)
Total recognized under other comprehensive income:	(9,205)	(1,047)	(924)	885	(8,281)	(1,932)
Additional movements						
Benefits paid	(14,405)	(5,980)	(7,190)	(2,766)	(7,215)	(3,214)
Amounts deposited by the Group	-	-	6,041	6,100	(6,041)	(6,100)
Total additional movements	(14,405)	(5,980)	(1,149)	3,334	(13,256)	(9,314)
Balance as of December 31	106,169	115,341	44,845	47,238	61,324	68,103

1) Expenses are included under general and administrative expenses in the statement of income. See Note 35.

2) On March 29, 2018, an annex to the collective agreement was signed, which applies the provisions of the agreement to some employees of HaClal HaRishon, including the application of section 14.

3) Such as the discount rate.

**3. Actuarial assumptions and sensitivity analysis**

Main actuarial assumptions as of the end of the reporting period (by weighted average):

In percent	2018	2017	2016
Average real discount rate as of December 31 <sup>1)</sup>	2.47	1.85	2.69
Rate of real future wage increases	2.00-3.00	3.00-2.00	3.00-2.00

1) The discount rate is based on high quality CPI-linked corporate bonds.

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	As of December 31			
	Increase of one percent		Decrease of one percent	
	2018	2017	2018	2017
Rate of future salary increases	11,515	13,128	(8,007)	(8,861)
Discount rate	(7,932)	(8,329)	11,508	14,063

**Note 24: Employee Benefits (Cont.)**
**A. Post-employment benefit plans - defined benefit plans (Cont.)**
**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 2019 in defined benefit plans, financed for the plan assets, amounts to NIS 5,516 thousand.

The Group's estimate throughout the lifetime of the plan (according to a weighted average) at the end of the reporting period is 8.9 years (for 2017 - 9.1 years).

**5. Actual returns**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Actual returns on plan assets	<b>584</b>	2,713	366

**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		
	2018	2017	2016
Amount recognized as expenditure with respect to defined deposit plans	<b>93,536</b>	79,109	74,704

**C. Liabilities with respect to other long term benefits**

NIS in thousands	As of December 31	
	2018	2017
Liabilities with respect to sick days	<b>6,393</b>	5,951
Liability with respect to dedication bonus	<b>3,732</b>	2,528
Liability with respect to seniority bonus	<b>8,934</b>	7,280
Total recognized liability with respect to other long term benefits	<b>19,059</b>	15,759

**Note 24: Employee Benefits (Cont.)****D. Collective agreement between the Group's member companies and the Histadrut Worker's Committee in the Group**

On July 20, 2017, a collective agreement (the "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 Worker's 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 certain changes which were made, as specified below.

On March 29, 2018, an annex to the collective agreement was signed, which applied the provisions of the agreement to some employees of HaClal HaRishon, excluding managers of a specified rank, subject to certain agreed-upon changes.

The main terms of the agreement, and the estimate regarding its financial implications, are as follows:

1. In July of each year during the agreement period, salary additions will be paid to employees, at an average rate of 3% of the base salary of the employees who are entitled to a salary addition. In general, half of the total budget for salary additions will be paid as a uniform addition, and the other half will be paid as a differential addition, in the managers' discretion.  
It is also noted that, insofar as the Group fulfills an average annual profit over NIS 342 million during the agreement period, in April 2021, a salary addition will be given according to the formula which was determined between the parties, whereby the maximum rate will be 4% from that date onwards (addition of up to 1% per year). Notwithstanding the foregoing, insofar as the annual profit in a certain year is lower than NIS 100 million, the budget for the payment of salary additions in the subsequent year will be in accordance with the CPI's rate of increase during the 12 month period ending on June 30th of the subsequent year, plus 0.5%; however, no less than 1%, and no more than the budget of salary additions, as specified in the agreement for that year. Insofar as a reduced bonus budget is paid, as stated above, in a given year, an additional budget will be allocated to salary additions in the salary for April 2021, according to the difference between the budget which was paid, and the budget which was supposed to be paid in accordance with the collective agreement.
2. Each year, and insofar as the Company's annual profit does not fall below NIS 210 million, a special annual payment will be paid to employees (without social benefits), at a rate of 1.4% of the annual salary cost of the employees to whom the collective 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 salary cost (with respect to annual profit of no less than NIS 400 million).  
Additionally, in case the Company's annual profit amounts to at least NIS 300 million, an additional payment will be paid to the employees (without social benefits), at a variable rate (in accordance with the results) of 0.5% (with respect to annual profit of no less than NIS 300 million) to 1% (with respect to annual profit of no less than NIS 400 million) of the annual salary cost of the employees to whom the collective agreement applies. This payment will be granted to some of the eligible employees by way of an allocation of Company share options.
3. Additionally, an agreement was reached to increase the participation with respect to meals, participation in the cost of summer camps, an increase welfare budget relative to the first collective agreement, a seniority bonus, a persistence and excellence bonus for employees who joined the Company after November 2012, and increasing the employer's deposits for compensation.
4. Increasing the minimum wage for monthly employees in the companies to NIS 6,000, minimum salary additions for veteran employees (employees who have been employed in the companies for 10 to 30 years) to amounts of NIS 7,000 to 8,500, as well as a salary addition for call center employees. The cost of the aforementioned expense will be included in the salary additions specified in section 1 above. It was further agreed to extend the period required to receive tenure for new Company employees, as well as changes to the performance improvement process before dismissal.
5. The agreement exhausts the demands and claims of the parties throughout the validity period of the agreement, including as regards the demand to grant 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 the Company's control, if any, during the period of the agreement. 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 sale of shares, as stated above.
6. 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.
7. 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.
8. Beyond the provisions of 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.

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.

**Note 25: Financial Liabilities**
**A. Financial liabilities**

NIS in thousands	As of December 31			
	Book value		Fair value *)	
	2018	2017	2018	2017
<b>Financial liabilities presented at amortized cost which constitute liability certificates <sup>b)</sup></b>				
Bonds	<b>3,097,877</b>	3,130,426	<b>3,347,438</b>	3,534,690
Loans from banking corporations	<b>111,938</b>	111,938	<b>114,300</b>	117,882
<b>Total financial liabilities presented at amortized cost <sup>1)</sup></b>	<b>3,209,815</b>	3,242,364	<b>3,461,738</b>	3,652,572
<b>Liabilities measured at fair value through profit and loss:</b>				
Liabilities with respect to derivative financial instruments and short sales:				
Future contracts	<b>269,077</b>	113,031	<b>269,077</b>	113,031
Foreign currency swap transactions	<b>37,421</b>	56,495	<b>37,421</b>	56,495
Maof options	<b>3,010</b>	1,098	<b>3,010</b>	1,098
Foreign options	<b>23,850</b>	-	<b>23,850</b>	-
Other	<b>526</b>	66	<b>526</b>	66
<b>Total liabilities measured at fair value through profit and loss <sup>2)</sup></b>	<b>333,884</b>	170,690	<b>333,884</b>	170,690
<b>Total financial liabilities</b>	<b>3,543,699</b>	3,413,054	<b>3,795,622</b>	3,823,262
1) Of which, with respect to deferred liability notes which constitute current capital	<b>3,136,787</b>	3,169,812	<b>3,382,978</b>	3,570,841
2) Of which, with respect to investment-linked liabilities	<b>239,423</b>	116,449	<b>239,423</b>	116,449

For additional information regarding the Group's exposure to interest rate, foreign currency and liquidity risks, see Note 39(a).

\*) Includes an approximation of fair value, in cases where the gap is immaterial. For additional information regarding fair value measurement, see section E below.

## Note 25: Financial Liabilities (Cont.)

## B. Deferred liability notes - Composition as of December 31

	Additional information	Issuing entity	Capital type *)	Linkage terms	Interest type	Annual interest rate		Marketable / Non-marketable	Level in the fair value hierarchy **)	Interest rate used to calculate fair value	Original amount issued	Book value		Fair value	
						Effective	Nominal					2018	2017	2018	2017
						%						NIS in thousands			
Issued in March 2003	(1)	Clal Insurance	Tier 2 subordinated	CPI-linked	Fixed	7.04	7.00	Non-marketable	2	1.95	200,000	-	14,992	-	16,014
Liability certificates (Series A)	(2)	Clalbit Finance	Tier 2 subordinated capital	CPI-linked	Fixed	4.99	4.89	Marketable	1	-	400,000	<b>66,460</b>	87,525	<b>72,553</b>	97,710
Loan from bank	(3)	Clal Insurance	Tier 3 hybrid capital	Unlinked	Variable	2.40	2.40	Non-marketable	2	1.48	111,938	<b>111,938</b>	111,938	<b>114,300</b>	117,882
Liability certificates (Series B)	(4)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	5.35	5.20	Marketable	1	-	100,000	-	13,814	-	14,510
Liability certificates (Series C)	(5)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.97-4.35	3.75	Marketable	1	-	774,701	<b>833,155</b>	822,291	<b>915,232</b>	934,135
Liability certificates (Series G)	(5)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.39-2.45	2.32	Marketable	1	-	364,846	<b>363,291</b>	361,335	<b>388,050</b>	393,778
Liability certificates (Series H)	(5)	Clalbit Finance	Tier 2 hybrid capital	Unlinked	Fixed	2.98-4.31	4.14	Marketable	1	-	469,388	<b>472,002</b>	472,618	<b>498,490</b>	526,043
Liability certificates (Series I)	(5)	Clalbit Finance	Tier 2 hybrid capital	CPI-linked	Fixed	2.51-3.84	2.48	Marketable	1	-	423,486	<b>414,195</b>	410,781	<b>445,973</b>	469,689
Liability certificates (Series J)	(5)	Clalbit Finance	Tier 2 hybrid capital	Unlinked	Fixed	3.38-4.61	3.92	Marketable	1	-	959,854	<b>948,774</b>	947,070	<b>1,027,140</b>	1,082,811
<b>Total liability certificates</b>											<b>3,804,213</b>	<b>3,209,815</b>	3,242,364	<b>3,461,738</b>	3,652,572

\*) 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, from January 31, 2009 until 2018. The interest was paid on an annual basis beginning on January 31, 2004.
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, the Company will issue an equity instrument of equivalent or superior quality;
        2. Subject to the advance approval of the Commissioner, and to the conditions which will be determined.
        3. If the capital of Clal Insurance, after the early redemption, exceeds 120% of the minimum capital required of it under the Capital Regulations.
    2. Upon the fulfillment of any of the suspending circumstances, as specified below, the principal payment of the deferred liability note will be deferred:
      - A. The recognized capital amount of Clal Insurance has decreased below the minimum capital required of it, in accordance with the most recent financial statements (annual or quarterly) before the relevant principal repayment date, and Clal Insurance has not performed a capital supplementation as of the publication date of the report.
      - B. The Commissioner ordered the 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).

**Note 25: Financial Liabilities (Cont.)****B. Deferred liability notes (Cont.)**

- 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.
  - 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 equity 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 equity instruments); a status higher than the components and instruments which will be included under the Tier 1 capital of the Company; 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 was repaid in three equal annual installments, in each of the years 2016 to 2018. The interest on the liability certificates was 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 f(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 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 F(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.
- C. 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 F(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.
- D. 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 F(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.
- E. 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 F(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.)

#### F. 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 an equity instrument of identical or superior quality;

##### 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.

**Note 25: Financial Liabilities (Cont.)****B. Deferred liability notes (Cont.)**F. Additional terms of the liability certificates2. Deferral of principal and/or interest payments in case of suspending circumstances (Cont.)

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.)

#### 1. (Cont.)

#### F. Additional terms of the liability certificates (Cont.)

#### 3. The Commissioner's position regarding "definition of recognized capital and required capital in hybrid equity 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 equity 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 directives of the Capital Market Authority, 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 liability certificates which were issued, until the date of entry into effect of the economic solvency regime, will be interpreted in accordance with the aforementioned position paper.

G. 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.
- The same status as 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).
- 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.
- 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.)**

G. 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:

- 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.
- 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.
- 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 11 million, which are amortized using the effective interest method.

**7. Repayment dates**

**Presented below are the contractual repayment dates of the deferred liability notes: \*)**

<b>NIS in thousands</b>	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
First year	<b>17,782</b>	46,513
Second year	<b>17,625</b>	17,539
Third year	<b>965,902</b>	17,381
Fourth year	<b>465,699</b>	955,783
Fifth year and thereafter	<b>1,742,807</b>	2,205,148
<b>Total</b>	<b>3,209,815</b>	3,242,364

\*) Assuming early redemption, see section B(5)(f)(1) above.

**Note 25: Financial Liabilities (Cont.)**

**8. Movement in liabilities from financing activities**

	Bonds	Loans	Total liability certificates	Interest payable with respect to deferred liability notes	Total
<b>Balance as of January 1, 2017</b>	3,203,395	185,027	3,388,422	40,246	3,428,668
<b>Changes due to cash flows from financing activities</b>					
Repayment of loans	(80,023)	(73,089)	(153,112)	-	(153,112)
Interest paid	-	-	-	(120,165)	(120,165)
<b>Total cash from financing activities</b>	<b>(80,023)</b>	<b>(73,089)</b>	<b>(153,112)</b>	<b>(120,165)</b>	<b>(273,277)</b>
Effect of changes in index	2,927	-	2,927	-	2,927
Other changes	4,127	-	4,127	117,537	121,664
<b>Balance as of December 31, 2017</b>	<b>3,130,426</b>	<b>111,938</b>	<b>3,242,364</b>	<b>37,618</b>	<b>3,279,982</b>
<b>Changes due to cash flows from financing activities</b>					
Repayment of loans	(50,899)	-	(50,899)	-	(50,899)
Interest paid	-	-	-	(115,981)	(115,981)
<b>Total cash from financing activities</b>	<b>(50,899)</b>	<b>-</b>	<b>(50,899)</b>	<b>(115,981)</b>	<b>(166,880)</b>
Effect of changes in index	14,278	-	14,278	-	14,278
Other changes	4,072	-	4,072	114,203	118,275
<b>Balance as of December 31, 2018</b>	<b>3,097,877</b>	<b>111,938</b>	<b>3,209,815</b>	<b>35,840</b>	<b>3,245,655</b>

**C. Shelf prospectus**

In April 2018, the Company's shelf prospectus expired.

**D. Rating**

Presented below are details regarding the ratings of the Company and the Group's member companies, as well as liability certificates which were issued by them, as of the publication date of the report, and changes during the reporting period:

Rating company	Company name	Rating	Outlook	Date of last update	Date of last ratification
<b>Maalot</b>	The Company	(IFSR) <sup>1)</sup>	(AA+)	Stable	Oct 18 <sup>2)</sup>
		Debt rating for deferred liability notes	(AA)	Stable	
		Debt rating (Tier 2 hybrid capital)	(AA-)	Stable	
<b>Midroog</b>	The Company	(IFSR) <sup>1)</sup>	Aa1(hyb)	Stable	Nov 18 <sup>3)</sup>
		Debt rating - subordinated Tier 2 liability certificates	Aa2(hyb)	Stable	
		Debt rating - liability certificates under Tier 2 hybrid capital	Aa3(hyb)	Stable	

1) Financial stability rating of an insurer.

2) In October 2017 and October 2018, Maalot left unchanged the ratings presented in the above table.

3) In October 2017 and November 2018, Midroog left unchanged the ratings presented in the above table.

**E. 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(f).

**Note 25: Financial Liabilities (Cont.)**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.

<u>NIS in thousands</u>	<u>As of December 31, 2018</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Derivatives and short sales	27,386	306,498	333,884

<u>NIS in thousands</u>	<u>As of December 31, 2017</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Derivatives and short sales	1,164	169,526	170,690

**F. 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:

<u>NIS in thousands</u>	<u>As of December 31</u>	
	<u>2018</u>	<u>2017</u>
Stocks	(12,641)	32,328
CPI	1,488,341	1,612,055
Foreign currency	(2,238,701)	9,012
Goods	876	-
Fixed interest	(118,331)	120,919

## Note 26: Other Accounts Payable

### Composition

NIS in thousands	As of December 31	
	2018	2017
Employees and other wage and salary commitments	<b>163,319</b>	201,896
Expenses payable	<b>186,210</b>	163,695
Provisions with respect to legal claims <sup>1)</sup>	<b>51,488</b>	39,031
Suppliers and service providers	<b>49,178</b>	28,232
Government institutions and authorities	<b>11,550</b>	11,445
Reinsurers' share in deferred acquisition costs	<b>91,977</b>	83,022
Insurance companies and insurance mediators:		
Deposits of reinsurers	<b>1,161,460</b>	862,419
Other accounts	<b>189,826</b>	156,686
Total insurance companies	<b>1,351,286</b>	1,019,105
Insurance agents	<b>440,307</b>	413,118
Policyholders and members	<b>379,892</b>	555,078
Provision for profit sharing of policyholders	<b>45,723</b>	45,626
Interest payable with respect to deferred liability notes	<b>35,843</b>	37,618
Prepaid premiums	<b>67,815</b>	68,610
Securities with respect to non-marketable futures contracts	-	56,998
Payables with respect to acquisition of securities	<b>95,135</b>	544,124
Associate companies	<b>16,080</b>	15,704
Other payables	<b>14,362</b>	38,830
<b>Total other accounts payable</b>	<b>3,000,165</b>	3,322,132

1) Movement in the provisions with respect to legal claims

NIS in thousands	For the year ended December 31	
	2018	2017
Balance as of January 1	<b>39,031</b>	25,794
Provisions realized during the year	<b>(6,788)</b>	(2,864)
Provisions created during the year	<b>19,245</b>	16,101
<b>Balance as of December 31</b>	<b>51,488</b>	39,031

## 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	
	2018	2017
Up to one year	63,251	61,171
One year to five years	156,101	133,840
Over five years	246,640	256,676
	<b>465,992</b>	<b>451,687</b>

Presented below are the lease payments and income with respect to subleases which were applied to the statement of income: \*)

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Minimum lease payments recognized as expenses	72,973	60,009	57,554
Income from subleasing	(3,741)	(6,429)	(6,252)
	<b>69,232</b>	<b>53,580</b>	<b>51,302</b>

\*) 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	
	2018	2017
Up to one year	272,493	247,994
One year to five years	944,668	874,225
Over five years	2,085,774	1,944,774
	<b>3,302,935</b>	<b>3,066,994</b>
Of which, receivable future minimum lease payments attributed to properties in which the Company is the lessee under a finance lease	<b>719,680</b>	<b>725,340</b>

For additional information regarding leasing agreements in connection with investment property, see Note 10.

**Note 28: Premiums Earned**

<b>NIS in thousands</b>	<b>For the year ended December 31, 2018</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Retention</b>
Premiums in life insurance	<b>5,846,695</b>	<b>135,807</b>	<b>5,710,888</b>
Premiums in health insurance	<b>2,107,775</b>	<b>300,418</b>	<b>1,807,357</b>
Premiums in non-life insurance	<b>2,351,378</b>	<b>1,012,460</b>	<b>1,338,918</b>
Total premiums	<b>10,305,848</b>	<b>1,448,685</b>	<b>8,857,163</b>
Change in unearned premium balance and other changes *)	<b>(30,830)</b>	<b>(68,652)</b>	<b>37,822</b>
Total premiums earned	<b>10,275,018</b>	<b>1,380,033</b>	<b>8,894,985</b>

<b>NIS in thousands</b>	<b>For the year ended December 31, 2017</b>		
	<b>Gross</b>	<b>Reinsurance (**)</b>	<b>Retention</b>
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

<b>NIS in thousands</b>	<b>For the year ended December 31, 2016</b>		
	<b>Gross</b>	<b>Reinsurance</b>	<b>Retention</b>
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

\*) For details regarding changes in unearned premiums in non-life insurance, see Note 19.

\*\*\*) In 2017, the Company signed a new proportional reinsurance treaty for the compulsory motor branch, with no impact on old underwriting years.

There are also changes which are due to a deduction with respect to amounts deposited in the Company within the framework of a defined benefit plan for the Group's employees.

**Note 29: Income (loss) from Investments, Net, and Financing Income**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
<b>Income (loss) from assets held against investment-linked liabilities</b>			
Investment property	229,522	198,179	106,240
Financial investments			
Marketable debt assets	79,638	928,205	260,519
Non-marketable debt assets	(5,463)	312,905	107,773
Stocks	(152,354)	1,060,307	(11,451)
Other	(441,251)	2,267,035	884,962
Cash and cash equivalents	33,446	(63,639)	(10,163)
Other	(10,741)	(52,932)	(22,413)
Total income (loss) from assets held against investment-linked liabilities, net	(267,203)	4,650,060	1,315,467
<b>Income (loss) from assets held against non-investment-linked liabilities, capital and others</b>			
<b>Income from investment property</b>			
Revaluation of investment property	6,238	36,583	2,218
Current income with respect to investment property	78,165	69,363	41,632
Total income from investment property	84,403	105,946	43,850
<b>Income (loss) from financial investments, excluding interest, linkage differentials, foreign currency differences and dividends with respect to:</b>			
Available for sale assets <sup>(a)</sup>	199,637	175,683	133,161
Assets presented at fair value through profit or loss <sup>(b)</sup>	(278,412)	172,859	58,915
Assets presented as loans and receivables <sup>(c)</sup>	502	(6,046)	5,139
Total	(78,273)	342,496	197,215
Interest income <sup>1)</sup> and linkage differentials from financial assets not at fair value through profit and loss	1,388,355	1,139,908	1,032,761
Interest income and linkage differentials from financial assets at fair value through profit and loss	8,534	1,848	(4,128)
Profit (loss) from foreign currency differences with respect to investments which are not measured at fair value through profit or loss and from other assets <sup>2)</sup>	40,868	(47,627)	(15,524)
Income from dividends	68,185	41,917	46,733
Total income from investments, net, and financing income	1,244,869	6,234,548	2,616,374
1) The aforementioned income includes interest with respect to impaired financial assets which are not measured at fair value through profit or loss	2,005	4,553	712

2) For details regarding foreign currency differences with respect to financial liabilities, see Note 37.

**Note 29: Income (Loss) from Investments, Net, and Financing Income (Cont.)**
**A. Net profits from investments with respect to available for sale financial assets**

	For the year ended December 31		
NIS in thousands	2018	2017	2016
Net gains from realized securities	287,850	245,190	234,495
Net impairment charged to profit and loss	(88,213)	(69,507)	(101,334)
Total income (loss) from investments with respect to available for sale financial assets	199,637	175,683	133,161

**B. Income (loss) from investments with respect to assets presented at fair value through profit and loss**

	For the year ended December 31		
NIS in thousands	2018	2017	2016
Net changes in fair value, including profit from disposal			
With respect to assets designated upon initial recognition	(399)	(1,920)	(16,046)
With respect to assets held for trading	(278,013)	174,779	74,961
Total income (loss) from investments with respect to assets presented at fair value through profit and loss	(278,412)	172,859	58,915

**C. Income (loss) from investments with respect to assets presented as loans and receivables**

	For the year ended December 31		
NIS in thousands	2018	2017	2016
Income (loss) from disposal of assets presented as loans and receivables	1,653	(6,389)	4,072
Reversal of impairment (impairment) charged to profit and loss	(1,151)	343	1,067
Total gains from investments with respect to assets presented as loans and receivables	502	(6,046)	5,139

**Note 30: Income from Management Fees**

	For the year ended December 31		
NIS in thousands	2018	2017	2016
Management fees in the pension and provident fund branches *)	448,086	466,448	471,760
Variable management fees with respect to life insurance contracts **)	2,995	351,977	106,048
Fixed management fees with respect to life insurance contracts	414,082	387,098	354,173
Management fees with respect to investment contracts	19,034	20,960	24,476
Total income from management fees	884,197	1,226,483	956,457

\*) 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). As of December 31, 2018, a "deficiency" materialized for the Company in the collection of variable management fees, in the amount of approximately NIS 87 million.

**Note 31: Income from Commissions**

	For the year ended December 31		
NIS in thousands	2018	2017	2016
Insurance agency commissions	52,761	61,475	50,281
Reinsurance commissions, less change in deferred acquisition costs with respect to reinsurance	238,585	205,638	176,137
Total income from commissions	291,346	267,113	226,418

**Note 32: Other Income**

	For the year ended December 31		
NIS in thousands	2018	2017	2016
Capital gains from the sale of assets	-	1,393	1,249
Profit from disposal of investments in investee companies and other companies	-	2,081	-
Others	75	84	170
Total other income	75	3,558	1,419

### 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		
	2018	2017	2016
<b>With respect to life insurance contracts:</b>			
Paid and outstanding claims			
Death, disability and other events	748,097	718,376	750,843
Less reinsurance	(119,334)	(101,320)	(111,943)
Total	628,763	617,056	638,900
Redeemed policies	2,288,894	2,131,165	1,854,805
Expired policies (**)	14,883	323,369	306,698
Retirement	414,656	331,866	268,396
Claim settlement costs	16,666	16,369	22,089
<b>Total claims</b>	<b>3,363,862</b>	<b>3,419,825</b>	<b>3,090,888</b>
Increase (decrease) in liabilities with respect to life insurance contracts (excluding changes in contingencies) on retention	2,386,892	6,707,622*)	3,496,443
Increase in liabilities with respect to life insurance investment contracts due to the yield component	(18,666)	114,449*)	30,217
Increase in liabilities with respect to a contract for the management of a guaranteed return provident fund	152,437	131,475	118,063
<b>Total payments and change in liabilities on retention with respect to insurance contracts and investment contracts in long term savings</b>	<b>5,884,525</b>	<b>10,373,371</b>	<b>6,735,611</b>
<b>Total payments and changes in liabilities with respect to non-life insurance contracts</b>			
Gross	1,562,129	1,874,324	1,611,703
Reinsurance	(553,777)	(703,535)	(357,905)
On retention	1,008,352	1,170,789	1,253,798
<b>Total payments and changes in liabilities with respect to health insurance contracts</b>			
Gross	1,822,451	1,654,538	1,227,856
Reinsurance	(471,418)	(293,904)	(189,484)
On retention	1,351,033	1,360,634	1,038,372
<b>Total payments and changes in liabilities with respect to insurance contracts and investment contracts, on retention</b>	<b>8,243,910</b>	<b>12,904,794</b>	<b>9,027,781</b>

\*) Reclassified, see Note 2(f).

\*\*\*) In 2018, the decrease was due to the reclassification of policies from the item for payables to the item for liabilities with respect to insurance contracts. The aforementioned classification had no effect on the segment's results, or on the Company's results.

### Note 34: Commissions, Marketing Expenses and Other Acquisition Costs

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Acquisition costs:			
Acquisition fees	710,163	665,562	640,734
Other acquisition costs	468,754	473,578	459,663
Change in deferred acquisition costs	(28,965)	(21,210)	(73,146)
<b>Total acquisition costs</b>	<b>1,149,952</b>	<b>1,117,930</b>	<b>1,027,251</b>
Other current fees	641,415	631,271	607,696
Other marketing expenses	228,698	207,351	179,252
<b>Total commissions, marketing expenses and other acquisition costs</b>	<b>2,020,065</b>	<b>1,956,552</b>	<b>1,814,199</b>

**Note 35: General and Administrative Expenses**
**A. Details of expenses by main operation types**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Insurance agencies and HaClal HaRishon	178,185	167,345	155,711
Managing companies of pension and provident funds	164,744	155,357	111,280
Insurance companies and others	974,513	940,968	869,500
<b>Total excluding automation expenses</b>	<b>1,317,442</b>	<b>1,263,670</b>	<b>1,136,491</b>
Automation expenses	422,994	426,271	404,031
<b>Total</b>	<b>1,740,436</b>	<b>1,689,941</b>	<b>1,540,522</b>

**B. Details of expenses**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Payroll and associated expenses <sup>1)</sup>	1,024,900	1,006,311 *)	880,832 *)
Depreciation and amortization	253,197	255,975	236,730
Office maintenance and telecommunication	136,647	128,946	135,946
Marketing and advertising	23,961	13,025	15,896
Legal and professional consulting	37,535	32,848	31,794
Operating expenses of provident funds in banks	12,725	14,602	14,070
Others <sup>2)</sup>	251,471	238,234 *)	225,254 *)
<b>Total</b>	<b>1,740,436</b>	<b>1,689,941</b>	<b>1,540,522</b>
Less:			
Amounts classified under the item for liabilities and payments with respect to insurance contracts	132,754	136,951	128,255
Amounts classified under the item for commissions, marketing expenses and other acquisition costs	697,452	680,929	638,915
<b>General and administrative expenses</b>	<b>910,230</b>	<b>872,061</b>	<b>773,352</b>

\*) Automation expenses were reclassified from the sub-item for payroll and associated expenses to the sub-item for other expenses. The reclassification had no effect on total general and administrative expenses or on the Company's results. See Note 2(f).

- 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).
- 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		
	2018	2017	2016
Amortization of intangible assets (Note 6)	4,570	5,454	7,828
Provision for claims and financial sanctions	4,800	15,068	6,511
Onerous contract	(154)	3,103	(507)
Others	1,481	148	930
<b>Total other expenses</b>	<b>10,697</b>	<b>23,773</b>	<b>14,762</b>

**Note 37: Financing Expenses**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Interest expenses and linkage differentials with respect to			
Deferred liability notes <sup>1)</sup>	131,552	123,539	148,722
Liabilities to banks	-	1,055	1,994
Interest expenses to reinsurers	17,355	18,477	10,693
Exchange differences, net, with respect to liabilities <sup>2) 3)</sup>	8,270	(9,226) *)	(2,063)
Commissions and other financing costs	754	610 *)	349
<b>Total financing expenses</b>	<b>157,931</b>	<b>134,455</b>	<b>159,695</b>

\*) Re-classified.

- The balance in 2016 includes the cost of early repayments in the amount of approximately NIS 24 million.
- Primarily due to foreign currency differences with respect to the settling of accounts vis-à-vis reinsurers.
- 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		
	2018	2017	2016
Earnings (loss) attributed to holders of ordinary shares	(91,445)	203,096	96,401

**B. Weighted average of the number of ordinary shares (basic)**

	For the year ended December 31		
	2018	2017	2016
	Shares of NIS 1 par value		
Balance as of January 1	55,563,497	55,412,244	55,412,244
Impact of warrants exercised into shares	13,808	34,506	-
Weighted average of the number of ordinary shares used to calculate basic earnings (loss) per share	55,577,305	55,446,750	55,412,244

**C. Weighted average of the number of ordinary shares (diluted) <sup>1)</sup>**

	For the year ended December 31		
	2018	2017	2016
	Shares of NIS 1 par value		
Weighted average of the number of ordinary shares used to calculate basic earnings per share	55,577,305	55,446,750	55,412,244
Impact of share warrants	-	171,401	-
Weighted average of the number of ordinary shares used to calculate diluted earnings (loss) per share	55,577,305	55,618,151	55,412,244

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.

For details regarding a permit which was granted by the Commissioner to the previous controlling shareholders in IDB Holding for the holding of control in the Company and in consolidated institutional entities, see Note 16(e)(5). For details regarding the changes in the control of the Company, and the implications thereof on the control permits, see Note 1 above. The Board of Directors evaluates, from time to time, the capital cushion with respect to unexpected developments in the major risk factors to which the Group is exposed.

### A2. Description of management processes and methods, and measurement of risks in the consolidated insurance companies

The risk management policy of the consolidated insurance companies in Israel, and of the investee companies held by them (hereinafter: "**Clal Insurance Group**"), which was approved by the boards of directors, is intended to ensure controlled exposure to the risks to which Clal Insurance Group is exposed, while meeting Clal Insurance Group's regulatory requirements, and maintaining its business goals and financial stability.

Risk management in the Clal Insurance Group is based on three "lines of defense":

- The business entities which are responsible for the identification, assessment, monitoring, mitigation and reporting of risks inherent in products, activities, processes and systems which are subject to their responsibility and control. This responsibility includes, inter alia the definition of processes, internal policies and decision making. The business entities enlist the assistance of supportive departments, including the actuarial, finance, regulatory and legal consulting, reinsurance and information system departments.
- 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 finance division and the SOX department, 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.

**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.)**

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 directives which replaced 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.

**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, use of hedging instruments, 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 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, premium 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 of a scope which exceeds the determined limit are presented to the relevant credit committee and/or Investment Committee for discussion and advance approval.

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 unit 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 and in the Rules of Investment Regulations. 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.

**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 department, 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.

## Note 39: Risk Management (Cont.)

### A2. Description of procedures and practices for the management and measurement of risks in the consolidated insurance companies (Cont.)

#### Processes and methods for the management and measurement of various risks: (Cont.)

#### 4. Operational risks (Cont.)

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, prevention of money laundering and prohibition on terrorism financing and control of financial reporting (SOX), 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, finance division and SOX department 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.

### 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 works, inter alia, to implement the regulatory requirements in this area.

**Note 39: Risk Management (Cont.)****B. Legal requirements for institutional entities (Cont.)**

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 prohibition on terrorism financing, 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).

**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, 2018, amounts to approximately NIS 39.2 billion (last year - approximately NIS 39.1 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 return of this portfolio affects variable management fees in the amount of approximately NIS 53 million.

For details regarding the management fees which were collected during the reporting period, see Notes 20 and 30.

**Note 39: Risk Management (Cont.)**

**C. Market risks (Cont.)**

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.

As of December 31, 2018 NIS in thousands	Interest rate		Investments in equity instruments		Rate of change in the consumer price index		Rate of change in the foreign currency exchange rate	
	1%+	1%-	10%+	10%-	1%+	1%-	10%+	10%-
Profit and loss <sup>5)</sup>	279,381	(1,158,312)	9,785	(10,436)	(22,237)	19,296	(159,926)	159,926
Comprehensive income (equity) <sup>4)5)</sup>	58,389	(899,480)	280,604	(281,256)	(22,237)	19,296	47,518	(47,518)

As of December 31, 2017 NIS in thousands	Interest rate		Investments in equity instruments		Rate of change in the consumer price index		Rate of change in the foreign currency exchange rate	
	1%+	1%-	10%+	10%-	1%+	1%-	10%+	10%-
Profit and loss <sup>5)</sup>	339,864	(1,373,535)	24,533	(14,902)	(15,146)	13,904	(114,853)	114,853
Comprehensive income (equity) <sup>4)5)</sup>	112,672	(1,109,851)	274,978	(265,377)	(15,146)	13,904	73,262	(73,262)

- 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 21 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 15% 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, not including 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 3,057 million, with respect to an increase of 10% in foreign currency exchange rates, including income in the amount of 32 million and comprehensive income in the amount of approximately NIS 169 million (2017: approximately NIS 39 million and approximately NIS 187 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:

**As of December 31, 2018**

<b>NIS in thousands</b>	<b>Non- investment- linked</b>	<b>Investment- linked</b>	<b>Total</b>
<b>Assets with direct interest rate risk</b>			
Marketable debt assets	5,231,862	26,681,982	31,913,844
Non-marketable debt assets:			
HETZ bonds and deposits in treasury	15,775,836	-	15,775,836
Other	6,214,507	6,236,989	12,451,496
Other financial investments	343,395	4,134,085	4,477,480
Cash and cash equivalents	1,298,286	3,648,899	4,947,185
Reinsurance assets	2,793,751	185,628	2,979,379
<b>Total assets with direct interest rate risk</b>	<b>31,657,637</b>	<b>40,887,583</b>	<b>72,545,220</b>
<b>Assets without direct interest rate risk *)</b>	<b>10,213,741</b>	<b>25,233,665</b>	<b>35,447,406</b>
<b>Total assets</b>	<b>41,871,378</b>	<b>66,121,248</b>	<b>107,992,626</b>
<b>Liabilities with direct interest rate risk</b>			
Financial liabilities	3,304,276	239,423	3,543,699
Liabilities with respect to insurance contracts and investment contracts	30,646,995	65,366,897	96,013,892
Other	1,024,097	169,270	1,193,367
<b>Total liabilities with direct interest rate risk *)</b>	<b>34,975,368</b>	<b>65,775,590</b>	<b>100,750,958</b>
<b>Liabilities without direct interest rate risk</b>	<b>2,091,135</b>	<b>203,613</b>	<b>2,294,748</b>
<b>Capital</b>	<b>4,946,920</b>	<b>-</b>	<b>4,946,920</b>
<b>Total capital and liabilities</b>	<b>42,013,423</b>	<b>65,979,203</b>	<b>107,992,626</b>
<b>Total assets, less liabilities</b>	<b>4,804,875</b>	<b>142,045</b>	<b>4,946,920</b>
<b>Off-balance sheet risk</b>	<b>968,591</b>	<b>702,246</b>	<b>1,670,837</b>

\*) Assets and liabilities without direct interest rate risk - Include stocks, property, plant and equipment and investment property, deferred acquisition costs and intangible assets, as well as balance-sheet groups of property, plant and equipment (other accounts receivable, outstanding premiums, and current balances of insurance companies) whose average lifetime is up to one year, and therefore the interest rate risk with respect to which is relatively low.

Notes:

- 1) Regarding non-investment-linked life insurance - the life insurance portfolio is primarily comprised of investment-linked policies, which are primarily backed by designated (HETZ) bonds issued by the Bank of Israel throughout the entire lifetime of the policy. The Company therefore has financial coverage which overlaps with the main financial liabilities, in terms of interest and linkage over the lifetime of the policies. As of December 31, 2018 and 2017, the designated bonds covered approximately 75% and 77%, respectively, of all insurance liabilities in life insurance in these plans.
- 2) With respect to the remaining investments of Clal Insurance, as part of its life and health insurance activities, exposure exists to the interest rates which will be in force upon the refinancing of investments the lifetime of which may be shorter than the average lifetime of the insurance liabilities. With respect to these products, including with respect to ongoing payment claims in long term care insurance and loss of working capacity insurance, the calculation of the insurance liabilities is based on the nominal interest rate in the policy, subject to an evaluation of the discount rate in some of the pension reserves and to a liability adequacy test (LAT) which is calculated based on the risk-free interest rate curve. For additional details regarding the discount rates of insurance liabilities, see section e(e1)(d) and e(e2)(4)(a) below.

**Note 39: Risk Management (Cont.)**
**C. Market risks (Cont.)**
**3. Direct interest rate risk (Cont.)**

As of December 31, 2017

NIS in thousands	Non- investment- linked	Investment- linked	Total
<b>Assets with direct interest rate risk</b>			
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
<b>Total assets with direct interest rate risk</b>	<b>31,791,612</b>	<b>41,203,833</b>	<b>72,995,445</b>
Assets without direct interest rate risk *)	9,855,574	23,106,487	32,962,061
<b>Total assets</b>	<b>41,647,186</b>	<b>64,310,320</b>	<b>105,957,506</b>
<b>Liabilities with direct interest rate risk</b>			
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
<b>Total liabilities with direct interest rate risk *)</b>	<b>34,208,979</b>	<b>63,633,756</b>	<b>97,842,735</b>
Liabilities without direct interest rate risk	2,770,281	253,289	3,023,570
Capital	5,091,201	-	5,091,201
<b>Total capital and liabilities</b>	<b>42,070,461</b>	<b>63,887,045</b>	<b>105,957,506</b>
<b>Total assets, less liabilities</b>	<b>4,667,926</b>	<b>423,275</b>	<b>5,091,201</b>
Off-balance sheet risk	734,010	767,839	1,501,849

\*) Assets and liabilities without direct interest rate risk - Including stocks, property, plant and equipment and investment property, deferred acquisition costs and intangible assets, as well as balance-sheet groups of financial assets (other accounts receivable, outstanding premiums, and current balances of insurance companies) whose average lifetime is up to one year, and therefore the interest rate risk with respect to which is relatively low.

## Note 39: Risk Management (Cont.)

## C. Market risks (Cont.)

## 4. Details regarding assets and liabilities, distributed by linkage bases

As of December 31, 2018:

NIS in thousands	NIS		Foreign currency					Non-monetary items	Liabilities with respect to investment-linked contracts <sup>1)</sup>	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other				
Intangible assets	-	-	-	-	-	-	-	1,342,759	-	1,342,759
Deferred tax assets	-	-	-	-	-	-	-	6,554	-	6,554
Deferred acquisition costs	-	-	-	-	-	-	-	1,966,956	6,583	1,973,539
Property, plant and equipment	-	-	-	-	-	-	-	225,160	-	225,160
Investments in investee companies accounted by the equity method	-	-	-	-	-	-	-	214,504	-	214,504
Investment property for investment-linked contracts	-	-	-	-	-	-	-	-	3,000,340	3,000,340
Other investment property	-	-	-	-	-	-	-	1,266,895	-	1,266,895
Reinsurance assets	6,075	2,782,067	4,151	1,458	-	-	-	-	185,628	2,979,379
Current tax assets	-	259,338	-	-	-	-	-	-	-	259,338
Other accounts receivable	100,705	191,028	76,185	313	-	-	-	41,451	803,645	1,213,327
Outstanding premiums	5,888	494,519	85,262	267	-	-	-	-	290,920	876,856
Financial investments for investment-linked contracts <sup>2)</sup>	-	-	-	-	-	-	-	-	58,185,233	58,185,233
Other financial investments:										
Marketable debt assets	472,111	4,315,992	414,972	28,604	5	178	-	-	-	5,231,862
Non-marketable debt assets	1,220,816	20,343,877	203,237	20,903	197,679	-	-	3,831	-	21,990,343
Stocks	-	-	-	-	-	-	-	1,416,975	-	1,416,975
Other	16,059	18,946	245,399	46,932	11,107	156	-	2,523,778	-	2,862,377
Cash and cash equivalents for investment-linked contracts	-	-	-	-	-	-	-	-	3,648,899	3,648,899
Other cash and cash equivalents	1,153,627	-	112,891	5,332	21,078	5,358	-	-	-	1,298,286
<b>Total assets</b>	<b>2,975,281</b>	<b>28,405,767</b>	<b>1,142,097</b>	<b>103,809</b>	<b>229,869</b>	<b>5,692</b>	<b>9,008,863</b>	<b>66,121,248</b>	<b>107,992,626</b>	

1) 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.

2) See Note 39(g) below.

**Note 39: Risk Management (Cont.)**

**C. Market risks (Cont.)**

4. Details of assets and liabilities by linkage bases (Cont.)

As of December 31, 2018 (Cont.):

NIS in thousands	NIS		Foreign currency					Non-monetary items	Liabilities with respect to investment-linked contracts <sup>1)</sup>	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other				
<b>Total capital</b>	-	-	-	-	-	-	-	<b>4,946,920</b>	-	<b>4,946,920</b>
<b>Liabilities</b>										
<b>Liabilities with respect to non-investment-linked insurance contracts and investment contracts</b>	<b>24,404</b>	<b>30,578,231</b>	<b>42,180</b>	<b>2,180</b>	-	-	-	-	-	<b>30,646,995</b>
Liabilities with respect to investment-linked insurance contracts and investment contracts	-	-	-	-	-	-	-	-	<b>65,366,897</b>	<b>65,366,897</b>
Deferred tax liabilities	-	-	-	-	-	-	-	<b>401,903</b>	-	<b>401,903</b>
Liabilities with respect to employee benefits, net	<b>80,757</b>	-	-	-	-	-	-	-	-	<b>80,757</b>
Other accounts payable	<b>1,471,729</b>	<b>1,012,494</b>	<b>93,621</b>	<b>5,252</b>	-	-	-	<b>44,186</b>	<b>372,883</b>	<b>3,000,165</b>
Current tax liabilities	-	<b>5,290</b>	-	-	-	-	-	-	-	<b>5,290</b>
Financial liabilities	<b>1,551,970</b>	<b>1,677,101</b>	<b>74,919</b>	<b>286</b>	-	-	-	-	<b>239,423</b>	<b>3,543,699</b>
Total liabilities	<b>3,128,860</b>	<b>33,273,116</b>	<b>210,720</b>	<b>7,718</b>	-	-	-	<b>446,089</b>	<b>65,979,203</b>	<b>103,045,706</b>
<b>Total capital and liabilities</b>	<b>3,128,860</b>	<b>33,273,116</b>	<b>210,720</b>	<b>7,718</b>	-	-	-	<b>5,393,009</b>	<b>65,979,203</b>	<b>107,992,626</b>
<b>Total balance sheet exposure</b>	<b>(153,579)</b>	<b>(4,867,349)</b>	<b>931,377</b>	<b>96,091</b>	<b>229,869</b>	<b>5,692</b>	<b>3,615,854</b>	<b>142,045</b>		<b>-</b>
<b>Exposure to underlying assets via derivatives, in delta terms</b>	<b>2,058,273</b>	<b>1,488,341</b>	<b>(3,048,099)</b>	<b>(210,868)</b>	<b>(300,975)</b>	<b>(37,679)</b>	<b>51,007</b>			<b>-</b>
<b>Total exposure</b>	<b>1,904,694</b>	<b>(3,379,008)</b>	<b>(2,116,722)</b>	<b>(114,777)</b>	<b>(71,106)</b>	<b>(31,987)</b>	<b>3,666,861</b>	<b>142,045</b>		<b>-</b>

1) 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, 2017

NIS in thousands	NIS		Foreign currency					Non-monetary items	Liabilities with respect to investment-linked contracts <sup>1)</sup>	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other				
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 <sup>2)</sup>	-	-	-	-	-	-	-	-	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
<b>Total assets</b>	<b>2,790,998</b>	<b>28,612,730</b>	<b>1,147,518</b>	<b>134,487</b>	<b>132,739</b>	<b>9,616</b>	<b>8,819,098</b>	<b>64,310,320</b>	<b>64,310,320</b>	<b>105,957,506</b>

1) 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.

2) See Note 39(g) below.

**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 <sup>1)</sup>	Total
	Unlinked	CPI-linked	USD	EUR	GBP	Other			
<b>Total capital</b>	-	-	-	-	-	-	5,091,201	-	5,091,201
<b>Liabilities</b>									
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
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
<b>Total liabilities</b>	<b>3,050,168</b>	<b>33,179,519</b>	<b>170,908</b>	<b>18,647</b>	<b>-</b>	<b>-</b>	<b>560,018</b>	<b>63,887,045</b>	<b>100,866,305</b>
<b>Total capital and liabilities</b>	<b>3,050,168</b>	<b>33,179,519</b>	<b>170,908</b>	<b>18,647</b>	<b>-</b>	<b>-</b>	<b>5,651,219</b>	<b>63,887,045</b>	<b>105,957,506</b>
<b>Total balance sheet exposure</b>	<b>(259,170)</b>	<b>(4,566,789)</b>	<b>976,610</b>	<b>115,840</b>	<b>132,739</b>	<b>9,616</b>	<b>3,167,879</b>	<b>423,275</b>	<b>-</b>
<b>Exposure to underlying assets via derivatives, in delta terms</b>	<b>1,232,044</b>	<b>1,638,135</b>	<b>(2,479,321)</b>	<b>(162,590)</b>	<b>(297,731)</b>	<b>(46,696)</b>	<b>116,160</b>	<b>-</b>	<b>-</b>
<b>Total exposure</b>	<b>972,874</b>	<b>(2,928,654)</b>	<b>(1,502,711)</b>	<b>(46,750)</b>	<b>(164,992)</b>	<b>(37,080)</b>	<b>3,284,039</b>	<b>423,275</b>	<b>-</b>

1) 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.)**

5. Details regarding exposure to market branches with respect to equity instruments

NIS in thousands	As of December 31, 2018					
	Listed on the Tel Aviv 100 Index	Listed on the Yeter stock index	Non-marketable	Foreign	Total	% of total
Industry	84,504	4,301	3,961	19,771	112,537	8%
Construction, real estate and infrastructure	147,187	28,129	-	229,457	404,773	29%
Electricity and water	122,911	-	87	48,714	171,712	12%
Commerce	57,016	3,157	-	-	60,173	4%
Tourism and hotels	-	6,580	-	7,648	14,228	1%
Telecommunications and IT services	49,193	2,814	4,347	72,340	128,694	9%
Banks	207,197	-	3,346	10,012	220,555	16%
Financial services	65,602	18,960	5,836	10,706	101,104	7%
Other business services	-	-	77,052	28,829	105,881	7%
Food	38,252	-	-	-	38,252	3%
Drugs and medical services	18,459	-	3,060	37,477	58,996	4%
<b>Total</b>	<b>790,321</b>	<b>63,941</b>	<b>97,689</b>	<b>464,954</b>	<b>1,416,905</b>	<b>100%</b>

NIS in thousands	As of December 31, 2017					
	Listed on the Tel Aviv 100 Index	Listed on the Yeter stock index	Non-marketable	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%
<b>Total</b>	<b>850,897</b>	<b>67,164</b>	<b>78,998</b>	<b>370,738</b>	<b>1,367,797</b>	<b>100%</b>

**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, 2018 and 2017 amounted to approximately NIS 66.1 billion and approximately NIS 63.3 billion, respectively.

**Note 39: Risk Management (Cont.)**

- B. Approximately 75% of the liabilities with respect to non-investment-linked insurance contracts and investment contracts in the life insurance branch which were issued until 1990 are backed by designated (HETZ) bonds, which are issued by the Bank of Israel (approximately 77% as of December 31, 2017). 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, 2018 and 2017 amounted to a total of approximately NIS 13.7 billion and approximately NIS 13.7 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, 2018 and 2017 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 21.1 billion (last year - approximately NIS 20.8 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 8.8 billion (last year - approximately NIS 9.4 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.

**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.

**D. Liquidity risks**

- 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.

**Note 39: Risk Management (Cont.)**

Insurance liabilities in property and others branches, which are not statistical or on whose estimates the actuaries do not sign - are reported in the column representing a repayment period of up to 3 years.

The liabilities are exposed to reserve risks, as described in Section E below. The actuarial models are based on the assumption that the pattern of past behavior and claims will also continue in the future. The estimated flow is exposed to model risk and to parameter risk, which includes the risk that the amount that paid to settle the insurance liabilities will be different than expected.

- C. The maturity dates of the financial liabilities and liabilities with respect to investment contracts were included on the basis of the contractual maturity dates. In contracts where the counterparty is entitled to choose the timing of the payment, the liability is included on the basis of the earliest date when the Company may potentially be required to pay the liability.

The repayment dates of liabilities with respect to investment contracts in Bar A were calculated based on the average abandonment rate and redemption rate.

**Liabilities in the long term savings segment and health segment \*)**

NIS in thousands	Up to one year **)	1 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, 2018	4,389,810	5,396,048	4,289,134	2,677,956	3,098,270	1,157,140	21,008,358
As of December 31, 2017	3,611,361	5,760,036	4,197,563	2,460,884	4,501,267	1,776,012	22,297,123

\*) Excluding liabilities with respect to investment-linked contracts.

\*\*\*) The liabilities up to one year include a total of NIS 186,737 thousand (as of December 31, 2017 - NIS 515,243 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.

**Liabilities with respect to insurance contracts**

NIS in thousands	Up to 3 years	3 years to 5 years	Over 5 years	No defined repayment date	Total
<b>As of December 31, 2018</b>	<b>3,197,853</b>	<b>873,875</b>	<b>922,050</b>	<b>903,022</b>	<b>5,896,801</b>
As of December 31, 2017	3,349,917	858,994	940,891	1,161,303	6,311,106

**Financial liabilities and liabilities with respect to investment contracts**

NIS in thousands	Book value	Up to one year	1 year to 5 years	5 years to 10 years	10 years to 15 years	Over 15 years	No defined repayment date	Total
<b>As of December 31, 2018</b>								
Liabilities with respect to investment contracts	2,358,204	99,657	351,101	370,049	298,160	1,236,627	2,610	2,358,204
Liabilities with respect to investment-linked investment contracts	1,781,735	-	-	-	-	-	1,781,735	1,781,735
Financial liabilities	3,209,815	132,914	1,644,119	1,978,983	-	-	-	3,756,016
Other accounts payable	2,955,979	2,955,979	-	-	-	-	-	2,955,979
<b>Total</b>	<b>10,305,733</b>	<b>3,188,550</b>	<b>1,995,220</b>	<b>2,349,032</b>	<b>298,160</b>	<b>1,236,627</b>	<b>1,784,345</b>	<b>10,851,934</b>
<b>As of December 31, 2017</b>								
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
<b>Total</b>	<b>9,945,221</b>	<b>3,577,560</b>	<b>1,693,319</b>	<b>2,970,583</b>	<b>330,816</b>	<b>324,938</b>	<b>1,724,413</b>	<b>10,621,629</b>

**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.

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 ranging from 1.5% to 2.9%, amounts to approximately NIS 9,639 million gross and approximately NIS 50.4 million on self-retention, as of December 31, 2018.

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 the guidelines specified in the consolidated circular, section 5, part 2, chapter 1(c), in accordance with life expectancy, based on mortality tables which were created based on the tables which were published in March 2013 (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, inter alia, in accordance with the probability of annuity withdrawal upon retirement (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. Additionally, insofar as the difference between the updated mortality tables in the annuity reserves circular (which indicate increased life expectancy) and the mortality tables which were used to price the guaranteed annuity factors in the policies is greater, the paid pension liability and the liability to supplement annuity reserves are also higher.

The provision for the supplementation of annuity reserves is performed in a gradual manner with respect to the funds that accumulated in the policies until the end of the reporting period, in consideration of the profit which is expected to arise from the policies until the policyholders reach retirement age. In other words, given sufficient future profitability in the policies, the provision for supplementation of annuity reserves is implemented over the years in parallel with the recognition of profit from management fees or the financial margin with respect to the policies. The gradual provision for premiums received in the future within the framework of the policies will be calculated in a similar manner, beginning on the date the premiums are received.

The gradual provision was implemented based on the K factor, which is derived from the rate of future income which is expected to be received from management fees or from the financial margin, due to investments which are held against the insurance reserve due to the policy or to the premium payments for the policy (hereinafter: the “**K Factor**”). The K factor is taken into account in the calculation of the accrual of the liability to supplement annuity reserves. The higher the K factor, the lower the liability to supplement the annuity reserve which will be recognized in the financial statements, and the higher the amount which will be deferred and recorded in the future.

**Note 39: Risk Management (Cont.)**

**E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)**

**A. Actuarial methods used to calculate insurance liabilities (Cont.)**

4. Paid pension liabilities and liabilities to supplement annuity reserves: (Cont.)

In the annuity reserves circular, rules were set forth 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 increased. 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 increased the K factor from 0.88% last year to 0.96% 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 amount of the provision and the total cost, see Note 20A.

For details regarding the discount interest rate for liabilities in the supplementation of annuity reserves, see b(1) below.

5. Other life insurance plans include a pure risk products with fixed premiums (loss of working capacity, death, long term care, etc.) which are sold as independent policies or are attached to policies with a basic plan of the “preferred”, “investment tracks” or “traditional” types. An actuarial liability is calculated with respect to these plans. The calculation was performed using the net premium reserve method. In the other plans, the reserve is calculated in accordance with the amount of IBNR claims.

6. Insurance plans for medical expenses, critical illness and personal accidents -

Medical expense insurance plans mostly include coverage for surgeries in Israel and for implantation procedures and special treatments abroad, selection of a private surgeon in private hospitals, drugs not included in the standard basket, and other ambulatory coverages.

The illness and hospitalization branch includes the following basic insurance coverages:

- Insurance coverage that provides the policyholder the right to finance private medical services. Within this framework, the insurant is given the right to choose the date of receiving the medical service, the identity of the attending physician and the medical institution. The aforementioned insurance coverage provides a refund for medical expenses or compensation, inter alia, in connection with surgery, transplants and/or special treatment overseas etc.
- Insurance coverage in case of diagnosis of a critical illness, in which the policyholder is entitled to receive compensation in the amount which was determined upon joining the insurance.
- Insurance coverage for purchasing medication which is not included in the national health basket.
- Additionally, it is possible to acquire additional coverage, as a rider to the policy, or as a chapter in the basic policy, such as ambulatory services (medical services given not at the time of hospitalization, including consultation with specialized physicians, tests, and physiotherapy treatments).

**Note 39: Risk Management (Cont.)****E.1. Insurance risk in life and health insurance (Cont.)****A. Actuarial methods used to calculate insurance liabilities (Cont.)**6. Insurance plans for medical expenses, critical illness and personal accidents (Cont.)

The 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.

In the international travel branch, outstanding claims are calculated based on reports submitted by the claims department of Clal Insurance, and on an actuarial valuation performed on the basis of accumulated experience in the portfolio.

Outstanding claims are calculated based on the report submitted by the claims department, and on a statistical model of claim payments based on past experience. The calculation is performed by based on the triangle methods (Bornhuetter-Ferguson, Chain Ladder) for paid claim amounts, for outstanding claims, and for claim amounts by damage months, including a discounting and confidence range for the personal accidents for students branch.

7. With respect to ongoing payment claims, in long term care insurance and in loss of working capacity insurance, an insurance liability is calculated according to the expected payment period, and is discounted according to the product's nominal interest rate.
8. Insurance liabilities with respect to collective insurance are comprised of liabilities with respect to unearned premiums, ongoing claims reserve, outstanding claims, continuity reserve and the provision for future losses, as required. Additionally, the provision for participation in profits is presented under the item for payables, as relevant.
9. Liabilities with respect to outstanding claims in life insurance primarily include provisions for outstanding claims with respect to death and disability cases.

**Note 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**

- 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 (2.6%-2.79%; last year - 2.2%-2.79%), 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 annuity reserve for investment-linked insurance contracts, 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. 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.

**Note 39: Risk Management (Cont.)**

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.

For details regarding the effect of the prevalence update and the payment period for long-term care claims, see section d(5) below.

**E. Insurance risks (Cont.)****E1. Insurance risk in life insurance and long term care insurance contracts (Cont.)****B. Main assumptions used to calculate insurance liabilities (Cont.)**3. Annuity realization rates

Life insurance contracts which include a savings component, with respect to funds which were deposited until 2008, allowed two tracks for the withdrawal of funds: a capital (one time) track or an annuity-paying track with a guaranteed annuity conversion factor, which can also be sold through different tracks (such as entire lifetime, couple, 10 year guarantee, and others). In some of the contracts, the policyholder is entitled to choose the way in which they will receive the funds upon withdrawal. Due to the fact that the amount of the insurance liability is different in each of these tracks, the Company estimates, from time to time, the annuity eligibility realization rate and the chosen track. Beginning in 2008, new deposits for all plans are for annuities.

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 corresponding period last year, 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 d(3) below.

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, 2018**

NIS in thousands	Cancellation rate (Redemptions, settlements and reductions)		Morbidity rate		Mortality rate		Pension realization rate *)	
	10%+	10%-	10%+	10%-	10%+	10%-	10%+	10%-
Profit (loss)	21,595	(22,795)	(173,555)	64,259	437,599	(524,136)	(82,098)	82,098

\*) For the total supplementary pension reserve, see Note 20(a).

**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%-	10%+	10%-
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).

**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 applies to measurement guidelines and to the selection of certain assumptions, and applies to the financial statements as of June 30, 2015 and thereafter.
  - 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		
	2018	2017	2016
Change in the discount interest rate used in the calculation of the liabilities to supplement the annuity and paid pension reserves *)	85	(197)	(32)
Change in pension reserves following the decreased forecast of future income (K factor)	135	(126)	-
Liability adequacy test (LAT)	75	64	(162)
Life insurance - total impact of the low interest rate environment before tax	295	(259)	(194)
Total (income) loss after tax	194	(168)	(124)

\*) In 2017, including the effect of interest on the assets of pension recipients, and the management fees which are derived therefrom.

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. In 2017, 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, no material changes occurred in the assumptions which are used to calculate the liabilities for supplementation of the annuity reserve, as compared with an increase in the amount of approximately NIS 67 million in the corresponding period last year, 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.

**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.)**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 in 2017, the reserve decreased, and profit for last 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.

5. Change in cancellation studies on liabilities with respect to ongoing claims regarding long-term care payments

During the reporting period, the Company observed an increase in the prevalence and payment period of long-term care claims, and accordingly, updated its liabilities in the amount of approximately NIS 68 million.

**E2. Insurance risk in non-life insurance contracts****(1) Summary description of the main insurance branches in which the Group operates**

The Group issues non-life insurance contracts primarily in the compulsory motor, liabilities, motor property and property insurance branches.

Compulsory motor insurance policies cover the policyholder and the driver for all liabilities which they may incur under the Compensation for Victims of Road Accidents Law, 1975, due to physical injury caused as a result of the use of a motor vehicle, to the vehicle driver, to passengers in the vehicle, or to pedestrians injured by the vehicle. Claims in the compulsory motor branch are characterized as “long-tail” claims, meaning that a long period of time passes from the actual occurrence of the event until the final settlement of the claim.

Liability insurance is intended to cover the policyholder’s liability for any damages which it may cause to third parties. The main types of insurance include: third party liability insurance, employers’ liability insurance and other liability insurance such as professional liability, product liability and directors and officers liability insurance. The timing of the filing and settlement of claims is affected by a number of factors, including coverage type, policy terms and legal precedents. In general, claims in the liabilities branch are characterized as “long-tail” claims, meaning that a long period of time passes from the actual occurrence of the event until the final settlement of the claim.

Insurance policies covering motor property damage and third party motor property damage grant the policyholder coverage for property damages. The coverage is generally limited to the value of the damaged vehicle and/or to the third party liability limit in the policy. The Insurance Commissioner’s approval is required for the motor property insurance rate, as well as for the entire policy. This rate is a statistical rate, and is in part also differential (not uniform to all policyholders, and adjusted for risk). The above rate is based on several parameters, including those related to the policyholder’s vehicle (such as vehicle type, production year, etc.) and those related to the policyholder’s characteristics (driver age, claims experience, etc.). The underwriting process is partly performed using the rate itself, and partly using a series of policies, which are intended to evaluate the policyholder’s claims experience, including presentation of an approval regarding lack of claims from previous insurers during the preceding three years, presentation of an updated protection approval, etc., and are combined in an automated manner into the policy production process. In most cases, the motor property insurance policies are issued for a period of one year. Additionally, in most cases, claims with respect to these policies are settled near the date of the insurance event, and are characterized as “short tail” claims.

Property insurance types are intended to grant the policyholder coverage against physical damage to their property, and loss of income due to the damage to their property. The primary risks covered in property policies include risks of fire, explosion, break-in, earthquake and natural disasters. Property insurance branches sometimes include coverage for loss of income damages due to physical damage to property. Property insurance types constitute an important component of apartment insurance, business insurance, engineering insurance, cargo transportation (land, air, and sea) insurance, etc. In most cases, claims with respect to these policies are evaluated proximate to the date of the occurrence of the insurance event, and characterized as “short tail”.

**Note 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)(e).
- 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 subrogation claims and deductibles.
- C. The use of actuarial methods which are based on the development of claims, is for the most part appropriate when stable and sufficient information exists regarding claim payments and/or individual estimates in order to estimate the total projected cost of claims. When the available information regarding actual claims experience is insufficient, the actuary will at times use a calculation that weighs a known approximation (in the Company and/or in the branch), such as the loss ratio, against the actual development of claims. A greater weight is given to an estimate based on claims experience as time passes, and as additional information regarding the claims is accumulated.
- D. Additionally, qualitative estimates and judgments are prepared with respect to the degree to which past trends will not continue in the future. For example: due to a one-time event, internal changes such as a change in the portfolio mix, in the underwriting policy, in the claims handling policies, and with respect to the impact of external factors, such as legal ruling, legislation, etc. When changes as above are not fully reflected in past experience, the actuary updates the models and/or performs specific provisions based on statistical and/or legal estimates, as relevant.
- E. In a number of large claims with non-statistical characteristics, the reserve is determined (gross and retention) based on the opinion of experts in Clal Insurance, and in accordance with the recommendations of their legal counsel.
- F. The share of reinsurers in outstanding claims is estimated in consideration of the agreement type (relative / non-relative), actual claims experience and premiums transferred to reinsurers.
- G. The estimate of outstanding claims for Clal Insurance's share in the Pool, in incoming business and in joint insurances which are received from other insurance companies (leading insurers), was based on a calculation performed by the Pool or by the leading insurers, or on a separate calculation in the Company.

**(3) Details of actuarial methods in the main insurance branches in non-life insurance**

For the purpose of evaluating outstanding claims, use was made of the following actuarial models, in combination with the various assumptions:

- A. Chain ladder - This method is based on the historical development of claims (development of payments and/or development of the payment amounts and individual claim estimates, development of claim amounts, etc.) in order to estimate the projected development of current and future claims. The use of this method is primarily appropriate after passage of a sufficient period from the event or the policy underwriting, when sufficient information exists from past claims to estimate the amount of projected claims.
- 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.

**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.)**

- C. Averages - At times, similarly to the Bornhuetter-Ferguson method, when the claims experience in past periods is insufficient, use is made of the historical average method. When using this method, the cost of claims is determined based on the claim cost per policy in earlier years, and on the amount of policies in the later years. Similarly, the cost of claims is calculated based on the forecasted amount of claims (the chain ladder method) and on the historical average of claims.
- D. Other - For professional illness type claims in employers' liability insurance, which are claims based on continuing damages, a provision is calculated based on projected future cost. Such claims include no specific date in which the worker was injured, and the formation of the damage is as a result of prolonged exposure to risk factors. Claims of this kind are characterized by a very long period following the exposure to the risk factors (the insurer's exposure) until reporting of the claim (long-tail claims). This pattern of the rate of reporting and of the insurer's exposure to continuing damages requires a provision for each exposure year in employers' liability insurance, even if no claims were reported, or if the policy expired many years ago.

**In the motor property, comprehensive apartment and personal accidents branches**, a payment development model was used for payments and gross contingencies. For periods which have not yet reached maturity, the averages method and the Bornhuetter-Ferguson method were used. The model is calculated in terms of gross claims. The estimate of the share of reinsurers, insofar as it is relevant, is done in accordance with the estimate of specific claims plus IBNR, according to the gross IBNR rate which was determined in the actuarial model.

**In the compulsory motor and liabilities branches**, semi-annual models were used for the development of payments, and the development of payments and contingencies. For periods which have not reached maturity, the Bornhuetter-Ferguson and/or the Expected Loss Ratio methods are used. The claims development model in the liabilities branches is based on net claims from facultative reinsurance. The estimated share of reinsurers in the non-relative contract is obtained based on an estimation of individual outstanding claims for old years, and according to the loss ratio for recent years.

**In the loss of property and engineering branches**, an annual development model was prepared based on payments and contingencies.

In branches for which no actuarial valuation was performed, including the branches for cargo shipping insurance, marine insurance, aviation insurance, guarantees, credit risks and incoming business, outstanding claims were included according to expert estimates, as described in Note 3(d)(2)(d), in section 4.2.

In the investment insurance branch for apartment buyers, in accordance with the Reserve Calculation Regulations, and in accordance with an evaluation which was conducted by the Company through an independent expert, 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.

**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.)**

A. (Cont.)

In the years 2016-2018, no change occurred in the discount interest rate, and it stands at 1.30%.

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 113 million during the reporting year (last year - approximately NIS 129 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 186 million (last year - approximately NIS 220 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).

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 - non-grouped 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 (grouped) branches, all 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 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 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, decreased the insurance liabilities for 2018, in the compulsory motor and liabilities branches by approximately NIS 52 million on retention before tax (last year, increase of approximately NIS 78 million). The estimated impact on insurance liabilities reflects a fixed average discount interest rate as of December 31, 2018, of approximately 1.81% (as of December 31, 2017 - approximately 1.75%), based on weighing the full impact of the recommendations of the Winograd committee on the discount rates which will be determined in court, and a scenario, based on a legal opinion, according to which the discount rates which will be determined in court will reflect the returns of relevant low-risk investment instruments (bonds rated AA (the “**Discount Estimation Method**”).

As of December 31, 2018, the balance of the provision amounts to a total of approximately NIS 167 million.

**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. (Cont.)

In 2018, within the framework of a case which is pending before the Supreme Court, the position of the Attorney General of Israel was filed, 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, while evaluating the manner of implementation of which the arrangement recommended by the committee (hereinafter: the “**Kaminetz Committee**”). In January 2019, the Kaminetz Committee published a report for public comments by February 3, 2019. According to the report, the committee supports the “uniform discounting method”, according to which one single average interest rate will be determined for the entire compensation period, reflecting a low risk investment, at 3%. It is also proposed to establish a “mobility band” of 3% around the interest rate, whereby the width of the mobility band will be one percentage point in each direction. Any deviation from the mobility band will activate a near-automatic update to the discount rate, in accordance with the method used to determine the original interest rate (interest at a uniform rate of low risk investment), whereby only in highly extraordinary circumstances will the Accountant General have the discretion not to activate the update, after having consulted with various entities involved in the matter, and after having evaluated whether they believe that the automatic update should not be activated, due to the aforementioned circumstances. For the purpose of evaluating what will constitute a deviation from the mobility band, the yield obtained by investing in AA-rated corporate bonds, over a period of 25 years, will be measured. The measurement of such deviation will be performed once every two years, whereby the update mechanism will be activated if, during the half year preceding the evaluation date, the yield deviates by a rate exceeding one percent, i.e., the yield falls below a rate of 2%, or exceeds a rate of 4%, respectively.

At this stage, in light of the current uncertainty in connection with the final conclusions of the Kaminetz Committee, and the impact of the Discounting Regulations or the conclusions of the Kaminetz Committee on the Supreme Court’s decision, and on the Company’s liabilities, the Company has not changed the discount estimation method, and therefore, the development of claims in the future may differ significantly from the Company’s estimates, and accordingly, the Company may be required to update its estimates in the future.

**F. Credit risks**

**1. Distribution of debt assets by location**

<b>As of December 31, 2018</b>			
<b>NIS in thousands</b>	<b>Marketable )</b>	<b>Non- marketable</b>	<b>Total</b>
In Israel	4,876,880	21,764,827	26,641,707
Foreign	354,982	225,516	580,498
<b>Total debt assets</b>	<b>5,231,862</b>	<b>21,990,343</b>	<b>27,222,205</b>

<b>As of December 31, 2017</b>			
<b>NIS in thousands</b>	<b>Marketable )</b>	<b>Non- marketable</b>	<b>Total</b>
In Israel	5,198,696	21,682,733	26,881,429
Foreign	333,916	150,361	484,277
<b>Total debt assets</b>	<b>5,532,612</b>	<b>21,833,094</b>	<b>27,365,706</b>

\*) 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
	As of December 31, 2018				
	AA or higher	BBB to A	Lower than BBB	Unrated	
Debt assets in Israel					
Marketable debt assets					
Government bonds	3,170,461	-	-	-	3,170,461
Corporate bonds	1,443,552	222,321	4,668	35,878	1,706,419
Total marketable debt assets in Israel	4,614,013	222,321	4,668	35,878	4,876,880
Non-marketable debt assets					
Government bonds	15,775,836	-	-	-	15,775,836
Corporate bonds	537,939	95,012	836	39,116	672,903
Deposits in banks and financial institutions	759,554	736	-	-	760,290
Other debt assets by type of collateral:					
Mortgages	-	-	-	2,534,545	2,534,545
Loans on policies	-	-	-	16,737	16,737
Loans secured by real estate	-	225,098	-	217,863	442,961
Secured by bank guarantee	121,353	-	-	-	121,353
Loans secured by control shares	41,399	955	-	19,134	61,488
Other collateral	661,195	391,875	1,462	266,894	1,321,426
Unsecured	40,120	3,235	-	13,933	57,288
Total non-marketable debt assets in Israel	17,937,396	716,911	2,298	3,108,222	21,764,827
<b>Total debt assets in Israel</b>	<b>22,551,409</b>	<b>939,232</b>	<b>6,966</b>	<b>3,144,100</b>	<b>26,641,707</b>
Of which - internally rated debt assets	-	203,789	-	-	203,789
Of which - debt assets which fulfill the principal and interest test only **)	22,551,409	922,694	6,130	3,086,997	26,567,230

\*) 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+.

\*\*) For details regarding debt assets which fulfill the principal and interest test, see Note 14(g).

**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, 2018					
Foreign debt assets					
Marketable debt assets					
Government bonds	23,443	178	-	-	23,621
Corporate bonds	5,217	241,413	84,731	-	331,361
<b>Total foreign marketable debt assets</b>	<b>28,660</b>	<b>241,591</b>	<b>84,731</b>	<b>-</b>	<b>354,982</b>
Non-marketable debt assets					
Loans secured by real estate	-	-	-	225,482	225,482
Other debt assets	-	-	-	34	34
Total foreign non-marketable debt assets	-	-	-	225,516	225,516
<b>Total foreign debt assets **)</b>	<b>28,660</b>	<b>241,591</b>	<b>84,731</b>	<b>225,516</b>	<b>580,498</b>
Of which - debt assets which fulfill the principal and interest test only ***)	28,660	165,417	52,297	225,516	471,890

\*) 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 are not treated as insurance contracts.

\*\*\*) For details regarding debt assets which fulfill the principal and interest test, see Note 14(g).

**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 or higher	BBB to A	Lower than BBB	Unrated	
As of December 31, 2017					
Debt assets in Israel					
Marketable debt assets					
Government bonds	3,333,048	-	-	-	3,333,048
Corporate bonds	1,568,640	265,374	-	31,634	1,865,648
<b>Total marketable debt assets in Israel</b>	<b>4,901,688</b>	<b>265,374</b>	<b>-</b>	<b>31,634</b>	<b>5,198,696</b>
Non-marketable debt assets					
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
Unsecured	28,277	6,106	-	-	34,383
<b>Total non-marketable debt assets in Israel</b>	<b>18,024,959</b>	<b>747,977</b>	<b>1,815</b>	<b>2,907,982</b>	<b>21,682,733</b>
<b>Total debt assets in Israel</b>	<b>22,926,647</b>	<b>1,013,351</b>	<b>1,815</b>	<b>2,939,616</b>	<b>26,881,429</b>
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 *)				
	As of December 31, 2017				
	A and higher	BBB	Lower than BBB	Unrated	Total
<b>Foreign debt assets</b>					
<b>Marketable debt assets</b>					
Government bonds	22,585	-	-	-	22,585
Corporate bonds	-	241,839	69,492	-	311,331
<b>Total foreign marketable debt assets</b>	<b>22,585</b>	<b>241,839</b>	<b>69,492</b>	<b>-</b>	<b>333,916</b>
<b>Non-marketable debt assets</b>					
Loans secured by real estate	-	-	-	124,711	124,711
Other debt assets	-	-	-	25,650	25,650
<b>Total foreign non-marketable debt assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>150,361</b>	<b>150,361</b>
<b>Total foreign debt assets (**)</b>	<b>22,585</b>	<b>241,839</b>	<b>69,492</b>	<b>150,361</b>	<b>484,277</b>

\*) 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 are not treated as insurance contracts.

The following table presents a comparison between the fair value and the book value of the assets which fulfill the principal and interest test, which do not have a low credit risk. Book value is measured in accordance with IAS 39, but before the provision for impairment.

NIS in thousands	As of December 31, 2018	
	Book value	Fair value
Marketable debt assets	<b>56,965</b>	<b>56,965</b>
Non-marketable debt assets	<b>135,676</b>	<b>54,410</b>

**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 *)			Total
	As of December 31, 2018			
	AA and higher	A to BBB	Unrated	
Other accounts receivable, excluding reinsurer balances	49,704	-	186,822	236,526
Deferred tax assets	-	-	6,554	6,554
Other financial investments	10,718	-	29,106	39,824
Cash and cash equivalents	1,236,186	40,095	-	1,276,281
<b>Total</b>	<b>1,296,608</b>	<b>40,095</b>	<b>222,482</b>	<b>1,559,185</b>

NIS in thousands	Local rating *)			Total
	As of December 31, 2017			
	AA and higher	A to BBB	Unrated	
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
<b>Total</b>	<b>1,460,846</b>	<b>37,578</b>	<b>234,620</b>	<b>1,733,044</b>

\*) 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 *)			Total
	As of December 31, 2018			
	AA and higher	A to BBB	Unrated	
Unused credit lines	-	<b>45,398</b>	<b>851,236</b>	<b>896,634</b>

NIS in thousands	Local rating *)			Total
	As of December 31, 2017			
	AA and higher	A to BBB	Unrated	
Unused credit lines	8,234	48,897	636,020	693,151

\*) 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)**

<b>International rating *)</b>					
<b>As of December 31, 2018</b>					
<b>NIS in thousands</b>	<b>A and higher</b>	<b>BBB</b>	<b>Lower than BBB</b>	<b>Unrated</b>	<b>Total</b>
Other accounts receivable, excluding reinsurer balances	5,951	4,713	-	162,492	173,156
Other financial investments	104,245	8	-	199,318	303,571
Cash and cash equivalents	22,005	-	-	-	22,005
<b>Total</b>	<b>132,201</b>	<b>4,721</b>	<b>-</b>	<b>361,810</b>	<b>498,732</b>

<b>International rating *)</b>					
<b>As of December 31, 2017</b>					
<b>NIS in thousands</b>	<b>A and higher</b>	<b>BBB</b>	<b>Lower than BBB</b>	<b>Unrated</b>	<b>Total</b>
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
<b>Total</b>	<b>147,820</b>	<b>4,721</b>	<b>64,857</b>	<b>153,093</b>	<b>370,491</b>

\*) 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) \*\*)**

<b>International rating *)</b>					
<b>As of December 31, 2018</b>					
<b>NIS in thousands</b>	<b>A and higher</b>	<b>BBB</b>	<b>Lower than BBB</b>	<b>Unrated</b>	<b>Total</b>
Unused credit lines	-	-	-	71,957	71,957

<b>International rating *)</b>					
<b>As of December 31, 2017</b>					
<b>NIS in thousands</b>	<b>A and higher</b>	<b>BBB</b>	<b>Lower than BBB</b>	<b>Unrated</b>	<b>Total</b>
Unused credit lines	-	-	-	40,859	40,859

\*) 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.)****3. Additional information regarding the rating of debt assets**

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.

**4.** The information presented in this note regarding credit risks does not include assets for investment-linked contracts, which are presented in section G below.

**5.** For details regarding balances of outstanding premiums, see Note 12.

**6.** For details regarding the aging of investments in non-marketable financial debt assets, see Note 14(b)(2).

**7. Details regarding the exposure to industry branches with respect to investments in marketable and non-marketable financial debt assets**

As of December 31, 2018

NIS in thousands	Amount	% of total	Off-balance sheet risk
<b>Market branch</b>			
Industry	105,631	-	-
Construction and real estate	1,707,124	6%	641,098
Electricity and water	1,279,622	5%	81,988
Commerce	5,614	-	-
Telecommunications and IT services	88,950	-	-
Banks	1,615,651	6%	-
Financial services	288,264	1%	-
Other business services	123,078	-	-
Public services	313,662	1%	-
Private individuals	2,724,691	11%	245,505
Government bonds	18,969,918	70%	-
<b>Total</b>	<b>27,222,205</b>	<b>100%</b>	<b>968,591</b>

As of December 31, 2017

NIS in thousands	Amount	% of total	Off-balance sheet risk
<b>Market branch</b>			
Industry	94,755	-	-
Construction and real estate	1,737,929	6%	312,257
Electricity and water	1,191,865	4%	86,126
Commerce	2,160	-	-
Telecommunications and IT services	87,775	-	-
Banks	1,830,152	7%	-
Financial services	213,678	1%	-
Other business services	80,235	-	-
Public services	318,757	1%	-
Private individuals	2,684,909	11%	335,627
Government bonds	19,123,491	70%	-
<b>Total</b>	<b>27,365,706</b>	<b>100%</b>	<b>734,010</b>

**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.

## Note 39: Risk Management (Cont.)

## F. Credit risks (Cont.)

## 8. Reinsurance (Cont.)

## B. Information regarding exposure to credit risks of reinsurers

NIS in thousands Rating group	As of December 31, 2018										Reinsurance assets less reinsurers' share of deferred acquisition costs		Total letters of credit received from reinsurers		Debts in arrears *)		
	Total premiums for reinsurers in 2018	Debit (credit) balances, net (b)	In life insurance	In health insurance	In property insurance	In liabilities insurance	Total reinsurance assets	Deposits of reinsurers	Total exposure (A)	Six months to one year	Over one year						
<b>AA</b>																	
SCOR	239,119	97,140	-	377,172	21,502	83,272	481,946	400,103	-	178,983	-	-					
Munich Re	217,599	(33,062)	58,269	21,137	54,122	189,617	323,145	157,361	-	132,722	-	-					
Swiss Re	180,987	(29,241)	99,407	22,995	100,876	107,450	330,728	127,646	57,460	116,381	-	-					
Other	301,836	(32,095)	28,243	10,522	100,331	475,422	614,518	125,481	6,256	450,686	367	312					
<b>Total</b>	<b>939,541</b>	<b>2,742</b>	<b>185,919</b>	<b>431,826</b>	<b>276,831</b>	<b>855,761</b>	<b>1,750,337</b>	<b>810,591</b>	<b>63,716</b>	<b>878,772</b>	<b>367</b>	<b>312</b>					
<b>A</b>																	
Lloyd's	70,997	(9,347)	-	96	41,316	160,809	202,221	9	-	192,865	-	-					
Other	433,441	29,222	1,309	253,904	276,557	365,291	897,061	350,860	24,953	550,470	1,204	299					
<b>Total</b>	<b>504,438</b>	<b>19,875</b>	<b>1,309</b>	<b>254,000</b>	<b>317,873</b>	<b>526,100</b>	<b>1,099,282</b>	<b>350,869</b>	<b>24,953</b>	<b>743,335</b>	<b>1,204</b>	<b>299</b>					
<b>BBB</b>	<b>3</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>77</b>	<b>137</b>	<b>-</b>	<b>-</b>	<b>152</b>	<b>-</b>	<b>15</b>					
<b>Lower than BBB- or unrated:</b>	<b>4,703</b>	<b>(1,385)</b>	<b>408</b>	<b>-</b>	<b>787</b>	<b>36,451</b>	<b>37,646</b>	<b>-</b>	<b>-</b>	<b>36,261</b>	<b>31</b>	<b>198</b>					
<b>Total</b>	<b>1,448,685</b>	<b>21,247</b>	<b>187,636</b>	<b>685,826</b>	<b>595,551</b>	<b>1,418,389</b>	<b>2,887,402</b>	<b>1,161,460</b>	<b>88,669</b>	<b>1,658,520</b>	<b>1,602</b>	<b>824</b>					

\*) Mismatch against the books due to the offsetting of credit balances with respect to SCOR during the period between half a year and one year, and over half a year.

Note 39: Risk Management (Cont.)

F. Credit risks (Cont.)

8. Reinsurance (Cont.)

B. Information regarding exposure to credit risks of reinsurers (Cont.)

As of December 31, 2017	Total premiums for reinsurers in 2017	Debit (credit) balances, net <sup>(B)</sup>	Reinsurance assets less reinsurers' share of deferred acquisition costs						Total letters of credit received from reinsurers	Total exposure <sup>(A)</sup>	Debts in arrears	
			In life insurance	In health insurance	In property insurance	In liabilities insurance	Total reinsurance assets	Deposits of reinsurers			Six months to one year	Over one year
NIS in thousands												
Rating group												
<b>AA</b>												
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
<b>Total</b>	<b>799,022</b>	<b>(78,827)</b>	<b>225,014</b>	<b>265,000</b>	<b>280,163</b>	<b>656,457</b>	<b>1,426,634</b>	<b>574,425</b>	<b>58,939</b>	<b>714,443</b>	<b>242</b>	<b>26</b>
<b>A</b>												
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
<b>Total</b>	<b>491,269</b>	<b>(3,802)</b>	<b>1,608</b>	<b>198,395</b>	<b>333,434</b>	<b>732,116</b>	<b>1,265,553</b>	<b>287,994</b>	<b>23,083</b>	<b>950,674</b>	<b>596</b>	<b>632</b>
<b>BBB</b>	-	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
<b>Total</b>	<b>1,291,784</b>	<b>(83,726)</b>	<b>227,169</b>	<b>463,395</b>	<b>614,077</b>	<b>1,414,113</b>	<b>2,718,754</b>	<b>862,419</b>	<b>82,022</b>	<b>1,690,587</b>	<b>858</b>	<b>844</b>

- A) 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.
- B) Following an amortization of the provision for doubtful debts in the amount of approximately NIS 7,427 thousand (last year: NIS 6,251 thousand). The balances do not include balances of insurance companies with respect to co-insurance.

**Note:**

- 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 8,610 thousand (last year: NIS 7,548 thousand), which constitutes 0.5% (last year: 0.4%) of the overall exposure.
- 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.
- The total exposure of reinsurers to an earthquake event in Israel (including incoming business of Israeli policyholders abroad), with an MPL of 1.5% to 2.9% of the insurance amount, in accordance with the insurance branches and the characteristics of the policyholder's property, is NIS 9,673 million (last year: MPL of 1.5% in the apartments and mortgages branches, and MPL of 2.5% in other branches, amounting to approximately NIS 8,292 million, of which the share of the most material reinsurer in this exposure is approximately 15.95% (last year: 16.8%).
- 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 2018.
- 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 19 thousand (last year: NIS 25 thousand).
- 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 (152) thousand (last year: NIS (192) 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, 2018**

<b>NIS in thousands</b>	<b>Unlinked</b>	<b>CPI-linked</b>	<b>In foreign currency or linked thereto *)</b>	<b>Non-monetary items and others</b>	<b>Total</b>
Cash and cash equivalents	3,508,640	-	140,259	-	3,648,899
Marketable assets	9,615,830	14,118,525	6,609,948	17,559,231	47,903,534
Non-marketable assets	1,056,563	4,281,490	1,141,350	3,802,296	10,281,699
<b>Total assets</b>	<b>14,181,033</b>	<b>18,400,015</b>	<b>7,891,557</b>	<b>21,361,527</b>	<b>61,834,132</b>

**As of December 31, 2017**

<b>NIS in thousands</b>	<b>Unlinked</b>	<b>CPI-linked</b>	<b>In foreign currency or linked thereto *)</b>	<b>Non-monetary items and others</b>	<b>Total</b>
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
<b>Total assets</b>	<b>14,314,553</b>	<b>17,705,236</b>	<b>8,779,676</b>	<b>19,960,942</b>	<b>60,760,407</b>

\*) The USD is a major foreign currency.

2. Credit risk for assets in Israel

**As of December 31, 2018**

<b>NIS in thousands</b>	<b>Local rating *)</b>				<b>Total**)</b>
	<b>AA and higher</b>	<b>A to BBB</b>	<b>Lower than BBB</b>	<b>Unrated</b>	
<b>Debt assets in Israel:</b>					
Government bonds	15,370,063	-	-	-	15,370,063
Other debt assets - marketable	6,412,137	1,273,272	23,816	108,006	7,817,231
Other debt assets - non-marketable	3,361,582	1,398,418	2,531	942,853	5,705,384
<b>Total debt assets in Israel</b>	<b>25,143,782</b>	<b>2,671,690</b>	<b>26,347</b>	<b>1,050,859</b>	<b>28,892,678</b>
Of which - internally rated debt assets	-	328,892	-	-	328,892

**As of December 31, 2017**

<b>NIS in thousands</b>	<b>Local rating *)</b>				<b>Total**)</b>
	<b>AA and higher</b>	<b>A to BBB</b>	<b>Lower than BBB</b>	<b>Unrated</b>	
<b>Debt assets in Israel:</b>					
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
<b>Total debt assets in Israel</b>	<b>23,624,364</b>	<b>3,054,213</b>	<b>41,091</b>	<b>885,150</b>	<b>27,604,818</b>
Of which - internally rated debt assets	-	366,865	-	-	366,865

\*) 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.

**Note 39: Risk Management (Cont.)**

**G. Information regarding financial investments for investment-linked contracts (Cont.)**

3. Credit risk for foreign assets

**As of December 31, 2018**

NIS in thousands	International rating *)			Unrated	Total
	A and higher	BBB	Lower than BBB		
Total foreign debt assets	327,687	2,143,623	1,027,291	527,692	4,026,293

**As of December 31, 2017**

NIS in thousands	International rating *)			Unrated	Total
	A and higher	BBB	Lower than BBB		
Total foreign debt assets	321,997	1,821,686	711,110	360,562	3,215,355

\*) 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.

## Note 39: Risk Management (Cont.)

## H. Geographical risks

As of December 31, 2018										
NIS in thousands	Government bonds	Corporate bonds	Stocks	ETF's/ ETN's *)	Mutual funds	Investment property	Other investments	Total balance sheet exposure	Derivatives in delta terms	Total
Israel	18,969,740	2,526,914	1,112,742	71,397	-	917,587	7,387,707	30,986,087	15,837	31,001,924
United States	-	107,989	270,616	455,209	85,140	194,814	1,192,931	2,306,699	153,192	2,459,891
Great Britain	-	-	-	-	-	-	548,813	548,813	-	548,813
Germany	-	-	-	-	-	-	604,615	604,615	-	604,615
Switzerland	-	-	-	-	-	-	357,091	357,091	-	357,091
Emerging markets	-	-	-	-	-	-	70,821	70,821	-	70,821
Other	178	75,946	33,617	326,971	197,988	154,494	1,411,673	2,200,867	6,592	2,207,459
<b>Total assets</b>	<b>18,969,918</b>	<b>2,710,849</b>	<b>1,416,975</b>	<b>853,577</b>	<b>283,128</b>	<b>1,266,895</b>	<b>11,573,651</b>	<b>37,074,993</b>	<b>175,621</b>	<b>37,250,614</b>

As of December 31, 2017										
NIS in thousands	Government bonds	Corporate bonds	Stocks	ETF's/ ETN'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
<b>Total assets</b>	<b>19,123,491</b>	<b>2,927,037</b>	<b>1,367,841</b>	<b>1,000,742</b>	<b>348,924</b>	<b>1,212,109</b>	<b>11,001,602</b>	<b>36,981,746</b>	<b>116,160</b>	<b>37,097,906</b>

\*) Including foreign ETF's.

## 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.

Until November 8, 2018, Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**") is an interested party in the Group. For additional details regarding the sale of shares by Bank Hapoalim, see Note 1(B)(5) to the financial statements.

- (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 guidelines and rules specified in 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 which were granted in years preceding the reporting year (see Note 41).

1. Employment benefits for key management personnel (including the Chairman of the Board) include<sup>1)</sup>:

	For the year ended December 31					
	2018		2017		2016	
	No. of people	NIS in thousands	No. of people	NIS in thousands	No. of people	NIS in thousands
Short term employee benefits	15	20,367	11	24,365	12	20,223
Post-employment benefits	15	3,028	11	740	12	107
Share-based payments <sup>2)</sup>	4	(113)	10	1,210	11	1,911
		<b>23,282</b>		<b>26,315</b>		<b>22,241</b>

- 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<sup>6)</sup>:

NIS in thousands	For the year ended December 31					
	2018		2017		2016	
	No. of people	NIS in thousands	No. of people	NIS in thousands	No. of people	NIS in thousands
Directors compensation <sup>1)</sup>	6	1,928	6	1,670	6	1,065

- 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 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 a joint director. The aforementioned amount is after the participation of Clal Insurance. For details regarding the compensation terms of the Chairman of the Board, which are paid in their entirety by Clal Insurance, see section 4 below.

<sup>6)</sup> The data for 2018 include data with respect to a director who concluded his tenure in December 2018.

**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		
	2018	2017	2016
With respect to directors and officers liability insurance	931	1,001	889

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.

## Note 40: Related Parties and Interested Parties (Cont.)

### B. Benefits to key management personnel (including directors) (Cont.)

#### 4. Chairman of the Board (Cont.)

On May 26, 2016, the general shareholders' meeting approved the compensation terms of the Chairman of the Board, in a manner whereby 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 "**Base Salary**"). The annual employment cost of Mr. Naveh, as approved, was 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 is not 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.

On November 7, 2016, the Company's Compensation Committee and Board of Directors approved that in accordance with the Company's new compensation policy, which was approved in parallel, and with 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<sup>7</sup> (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<sup>8</sup>.

In accordance with his employment agreement, Mr. Naveh is entitled to request that the Company's provisions to the study fund and to directors' insurance (not including the severance pay component), beyond the relevant cap for the tax exemption, for each of those payment types, be paid as part of the monthly salary, instead of being transferred to the study fund or to managers insurance, as applicable. The payments in accordance with the provisions of this section will not constitute a salary component, and will not be considered a monthly salary for any other purpose, and the Chairman will not be entitled, with respect thereto, to any social and/or pension and/or severance pay benefits.

Standard salary components are effectively added to the Chairman's aforementioned monthly salary, including provisions to a study fund and for compensation beyond the cap, which were converted to a salary, as well as value and grossing-up of vehicle costs. The aforementioned additional components are in addition the base salary.

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.

<sup>7</sup> It is hereby clarified that provisions with respect to employer compensation, beyond the relevant cap for the tax exemption, insofar as they are not directed to a provident fund, but instead to the monthly salaries, will not be recognized as a bonus beyond a total of NIS 2.5 million, as stated above.

<sup>8</sup> In the decision, it was clarified that the decision reached by the meeting in May 2016 would remain in effect, the Company's Compensation Committee and Board of Directors will be entitled to approve a raise of up to 5% to the aforementioned salary (i.e., a raise of up to approximately NIS 6.5 thousand to the monthly salary), in accordance with the updated restrictions. As of the publication date of the report, the salary has not been updated according to the above.

## 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 10.4<sup>9</sup>, 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.

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:

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<sup>9</sup>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.)

**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.

**Warrants** - On June 5, 2013, prior to the entry into effect of the Executive Compensation Law, the Company's Board of Directors approved, 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. As of the present date, the first 2 tranches expired without being exercised. The exercise price was set on July 9, 2013 as 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.

It is noted, with respect to some of the options which vested in 2017, that the Company recorded an accounting expense in its financial statements for 2017, in the amount of NIS 107 thousand. For the sake of prudence, in order to fulfill the compensation limit, the Chairman waived vacation days worth approximately NIS 13,000.<sup>10</sup>

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).

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 proportional part in the portfolio companies, in consideration of the partnership's rights in the fund. Clal Insurance decided upon a distribution in kind of its share in the portfolio companies, in consideration of its partnership rights, and signed an agreement on the subject vis-à-vis the fund. Clal Insurance received its rights to most of the fund's portfolio companies, in consideration of its right in the partnership, and is currently in the final stages of receiving the payment of rights in kind. Clal Insurance is not a partner in the fund in 2019.

<sup>10</sup>The above was performed for the sake of caution, even though the options in question have been granted in 2013, prior to the enactment of the Executive Compensation Law, and the Company clarified that, in the meeting in May 2016, that according to its position, the expense with respect to the options which were approved prior to the publication of the Restriction on Compensation Law, should not be included as part of the compensation.

## Note 40: Related Parties and Interested Parties (Cont.)

### B. Benefits to key management personnel (including directors) (Cont.)

#### 5. Employment agreement of the former CEO

Mr. Izzy Cohen served as the CEO of the Company and of Clal Insurance from November 2012 to June 30, 2018.

In October 2017, the general shareholders' meeting of the Company approved the extension of the tenure of Mr. Izzy Cohen as 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 Mr. Cohen's consent), under the same conditions, by one additional year, subject to the provision of notice 3 months in advance (the "**New Agreement**").

Mr. Cohen's salary was determined pursuant to the conditions set forth in the Executive Compensation Law, in accordance the compensation with which was determined with respect to the Company's current CEO, as specified below.

In accordance with the new agreement, Mr. Cohen was entitled to an advance notice period of 90 days on his part, and of 180 days on the Company's part. In accordance with the new agreement, so long as the employment relationship between Mr. Cohen and the Company continued, including during the advance notice period, Mr. Cohen undertook not to compete against the Company. In accordance with the new agreement, Mr. Cohen was not entitled to a variable bonus.

In accordance with the previous agreement, Mr. Cohen was entitled to an adjustment bonus in the amount of 6 months' work 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, prior to the entry into effect of the Executive Compensation Law. The bonus was paid to Mr. Cohen upon the conclusion of his tenure in the Company, plus redemption of vacation days in the amount of approximately NIS 145 thousand.

With respect to Mr. Cohen's salary cost during the reporting year, the Company may have additional cost with respect to "excess salary cost", as defined in the Executive Compensation Law (for example, as a result of an interpretation of the provisions of the Executive Compensation Law), i.e., due to the fact that the aforementioned expense will not be deductible from the Company's taxable income.

## Note 40: Related Parties and Interested Parties (Cont.)

### B. Benefits to key management personnel (including directors) (Cont.)

#### 6. CEO employment agreement

Further to the announcement dated March 7, 2018, of Mr. Izzy Cohen, regarding his intention to conclude his tenure as CEO of the Company and Clal Insurance in June 2018, the Board of Directors appointed, on March 11, 2018, a committee to search for and recommend a new CEO for the Company, led by the Chairman of the Board, Danny Naveh, whose members included directors in the Company and in Clal Insurance (the “**Search Committee**”). The search committee worked to identify and screen candidates for the position of Company CEO.

On June 17, 2018, the Board of Directors of the Company and Clal Insurance approved the appointment of Mr. Yoram Naveh as the CEO of the Company and Clal Insurance, beginning on July 1, 2018, at which point the tenure of Mr. Izzy Cohen as the CEO of the Company and Clal Insurance concluded, though he remained for an overlapping training period until August 31, 2018.

On July 5 and 8, 2018, the compensation committees of the Company and of Clal Insurance, respectively, approved the terms of engagement with Mr. Yoram Naveh in the employment agreement, for an unspecified period, beginning on July 1, 2018, whereby each of the parties is entitled to terminate the engagement by giving notice 6 months in advance (the “**Agreement**”). On August 14, 2018, the general meeting of the Company’s shareholders approved the terms of the agreement.

Presented below are the main terms of the employment agreement of Mr. Naveh (hereinafter: the “CEO”):

The CEO’s salary will be calculated subject 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 Law, according to the higher of either: (1) Two million and a half Shekels (NIS 2.5 million) per year<sup>11</sup> (hereinafter: the “**Compensation 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 35 (hereinafter, respectively: the “**Minimum Salary**” or the “**Minimum Salary Limit**”).

“Compensation limit” - The higher of either minimum salary limit and the amount limit.

The fixed salary may change from time to time in accordance with the mechanism described above, and an update of the Compensation Committee and the Board of Directors, and furthermore, the fixed salary 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 compensation and the provision for severance pay as required by law), are not included in the amount limit or the minimum salary limit prescribed in the Executive Compensation Law.

<sup>11</sup> 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.

## Note 40: Related Parties and Interested Parties (Cont.)

### B. Benefits to key management personnel (including directors) (Cont.)

#### 6. CEO Employment Agreement (Cont.)

It is hereby clarified that the aforementioned decision is binding towards the Company even if the Company is found to bear additional cost with respect to “excess employment cost”, as defined in the Executive Compensation Law (e.g., as a result of an interpretation of the provisions of the Executive Compensation Law), i.e., due to the fact that the aforementioned expense will not be deductible from the Company’s taxable income.

The CEO will be entitled to convert components of fringe compensation benefits (e.g., vehicle and social benefits above the relevant maximum limits) into a monthly salary, provided that such conversion does not increase 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 (hereinafter: the “**Compensation Mechanism**”).

In accordance with the above, the monthly salary of the Company’s CEO amounted, during the reporting year (during the period of his tenure as the Company’s CEO) to a total of approximately NIS 185 thousand (plus vehicle value), plus social benefits, whereby the expense with respect to the compensation for the CEO, according to the total cost of the compensation components, per year, which also includes his period of tenure as an Executive VP in the Company, prior to his appointment as CEO, amounted to a total of NIS 2.19 million.<sup>12</sup>

In accordance with the fixed compensation mechanism specified in the employment agreement of the Company’s CEO, which was approved by the shareholders’ meeting on August 14, 2018, as stated above, and following the minimum salary update (as noted in the meeting convention report), in January 2019, the CEO’s salary was updated to a monthly total of approximately NIS 195 thousand.

The CEO is also entitled to reimbursement of expenses in connection with the fulfillment of his position, a cellphone, newspaper subscription, and an appropriate vehicle (subject to periodic replacement of the vehicle, in accordance with the Company’s standard practice), including expenses associated with the maintenance thereof, and including grossing-up the credit for the vehicle and telephone benefit for tax purposes, as well as additional fringe benefits, as specified in the Company’s compensation policy, subject to the compensation limit.

The agreement sets forth non-competition restrictions during the agreement period. The aforementioned restrictions will apply to the CEO with respect to the insurance and finance segments also for the nine month period, beginning from the date of provision of advance notice. During the 6 month advance notice period, the CEO will receive the full linked 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 during the advance notice period.

<sup>12</sup>Not including a non-recurring provision with respect to seniority debt for severance pay and a non-recurring provision with respect to a supplementation for adjustment pay, as specified below.

## Note 40: Related Parties and Interested Parties (Cont.)

### B. Benefits to key management personnel (including directors) (Cont.)

#### 6. CEO Employment Agreement (Cont.)

The agreement includes various provisions and other conventional arrangements. It was further determined that 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 inasmuch as the amount accumulated in the severance pay component of the managers' insurance policy does not reach the severance pay amount to which the CEO would be entitled by law in the event that of dismissal, the Company will supplement the difference owed to the CEO.

In accordance with the meeting's approval, following the increase in the CEO's salary (relative to his salary as Executive VP), an increase in the liability for severance pay was created, and for this purpose, a provision was made in the Company's books in the amount of approximately NIS 1.1 million, and a supplementation in practice of the severance pay fund may also be made. In accordance with the CEO's current salary as of 2008, and his seniority in the Group (since February 1, 2008). An increase in the aforementioned liability may also occur, from time to time, in consideration of the update to his actual salary<sup>13</sup>. A "tax fine" may materialize with respect to the aforementioned liability, in accordance with the provisions of the Executive Compensation Law.

The CEO is not entitled to a variable annual bonus with respect to his tenure as CEO.

It is noted that the CEO has a balance with respect to the annual bonus that was given with respect to 2017, and which has not yet been paid, due to the distribution requirements set forth in the provisions of the compensation circular and of the compensation policy, for which a provision was made in the Company's books, in the full amount, in the year when it was granted<sup>14</sup>.

The CEO remains entitled to receive an adjustment bonus in accordance with the provisions of his previous employment agreement, in which it was determined that he will be entitled to 6 months' employment without social benefits and fringe benefits. During the reporting year, in accordance with the CEO's salary at the end of the reporting year, the provision with respect to the adjustment bonus amounted to a total of approximately NIS 0.5 million.

It is noted that, in accordance with the compensation policy, the compensation policy does not detract from rights which have accrued or were created with respect to previous periods, and therefore, the provisions of the compensation circular will not apply to the adjustment bonus which was provided for Mr. Naveh before the circular's entry into effect. The provisions of the compensation circular with respect to severance packages apply to the supplementation of the adjustment bonus, as stated above.

The CEO will remain subject to the arrangements regarding insurance, exemption and indemnification which apply to the Company's directors and corporate officers<sup>15</sup>.

<sup>13</sup> The compensation limit in accordance with the Executive Compensation Law does not include severance pay by law, and therefore, also the additional provisions for the purpose of supplementing severance pay by law, in accordance with the CEO's increased salary, is not included in the compensation limit under the aforementioned law.

<sup>14</sup> A total of approximately NIS 460 thousand, which will be paid to him in equal parts during the years 2019 to 2021, subject to the fulfillment of the preconditions for the release. In 2019, the minimum conditions for release were not fulfilled, and accordingly, the payment of the proportional part which was now supposed to be paid, will be postponed to 2020, subject to the fulfillment of the minimum conditions for release with respect to 2019.

<sup>15</sup> The CEO has received from the Company a letter of exemption and letter of indemnity, similarly to the Company's corporate

## Note 40: Related Parties and Interested Parties (Cont.)

### B. Benefits to key management personnel (including directors) (Cont.)

6. CEO Employment Agreement (Cont.)

In February 2014, within the framework of his previous position, 90,000 warrants from the 2013 plan were allocated to the CEO, in three tranches, which are exercisable into shares according to a progressive exercise price. 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, 2 tranches have expired, and the CEO still has 30,000 warrants which have vested and are exercisable until February 6, 2020, at an exercise price of NIS 74.5 per share (subject to adjustment, inter alia, with respect to a dividend distribution). The cost with respect to the options was provided, in its entirety, in the Company's books. Additionally, the CEO privately purchased, on July 3, 2018, 3,934 Company shares.

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 agreement.

7. Exemption, insurance or indemnity undertakings towards corporate officers which are in effect as of the end of the reporting period

A. The following is a description of the arrangement that applies with respect to liability insurance for directors and corporate officers in the Company:

- (1) 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. 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, 2017 to November 30, 2018, and later from December 1, 2018 to November 30, 2019 (the "**Policies for 2018 and 2019**"), 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 2018 and 2019 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.

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officers and directors.

## Note 40: Related Parties and Interested Parties (Cont.)

### B. Benefits to key management personnel (including directors) (Cont.)

7. 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.)

(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).

(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.

During 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.

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 39(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.

## Note 40: Related Parties and Interested Parties (Cont.)

### B. Benefits to key management personnel (including directors) (Cont.)

7. 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.)

It is noted that member companies of the IDB Group, and its controlling shareholder, purchase, from time to time, directors and officers liability insurance from Clal Insurance. These engagements are insignificant for the Company. To the best of the Company's knowledge, two claims are being conducted in the Courts with respect to the 2018 underwriting year, which do not exceed the liability limit amount in the policy.

B. The following is a description of the arrangement which applies to the indemnification of directors and senior officers in the Company:

(1) On October 10, 2002, the general meeting of the Company's shareholders approved an undertaking to indemnify directors and corporate officers in the Company and in additional member companies of the Group, up to a rate of 25% of the Company's equity on the indemnification date. Accordingly, the Company issues letters of indemnity to officers in the Company and in certain subsidiaries.

(2) On April 16, 2008, the Company's Audit Committee and Board of Directors approved the provision of updated letters of indemnity to corporate officers in certain member companies of the Group, including the Company, which are materially similar to the letters of indemnity which were approved, as stated above.

(3) On May 3, 2012, 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, 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 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.

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.

**Note 40: Related Parties and Interested Parties (Cont.)****B. Benefits to key management personnel (including directors) (Cont.)**

7. 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.)

(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, as stated above.

Accordingly, the Company granted letters of exemption to directors and corporate officers in the Company.

**Note 40: Related Parties and Interested Parties (Cont.)**

**C. Balances of related parties and interested parties**

	As of December 31, 2018		As of December 31, 2017		
	Related party / interested party				
NIS in thousands	Other related parties <sup>2)</sup>	Investee companies	Other related parties <sup>2)</sup>	Bank Hapoalim group <sup>3)</sup>	Investee companies
Financial investments for investment-linked contracts	531,065	59,663	750,274	1,760,052	47,653
Other financial investments:					
Marketable debt assets	90,032	-	75,239	231,962	-
Non-marketable debt assets	-	-	-	295,515	77,778
Stocks	46,710	-	117,438	57,841	-
Others	-	4,764	-	-	-
Loans to investee companies accounted by the equity method <sup>1)</sup>	-	36,688	-	-	34,126
Other accounts receivable	631	-	1,340	1,720	-
Outstanding premiums	14,268	-	11,088	1,321	-
Cash and cash equivalents for investment-linked contracts	-	-	-	514,955	-
Other cash and cash equivalents	-	-	-	611,012	-
Other accounts payable	261	16,076	78	160	15,701
Financial liabilities *)	-	-	-	127,749	-

\*) 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 2018 amounted to a total of NIS 105,379 thousand (2017: NIS 121,407 thousand).

3) Bank Hapoalim Group ceased being a related party in November 2018. The highest balance of debt assets of Bank Hapoalim in 2017 amounted to a total of NIS 2,443,867 thousand.

## 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

	For the year ended December 31, 2018				For the year ended December 31, 2017				For the year ended December 31, 2016			
	Related party / interested party				Related party / interested party				Related party / interested party			
	IDB Development Corporation Ltd. and IDB Holding Corporation Ltd.	Other related parties	Bank Hapoalim group <sup>1)</sup>	Associate companies	IDB Development Corporation Ltd. and IDB Holding Corporation Ltd.	Other related parties	Bank Hapoalim group	Associate companies	IDB Development Corporation Ltd. and IDB Holding Corporation Ltd.	Other related parties	Bank Hapoalim group	Associate companies
<b>NIS in thousands</b>												
Gross premiums	2,800	55,584	16,346	-	4,033	52,737	21,406	-	1,351	78,892	33,695	-
Income (loss) from investments, net, and financing income	-	(38,151)	46,933	8,311	-	66,866	265,418	5,039	-	75,438	139,506	(14,049)
Income from management fees and portfolio management	-	-	-	-	-	-	20,246	-	-	-	145,483	-
Other income	-	-	-	-	-	-	-	-	-	-	-	-
Payments with respect to insurance contracts	1,950	14,938	3,399	-	1,706	41,070	9,480	-	7,189	40,185	16,862	-
Insurance fees	-	1,146	27	-	-	813	1	-	-	2,673	2	-
General and administrative expenses	-	5,060	1,612	-	-	5,482	4,909	-	-	5,587	7,490	-
Financing expenses	-	-	2,694	485	-	-	4,361	469	-	-	4,742	459

The data regarding Bank Hapoalim Group apply until September 30, 2018.

## Note 40: Related Parties and Interested Parties (Cont.)

### E. Other transactions

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 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 40.5 million which were received, amounts to approximately USD 2.6 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. 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).

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, then subject to the achievement and fulfillment of all of the other plan conditions, the option period for offerees whose warrants were allocated beginning from March 22, 2018 will be extended automatically, with no need for an additional resolution of the Company's Board of Directors, Compensation Committee or the plan manager, for an additional period of an equal number of days as the number of days during the lock-up period, whereby with respect to offerees whose warrants were allocated according to the plan, before the aforementioned date - the plan manager will be entitled to present the aforementioned resolution to the relevant organs.

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.

**Note 41: Share-Based Payment (Cont.)**

**A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)**

1. 2013 plan (Cont.)

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 2018, the Company’s Board of Directors approved an extension of the outline, for a period of three years, 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.

2. 2015 plan

Further to the compensation policy of Clal Insurance from June 2014, on March 24, 2015 the Company’s Board of Directors approved a capital compensation plan conditional upon performance for 2015 (hereinafter: the “**2015 Plan**”), according to which the Company will be entitled to allocate warrants to employees who are not senior position holders.<sup>16</sup> (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.

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.

<sup>16</sup> “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.)**2. 2015 plan (Cont.)

The conditions for materialization of eligibility are preconditions involving (a) Clal Insurance's 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 calendar year before the vesting date<sup>17</sup>. 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).

<sup>17</sup>In accordance with the compensation policy and the Board of Directors' resolution, the "minimum solvency ratio" for the purpose of the 2015 options plan, will continue, with respect to 2018 as well, to be based on a ratio 112% according to the accounting capital regime.

**Note 41: Share-Based Payment (Cont.)**

**A. Details regarding plans for the allocation of warrants exercisable into Company shares (Cont.)**

2. 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.

In 2018, the Company’s Board of Directors approved an extension of the outline according to which warrants were allocated in accordance with the 2015 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 2015 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.

For details regarding the allocation of warrants in previous years to the Chairman of the Board and to the Company’s current CEO, see Note 40(b)(4) and (6), respectively.

**B. Movement in warrants and additional details**

	Average lifetime *) in years	Weighted average of the exercise addition in NIS <sup>1)</sup>	Number of options
Balance as of January 1, 2016	2.99	62.46	2,986,335
Forfeited during 2016		67.82	(245,001)
Expired during 2016		63.95	(85,667)
Total outstanding warrants as of December 31, 2016	1.88	63.19	2,655,667
Forfeited during 2017		68.91	(8,667)
Expired during 2017		66.22	(294,997)
Exercised during 2017		55.46	(1,101,667)
Total outstanding warrants as of December 31, 2017	1.78	69.24	1,250,336
Forfeited during 2018		<b>70.33</b>	<b>(62,322)</b>
Expired during 2018		<b>69.82</b>	<b>(334,333)</b>
Exercised during 2018		<b>59.80</b>	<b>(122,999)</b>
Total outstanding warrants as of December 31, 2018	<b>1.29</b>	<b>70.48</b>	<b>730,682</b>
Of which, total outstanding warrants as of December 31, 2018			
2013 plan	0.79	70.20	341,335
2015 plan	2.23	68.61	271,013
In the current CEO’s plan <sup>2)</sup>	0.60	73.63	60,000
In the Chairman’s plan	0.58	77.50	58,334
Total exercisable warrants:			
At the end of 2018		<b>70.78</b>	<b>513,455</b>
At the end of 2017		68.83	819,561
At the end of 2016		60.10	1,561,666

\*) 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, 2018, 2017 and 2016 was NIS 52.83-77.50.

2) Options which were given to the CEO before his appointment as CEO, during his tenure as a corporate officer of the Company, within the framework of the 2013 plan.

**Note 41: Share-Based Payment (Cont.)****B. Movement in warrants and additional details**

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, 2018, 2017 and 2016, approximately 0.67%, approximately 1.16%, and approximately 2.59%, respectively, of the Company's issued and paid-up share capital after the allocation.

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 using the binomial model with respect to the warrants which were allocated, as stated above, 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:

	Chairman of the Board	The Company's former CEO	The Company's Current CEO	2013 plan <sup>1)</sup>	2015 plan <sup>1)</sup>
Number of warrants allocated, less forfeitures, until the balance sheet date	175,000	600,000	90,000	1,932,667	313,333
Weighted average share price (in NIS)	59.31	54.00	70.03	58.92	61.70
Weighted average of the exercise addition on the allocation date (in NIS)	75.00	57.50	72.75	62.39	68.73
Weighted average of expected volatility <sup>2)</sup>	42.26%	46.41%	39.23%	42.59%	34.06%
Average warrant lifetime (in years) <sup>3)</sup>	6.00	5.00	5.00	4.88	5.75
Weighted average of risk free interest rate <sup>4)</sup>	2.54%	2.80%	2.45%	2.46%	1.49%
Maximum price	137	135	151	135-151	139-146
Fair value as of the allocation date of all warrants issued by the Company (NIS in thousands) <sup>5)</sup>	2,281	10,972	1,673	32,576	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 would be exercised on 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	Chairman of the Board	The Company's current CEO	2013 plan	2015 plan	Total
In 2018	-	14	(181)	-	(167)
In 2017	107	153	1,345	954	2,559
In 2016	333	349	3,014	224	3,920

## Note 42: Contingent Liabilities and Claims

Presented below are details regarding claims which are not in the ordinary course of business, as follows: material claims<sup>18</sup> 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 F17<sup>19</sup>.

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.

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.

<sup>18</sup> 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 (see chapter D in section 13(f) of the annual financial statements for details regarding profit in accordance with 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 profit / loss associated with the event, and the profit / loss in each quarter, are calculated according to their absolute value. Additionally, a claim may be considered material for the purpose of such disclosure, in case the Company is unable to estimate the total exposure.

<sup>19</sup> In May 2018, an Amendment to the Courts Regulations (Fees), 2007, entered into effect, which increased the amount of fees which will be paid when filing a motion to approve a claim as a class action. As of the reporting date, the aforementioned amendment did not have any effect on the scope of motions to approve class actions which are filed against the Group's member companies.

**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, an annuity factor F18 <sup>20</sup> was not guaranteed in the capital policy, or to whom an annuity factor was guaranteed in the capital policy which was worse than the annuity factor specified in his fixed-payment policy.	In June 2011, the Commissioner's position was submitted, through the Attorney General of Israel, according to which an insurance company is not required to provide annuity factors which were determined in the past, or to transfer policyholders' funds to the fixed-payment policy which they had in the past. It was further noted, with respect to the question of whether it is possible to change the amount used to calculate 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 and conducted investigations 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. <sup>21</sup>

<sup>20</sup>The annuity factor is the factor representing life expectancy which is used by the insurer, at retirement age, to convert the savings amount accrued by the policyholder into a monthly annuity.

<sup>21</sup>The specified amount refers to the estimated claim with respect to one damage year only. It is noted that the claim was filed in March 2010, with respect to a legislative amendment from 2008.

**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.	<p>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 <b>"Proportional Reimbursement Claim"</b>). 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 <b>"Nominal Return Claim"</b>).</p> <p>In September 2016, a settlement arrangement was filed with the District Court (the <b>"Settlement Arrangement"</b>), 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.</p> <p>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.</p>	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.	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 " <b>First Class</b> ") and duly calculated linkage differentials (the " <b>Second Class</b> ") were not added. In January 2019, the plaintiff petitioned for the expansion of the class of represented plaintiffs, as defined in the Court's decision to approve from August 2015, such that it will also include all policyholders of Clal who received and/or will receive insurance benefits to which duly calculated interest was not added, from the date of the claim's approval as a class action, until a final ruling has been given on the matter. The Court determined it would reach a determination regarding the motion as part of the ruling.	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, for which the motion to approve was dismissed, 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
5.	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: “ <b>Sub-Annual Installments</b> ”), 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.	The Commissioner filed his position on the case, in which he accepted the position of the insurance companies. In February 2014, the Court ordered the petitioners to announce, within thirty days, whether they intend to withdraw the motion. In April 2014, the petitioners announced that they were not withdrawing the motion to approve. In July 2016, the Court approved the claim as a class action. The Group which was approved includes anyone who engaged with the defendants, or with any one of them, in an insurance contract, and from whom sub-annual installments were collected with respect to the following components: with respect to the savings component in life insurance of the “hybrid” type, which were sold by Clal Insurance in the past, with respect to the “policy factor”, which is a fixed monthly amount that is added to the premium, and which is intended to cover expenses, and with respect to health, disability, critical illness, loss of working capacity and long-term care policies (the “Collection Components”). The Court’s decision was given despite the position of the Commissioner of Insurance which was submitted at the request of the Court, as stated above. The cause of action for which the claim was approved as a class action is unlawful collection of sub-annual installments with respect to the collection components. The requested remedy is the reimbursement of the amounts which were unlawfully collected during the seven years preceding the filing of the claim and thereafter, i.e., from January 2001, and a mandamus order ordering the defendants to rectify their conduct. In December 2016, the defendants filed with the Supreme Court a motion for leave to appeal against the decision to approve the claim as a class action (the “Motion for Leave to Appeal”), and in May 2018, the Supreme Court accepted Motion for Leave to Appeal, heard it as an appeal, and gave a ruling in which the appeal was accepted, and the claim accordingly dismissed. In June 2018, the plaintiffs filed a motion to hold an additional hearing regarding the ruling, with respect to some of the determinations specified therein.	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
6.	5/2011  District - Center	Clal Insurance and additional insurance companies	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. The plaintiffs contend that in April 2011, the Court with which the current claim was filed, approved class action status for a motion to recognize a claim against another insurance company (hereinafter: the "Other Motion"), which is identical to this claim. It is noted that following the motion for leave to appeal, which was filed by the other insurance company with the Supreme Court, the hearing regarding the other motion to approve was returned to the District Court to be heard again.	Payment of the compensation / reimbursement amount equal to the policy factor amount which was actually collected from the class members, with the addition of the returns which were withheld from them with respect to this amount due to the fact that the amount which was deducted from the premium for the policy factor was not invested for them, and changing the method of action with respect to the collection of the policy factor.	Anyone who was and/or is a policyholder of any or all of the defendants, and from whom any amount was collected as the policy factor.	In June 2015, a settlement arrangement and a motion to approve it were filed with the Court, in which it was requested to order the defendants to pay a total of NIS 100 million with respect to the past (of which, the share of Clal Insurance is approximately NIS 26.5 million), and to provide a discount of 25% of the actual future collection of the policy factor. In November 2016, the Court decided to dismiss the motion to approve the settlement arrangement, since it believed that the foregoing does not constitute an adequate, reasonable and fair arrangement for the affairs of the class members. Additionally, the Court decided to partially approve the conducting of the claim as a class action, only with respect to life insurance policies combined with savings which were prepared between the years 1982 and 2003 (with respect to Clal Insurance, in policies of the "Adif", "Meitav" and "Profile" types), where the savings which accrued in favor of the policyholders in those policies were affected due to the collection of the policy factor, on the grounds of breach of the insurance policy, due to the collection of the policy factor, in a manner which harmed the savings which accrued in favor of the policyholders, with respect to the period beginning seven years before the filing date of the claim, in April 2011. The claim was not approved with respect to other types of policies (hereinafter, jointly: the "Decision"). The claimed remedies, as defined in the Court's decision, include curing the breach by implementing an update to the savings which accrued in favor of the policyholders, in the amount of the additional savings which would have accrued for them had a policy factor not been collected, or compensation of the policyholders in the aforementioned amount, and discontinuation of the collection of the policy factor from that point forward. Additionally, payment of professional fees was ruled for the plaintiff's representative, and for the objectors to the settlement arrangement and their representatives, in immaterial amounts. Insofar as the claim will be approved on the merits, the total potential of the claim, with respect to the savings component in the relevant policies is estimated in the amount of approximately NIS 700 million, for four of the defendants who engaged in the settlement arrangement (including Clal Insurance), with respect to the period from 2004 to 2012 (inclusive), based on an estimate which is based on the assessment of the Court which was given based on the opinion of the examiner who was appointed on its behalf. This amount does not include the period until the date of the decision, and the collection amounts with respect to the policy factor, which were received from 2012 onwards, and are 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. In February 2019, the defendants withdrew the motion for leave to appeal, in accordance with the Supreme Court's suggestion, and therefore, the claim will continue being heard on its own merits, before the District Court.	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 of the filing date of the claim, 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
7.	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 " <b>Policy</b> "), in cases where the youngest driver who is expected to use the vehicle on a routine basis (hereinafter: the " <b>Driver</b> ") 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: " <b>Eligible Age</b> " and " <b>Eligible Experience Level</b> "). 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 holders of motor policies, of any kind whatsoever, 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
8.	11/2014  District - Economic Department of Tel Aviv	Bank of Jerusalem Ltd. (hereinafter: <b>"Bank of Jerusalem"</b> ) and several additional defendants who served as directors in Clal Finance Batucha Investment Management Ltd. ( <b>"Clal Batucha"</b> ) from 2007 until the sale of Clal Batucha to Bank of Jerusalem in December 2013.	The plaintiff contends that Clal Batucha, which merged with and into Bank of Jerusalem, in its function as portfolio manager, performed, on behalf of its customers, transactions with securities of member companies in the IDB Group, in a manner which gave preference to its interests and to the interests of various member companies of the IDB Group over the interests of its customers, in violation of the law. The plaintiff contends that Clal Batucha breached its obligation to inform its customers regarding any conflict of interests which it has in the performance of the aforementioned actions, and to receive their consent. The plaintiff further contends that the directors of the defendants breached their duty of care towards the class members.	To issue an order against Clal Batucha and against the other defendants to provide details and information regarding the damages which were (allegedly) incurred by each of the class members, and to order the defendants to compensate the class members for the entire damages which they incurred, or alternatively, to determine another remedy in favor of all or some of the class members.	Any person who received from Clal Batucha investment management services, in which they acquired securities which were issued by member companies of the <b>"IDB conglomerate"</b> , 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 <b>"IDB conglomerate"</b> 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) ( <b>"Batucha"</b> ), 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 <b>"Advice Law"</b> ), 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: <b>"IDB Holding"</b> ) and IDB Development Corporation Ltd. (hereinafter: <b>"IDB Development"</b> ), 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 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. 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. <sup>22</sup> F20 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.

<sup>22</sup>The Company reported the claim to the insurers of the professional liability insurance policies under which it is covered. The Company is unable, at this stage, to estimate the amount of damages and the scope of insurance coverage.

**Note 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.	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. In June 2018, the parties filed with the Court a motion to approve a settlement arrangement. In accordance with the settlement arrangement, partial compensation will be paid to the class members in whose name the claim was filed, and who meet the conditions specified in the settlement agreement. The Attorney General of Israel filed a position with respect to the proposed settlement arrangement, in which it was stated that he did not consider it appropriate to object to the proposed settlement. The Court decided to appoint an examiner to evaluate the proposed settlement arrangement. The settlement arrangement's entry into effect is conditional upon the receipt of approval from the Court, the provision of which is uncertain.	The total damage claimed for all of the class members against Clal Insurance amounts, in the plaintiff's estimate, to a total of approximately NIS 473.8 million.

**Note 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.	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. The proceedings are currently in the claim handling stage.	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: “ <b>Sub-Annual Installments</b> ”). 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 “ <b>Settlement Agreement</b> ”) 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 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.	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 retire, 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. At the request of the Court, in September 2017, the Commissioner's answers were given, which determined, 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. The parties are conducting mediation proceedings.	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
3.	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.
4.	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 Harel Insurance Company Ltd. ("Harel") was added as an additional defendant. The amended motion included claims against Harel in connection with its obligation to disclose the premiums for the policy. The plaintiff's claims regarding the collection of premiums with respect to dates after the cancellation of the policy, which were included in the original motion to approve the claim as a class action, are not included in the amended motion. The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total damage claimed for all of the class members from Clal Insurance amounts, in the plaintiff's estimate, to a total of NIS 90 million.

**Note 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
5.	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 <b>"Required Formula"</b> ), 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 <b>"Policyholders"</b> ), 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 7(a)(1)(10) 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.
6.	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 beaches of the agreement, and to fulfill the agreement from this point forward, or alternatively, to order the provision of any other remedy considered appropriate by the Court, in light of the applicable circumstances.	Any person who held a long term care insurance policy which was sold by the defendants (or his inheritors, as applicable), and who suffered from a health condition and impaired functioning as a result of an illness or accident or health condition, which caused them to be incontinent and/or to require the permanent use of a stoma or catheter in the bladder, or diapers or absorbent pads of various kinds, and notwithstanding the foregoing, who did not receive from the defendants (as applicable) points with respect to the "continence" component, in a manner which injured his rights.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs contend that the damage cannot be estimated at this stage, but estimate it at tens or even hundreds of millions of NIS. The personal damage claimed by the plaintiff from Clal Insurance, as alleged, amounts to a total of approximately NIS 32,500 (without linkage differentials and interest).

**Note 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
7.	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 was 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.
8.	10/2015  District - Center	Clal Insurance	The plaintiff has 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 revoked the ruling, insofar as it pertains to the summary dismissal of the claim, and ordered the plaintiff to file a clarification notice with the District Court, regarding the question of based on which causes of action the claim is requested to be conducted, and which of the plaintiff's assertions meets the requirement of personal cause of action, and the plaintiff filed the foregoing clarification notice, and in April 2018, the District Court instructed the plaintiff to file an amended motion for approval of the claim as a class action, according to the specific causes of action which it specified. Following an additional motion for leave to appeal which the plaintiff filed with the Supreme Court, the Supreme Court ordered that the decision be stayed until a decision has been reached regarding the motion for leave to appeal which was filed by the plaintiff on this matter.	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
9.	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: “ <b>Sub-Annual Installments</b> ”), 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
10	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. <sup>23</sup> .
11.	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.

<sup>23</sup>The claim also alleges that the plaintiff incurred additional damage, in an unspecified amount, due to the exception from the investment, with reference to bonds of companies which faced insolvency situations.

**Note 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
12.	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: " <b>Direct Expenses</b> "), 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.	In May 2018, the position of the Capital Market, Insurance and Savings Authority was filed, within the framework of the proceedings which are being conducted before the Regional Labor Court of Jerusalem, which, in general, supported the position of Clal Pension and Provident Funds. In June 2018, the Authority's responses to the questions which had been addressed to it were filed, within the framework of the proceedings which are being conducted before the Regional Labor Court of Tel Aviv. The proceedings are currently in the stage of hearing the motions to approve the claims as class actions.	In claim 1, which refers to the pension funds, the amount of the class action was set as NIS 341 million, with respect to the years 2009-2015, plus the investment management expenses which were collected by the defendant from the Group members in 2016, and plus the returns which would have been earned by the funds which were deducted as investment management expenses. In claim 2, which refers to the study fund, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 53 million. In claim 3, which refers to the Tamar provident fund, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 181 million. In claim 4, which refers to managers' insurance policies, the amount of the class action was set, on an estimation basis, as a total of approximately NIS 404 million, plus the investment management expenses which the defendant charged to the class members in 2016, as well as interest and linkage.
	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
13.	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.
14.	9/2016  Regional Labor Court of Tel Aviv	Clal Insurance	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 " <b>Policies</b> "), by virtue of the Extension to Compulsory Pension Ordinance (hereinafter: the " <b>Extension Order</b> ") 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, 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 December 2017, the Court gave its decision, that the Attorney General of Israel, the Histadrut and the Coordinating Bureau of Economic Organizations will file with the Court their positions on the case. In April 2018, the Attorney General's position regarding the case was filed, including the attachment of a position paper on a similar matter, which was heard in another case, and which, in general, supported the position of Clal Insurance in its response. In July 2018, the position of the Manufacturers Association of Israel, which also supported the position of Clal Insurance, was also filed with the Court. The proceedings were stayed by the Court at the request of the plaintiff's representative, who sought, following the amendment to the Control of Financial Products Law (Provident Funds), 2005, to evaluate whether the aforementioned amendment made the proceedings unnecessary.	The amount of the class action against the defendant amounts to a total of approximately NIS 479 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.	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.	<p>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.</p> <p>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.</p>	<p>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.</p> <p>The plaintiff is also petitioning for 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.</p> <p>The plaintiff in claim (2) is petitioning 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.</p>	<p>In April 2018, following the plaintiffs' joint motion regarding the two claims, it was determined that the two claims would be consolidated into a single claim, and that the parties will file a joint motion to approve the class action.</p> <p>The proceedings are currently in the stage of hearing the motions to approve the claims as class actions.</p>	<p>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.</p> <p>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.</p>

**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
16.	4/2017  Regional Labor Court of 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 previous 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. In September 2018, the motion was transferred to a hearing before the Labor Court. In February 2019, the defendants filed a motion to add the employer's organizations to the motion as additional defendants. 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.
17.	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
18.	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 “ <b>Adjudication of Interest and Linkage Law</b> ”), 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.

**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.	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.
20.	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, based on the same cause of action, were filed in the past against the Company and three additional insurance companies, and were struck out on procedural grounds.	The plaintiff estimates the damages owed to the class members by Clal Insurance, with respect to each year, at a total of NIS 17,732,580. The plaintiff is petitioning for the payment of damages with respect to the beginning on since June 4, 2001, or alternatively, for a period of 7 years since the filing date of the previous claim, or alternatively, for a period of 7 years since the filing date of the claim in question.

**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.	3/2018  Regional Labor Court of Tel Aviv	Clal Pension and Provident Funds Ltd. and five additional managing companies of pension funds.	According to the plaintiffs, members of pension funds which are managed by the defendants, the defendants collect survivor premiums from members who join the pension funds which are managed by them, who have no survivors, without actively attempting to disclose and explain to such members that they should avoid purchasing and paying for survivors insurance coverage, and without clarifying to members who have chosen to waive survivors insurance coverage, shortly before the end of the waiver period, that the waiver is about to expire.	Issuance of a mandamus order instructing the defendants to credit, to the savings fund of the class members, all of the funds which were paid by them and applied to survivor premiums, plus the returns which those funds would have received had they been credited to the savings funds on the date of their payment to the pension fund, as well as the issuance of a mandamus order instructing the defendants to duly disclose, clarify and explain to anyone who joins or is added to the fund, that if they do not have survivors, they would benefit from waiving the purchase of survivors insurance.	Anyone who does not have survivors, who joined or was added to a pension fund which is managed by any of the defendants, and from whom the fund collected survivors insurance premiums, despite the fact that they have no survivors, as this term is defined in the directives of the Authority of Capital Markets, Insurance and Savings.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	In the statement of claim, it was stated that the plaintiffs are unable to estimate, at this point, the rate of cumulative damages incurred by all of the class members.
22.	5/2018  District - Tel Aviv	Clal Insurance and an additional insurance company	The plaintiffs contend that the defendants overcollect insurance premiums with respect to comprehensive motor insurance, which are calculated according to a value of the vehicle which is greater than the actual value of the vehicle, as weighted by them upon the occurrence of a total loss insurance event, in different situations wherein the value of the vehicle is reduced due to "special variables" or "special components", in a manner whereby the "true value" of the insured vehicle is significantly lower than its value for the purpose of insurance (before weighing the "special variables"), and particularly, when the vehicle was purchased from a rental company or leasing company.	To order the defendants to reimburse the amounts which were unlawfully overcollected from the policyholders, plus duly calculated interest; To declare that the defendants are not entitled to collect premiums based on a vehicle value which does not include the deduction of the "special component" from the vehicle value; To issue an injunction prohibiting the defendants from continuing their aforementioned practice of overcollection, as well as any remedy which the Court considers fair and just in light of the circumstances.	All policyholders who acquired from the defendants, with respect to a vehicle to which special variables apply under the policy, and whose insurance policy states that, in case of an insurance event of the "total loss" type or "constructive total loss" type, a certain rate will be deducted from the vehicle value, without reducing the premiums accordingly, during the seven years preceding the filing date of the claim.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The total alleged personal damage claimed by the plaintiff against Clal Insurance was estimated at a total of NIS 650. The aggregate damage incurred by the class members, during the last seven years, was estimated in the total amount of approximately NIS 50 million, for both 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.)**

<b>Serial number</b>	<b>Date and instance</b>	<b>Defendants</b>	<b>Main claims and causes of action</b>	<b>Main remedies</b>	<b>Represented class</b>	<b>Status / additional details</b>	<b>Claim amount</b>
23.	5/2018  Regional Labor Court of Tel Aviv	Clal Pension and Provident Funds	According to the plaintiff, a member of the comprehensive pension fund and supplementary pension fund which are managed by Clal Pension and Provident Funds, Clal Pension and Provident Funds retroactively collects, from the members of the pension funds which it manages, costs of insurance coverage for disability and mortality risks, with respect to periods regarding which, allegedly, she does not and cannot bear any insurance risk.	To order Clal Pension and Provident Funds to compensate the plaintiff and the class members with respect to the damages which they incurred, and to reimburse them for the amounts which were collected from them in the alleged circumstances, in the amount of their damages, and as a minimum, in the amount estimated in the claim; to order the provision of any other remedy in favor of the class.	Anyone who was a member of the pension funds which are managed by Clal Pension and Provident Funds during the last seven years, and from whom insurance coverage costs were retroactively collected.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The cumulative damage incurred by the class members was estimated by the defendant at a total of NIS 21,415,031.
24.	5/2018  Regional Labor Court of Tel Aviv	Clal Insurance	The plaintiffs contend that Clal Insurance raised the management fees in managers' insurance policies, beyond the management fee rate which was agreed upon in the insurance policies, and in violation of the law.	Reimbursement of the full amounts which were collected by Clal Insurance with respect to management fees, beyond the rate specified in the managers' insurance policies and/or in breach of the directives of the competent authority and/or in violation of the provisions of the law, as if they had been deposited originally, with the addition of linkage differentials and interest. Alternatively, they request any other remedy in the Court's discretion.	All customers of Clal Insurance who purchased managers' insurance policies, and from whom management fees were collected at a rate which was higher than the rate specified in the policies and/or in violation of the directives issued by the Insurance Commissioner at the Ministry of Finance and/or in violation of the law.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs did not specify the cumulative damages incurred by all class members. The personal damage of one plaintiff was estimated as a total of NIS 597, with the addition of linkage differentials and interest, and the damages incurred by the second plaintiff were not specified.

**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.	8/2018  Regional Labor Court of Tel Aviv	Clal Insurance	The plaintiff contends that Clal Insurance paid, to holders of guaranteed-return insurance policies which were issued between the years 1962 and 1990 (“ <b>Guaranteed-Return Policies</b> ”), interest according to rates which were lower than the rates which it was required to pay in accordance with the publication issued by the Authority of Capital Markets, Insurance and Savings (hereinafter: the “ <b>Capital Market Authority</b> ”), and as a result, that it performed unjust enrichment at the expense of policyholders. It was further asserted that Clal Insurance did not pay interest in arrears to policyholders in cases involving arrears in the redemption of funds from guaranteed-return policies.	The payment of the difference between the interest rate which Clal Insurance actually paid to holders of guaranteed-return policies, and the interest rate which it would have been required to pay in accordance with the publication of the Capital Market Authority, and the update to unredeemed guaranteed-return policies, in accordance with the interest rate which were published by the Capital Market Authority. The plaintiff is also petitioning for payment of duly calculated linkage and interest in arrears in case of arrears in the redemption of funds by virtue of guaranteed-return policies.	Holders of guaranteed-return policies to whom interest was not paid with respect to these policies, according to the rates which were published by the Capital Market Authority, and holders of guaranteed-return policies to whom duly calculated interest in arrears was not paid with respect to the delay in the redemption of the policy funds.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiff did not specify the cumulative damage incurred by all class members (however, it was asserted that the damage exceeds NIS 2.5 million). The plaintiff’s personal damage was estimated at a total of NIS 133,657.

**Note 42: Contingent Liabilities and Claims (Cont.)****A. Class action claims (Cont.)****A2. Pending motions to approve class action status for material claims (Cont.)**

<b>Serial number</b>	<b>Date and instance</b>	<b>Defendants</b>	<b>Main claims and causes of action</b>	<b>Main remedies</b>	<b>Represented class</b>	<b>Status / additional details</b>	<b>Claim amount</b>
26.	9/2018  District - Tel Aviv	Clal Insurance	The plaintiffs contend that Clal Insurance unilaterally changed the terms of life, accident, illness and disability insurance policies, against the policyholder's interests, without the policyholders' express consent.	Declaratory relief determining that Clal Insurance is required to cancel the unilateral amendments which it made to the policies, and to restore the policies to their original terms, as well as monetary relief ordering Clal Insurance to reimburse to the class members the value of the economic damage which was incurred due to the unilateral amendments.	Holders, during the 7 years preceding the filing date of the claim, of life, accident, illness and disability insurance policies, and whose policy terms were changed for the worse following the unilateral decision of Clal Insurance, without their express consent.	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 average damage incurred by the plaintiffs amounts to a total of NIS 1,649 from March 2017, and the cumulative damage incurred by all of the class members is estimated by the plaintiffs at NIS 4,947,000. The plaintiffs assert that, after receiving all of the relevant data from Clal Insurance, they will be able to accurately estimate the extent of the alleged overcollection.
27.	11/2018  District - Center	Clal Insurance	The plaintiffs contend that Clal Insurance breaches its contractual obligation under the policy, and allegedly refuses to pay, to holders of comprehensive motor insurance policies for vehicles weighing over 3.5 tons, compensation with respect to the vehicle's loss of value as a result of the insurance event, although the policy covers the "damage" caused to the vehicle, while affecting the assessments which are prepared by the arrangement loss adjusters.	Declaratory relief; Ordering Clal Insurance to indemnify all of its policyholders who were covered under the policy, and whose vehicles suffered and/or will suffer loss value as a result of the insurance event, as well as any other remedy considered by the Court to be appropriate and just, in light of the circumstances.	All policyholders of Clal Insurance who acquired and/or will acquire from Clal Insurance comprehensive motor insurance for vehicles weighing up to 3.5 tons, and whose vehicles, as a result of the insurance event, as defined in the policy, suffered and/or will suffer damage in the form of loss of value.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiff estimates the amount of damages incurred by the class members at approximately NIS 75 million. The plaintiff's personal damage was estimated at a total of NIS 21,605.

**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
28.	1/2019  District - Jerusalem	Clal Insurance and two additional insurance companies	The plaintiffs contend that the defendants unlawfully hold funds originating from the dispatch of unredeemed checks, and which were sent to policyholders, whose eligibility for insurance benefits or for reimbursement of premiums has been recognized by the defendants.	Payment of the insurance benefits or reimbursement of the premiums, plus linkage and interest from the date when they were recognized by the defendants, through the payment methods which are held by the defendants; Additionally, to order the defendants to perform, in the future, insurance payments using the same payment method as that which is used by the policyholder to pay the premiums; And to order the defendants that if it is not possible to locate the class members, the Guardian General should be contacted and informed of the funds which are held by them.	Anyone who meets one or more of the following conditions: (1) Policyholders of the defendants, whose eligibility for insurance benefits or for the reimbursement of insurance premiums was recognized by the defendants, and to whose registered address checks were sent which had not been redeemed by the policyholders, for any reason whatsoever; (2) Policyholders of the defendants regarding whom, on the date of dispatch of the aforementioned checks, or thereabouts, the defendants had details of their bank account or debit card, through which and/or from which premiums were collected by the defendants, or regarding whom the defendants had the possibility to find such details.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The claim does not include calculation of the aggregate damage incurred by the class members; however, this amount was estimated as exceeding NIS 2.5 million.
29	3/2019  District- Jerusalem	Clal Insurance	The plaintiffs contend that the defendant issues personal accident policies to its policyholders upon their purchase of international travel insurance, without their consent, and in a misleading manner.	An order to reimburse the funds which were collected by the defendant to each of the class members, with respect to the payment of a personal accidents insurance policy during the last seven years	Any policyholder who, when purchasing an international travel insurance policy, was also added at that time, without their consent, to personal accidents insurance, and who was unlawfully charged monthly premium payments up to 7 years before the filing date of the claim.	The proceedings are currently in the stage involving an evaluation of the motion to approve the claim as a class action.	The plaintiffs estimate the damage incurred by the class members at approximately NIS 17 million. The personal damage claimed by the defendant amounts to NIS 1,044.

**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 signing** <sup>24</sup>

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
1.	6/2011 District - Center	Clal Insurance, against a consolidated company of Clal Insurance - Clal Health, and against 8 additional insurance companies	According to the plaintiffs, in cases of expiration of a lien which is imposed at the request of a third party, on insurance benefits or compensation which is owed to a policyholder or injured party, he defendants' practice is to pay the policyholders the insurance benefits at their nominal values, and without conducting any revaluation whatsoever, or, in certain cases, with the addition of linkage differentials only. The plaintiffs further claim that the defendants allegedly withhold, in some cases, payment due to an incorrect belief that a restriction applies to their payment.	To order the defendants to repay to the class members all of the interest which they earned by virtue of their holding of the withheld insurance benefits (or other funds) or the interest and linkage differences with respect to the holding of such funds throughout the entire withholding period of the funds, according to the higher rate of the two, with the addition of linkage differentials and interest; To order the defendants to pay other special compensation, in the Court's discretion; To declare that the defendants are required to pay insurance benefits or damages to the injured parties, duly revaluated as of the date of actual payment, where such compensation was paid after the required date, regardless of whether or not the delay was implemented lawfully or unlawfully; To order the defendants to establish internal policies on all matters associated with liens or approval of "notices to holders", in order to ensure that funds of policyholders or other payables are not unlawfully withheld by insurers.	The policyholders of the defendants and injured parties who sued them by virtue of section 68 of the Insurance Contract Law, 1981, who were entitled to receive insurance benefits or other sums from the defendants, and where those amounts were paid at their nominal value only or with the addition of linkage differentials only without interest, after being withheld due to foreclosures or receivership orders or other third party rights, or due to an incorrect belief on part of the defendants that such restrictions on the execution of the payment had existed.	In December 2012, the Court approved the handling of the claim as a class action. In 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 March 2018, following the appointment of an examiner, the Court gave a ruling in which the settlement arrangement regarding the case was approved, in which it was determined, inter alia, that Clal Insurance will pay, with respect to the past, monetary damages in an immaterial sum. The approved settlement arrangement also included arrangements regarding future mechanisms for the revaluation of insurance benefits, the transfer of which was delayed in the aforementioned circumstances. The defendants will also bear the payment of compensation to the plaintiff and professional fees to its legal counsel, in immaterial amounts, as agreed in the settlement arrangement.	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.

<sup>24</sup>The 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.

**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.	4/2017  District - Center	Clal Insurance	The claim involves an allegation according to which Clal Insurance conducts an allegedly incorrect calculation of premiums on all matters associated with the charging / crediting of the policyholder of insurance premiums when exchanging a vehicle during the policy period. According to the plaintiff, when performing the replacement, the premiums should be calculated with respect to the substitute vehicle, including subtracting therefrom the premiums as proportional to the remainder of the insurance period of the replaced vehicle, in accordance with the tariffs which apply as of the date of the replacement.	To order Clal Insurance to correctly calculate the premiums and to pay the difference between the premiums which were credited with respect to the vehicle and the premiums which should have been credited when replacing the vehicle in the policy, and to determine that the prescription period is from the publication date of the Standard Policy on September 21, 1986.	All policyholders and/or insurants who were covered by Clal Insurance in motor property insurance policies, who replaced the vehicle in the policy during the insurance period, and were credited with lesser premiums than those which should have been credited to them with respect to the replaced vehicle, such that, effectively, with respect to the replacement of the vehicle, they overpaid, or were under-reimbursed.	In May 2018, the Court approved the plaintiff's motion to withdraw the claim, on procedural grounds, while striking the claim and the motion to approve it as a class action, as well as the plaintiff's personal claim, and ordered the payment of its expenses, in a negligible amount.	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.)**

**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.	4/2013  District - Tel Aviv	Clal Insurance	According to the plaintiff, whose deceased wife (the <b>"Policyholder"</b> ) 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.	In April 2018, in accordance with the Court's recommendation, a consensus motion for the plaintiff's withdrawal of the class action was filed (hereinafter: the "Motion to Withdraw"), along with an undertaking by Clal Insurance to update certain forms which are used in the process of settling long-term care claims. In June 2018, the Court approved the motion to withdraw, as stated above, and the claim thereby concluded. In August 2018, the Court gave its approval for the completion of the withdrawal arrangement.	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.)**

**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.	2/2016  District - Tel Aviv	Clal Insurance	<p>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.</p> <p>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.</p> <p>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.</p>	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.	In April 2018, the Court received the plaintiff's motion to withdraw the class action, along with an undertaking by Clal Insurance to update certain forms which are used in the process of settling long-term care claims. In June 2018, the Court's decision was given, in which it approved the plaintiffs' withdrawal from the motion to approve, and the claim thereby concluded.	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.)****A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)**

<b>Serial number</b>	<b>Date and instance</b>	<b>Defendants</b>	<b>Main claims and causes of action</b>	<b>Main remedies</b>	<b>Represented class</b>	<b>Status / additional details</b>	<b>Claim amount</b>
5.	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.	In August 2018, the plaintiff's motion to withdraw the class action was filed with the Court. In September 2018, the Court gave its decision to accept the petitioner's withdrawal of the motion to approve.	The plaintiff estimates that the amount of damages ruled for the members of the class which he seeks to represent exceeds NIS 3 million.

**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.	3/2015  District - Jerusalem	Clal Pension and Provident Funds	According to the plaintiff, a member of the "Clal Tamar" provident fund (hereinafter: the " <b>Provident Fund</b> ") 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.	In June 2018, the parties filed with the District Court of Jerusalem a settlement arrangement and a motion to approve it (hereinafter: the " <b>Settlement Arrangement</b> "), according to which Clal Pension and Provident Funds undertook to pay, to the members of the class which was defined in the settlement arrangement, compensation according to the amounts and rates which were determined in the settlement arrangement. The settlement arrangement includes provisions regarding the method used to effect the payment to the class members who are still members, and to the class members who are no longer members. In November 2018, the position of the Attorney General of Israel regarding the settlement agreement was filed, in which it was stated, in general, that he did not object to the settlement agreement. In December 2018, the Court approved the settlement arrangement in the claim, and gave it force of ruling.	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.)

## 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
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 " <b>Risk Addition</b> "), 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 a premium including a risk addition was collected.	In May 2018, the Court gave a ruling in which the motion to approve the claim as a class action was dismissed. In July 2018, the petitioner in the motion to approve filed an appeal with the Supreme Court, against the ruling given by the District Court, in which the motion to approve was dismissed. In November 2018, a ruling was given by the Supreme Court, in which the appeal was struck out, and the claim thereby concluded.	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.)**
**A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)**

Serial number	Date and instance	Defendants	Main claims and causes of action	Main remedies	Represented class	Status / additional details	Claim amount
8.	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.	In May 2018, an agreed-upon motion for the plaintiff's withdrawal from the class action was filed with the Court, in which the Court was requested to approve the plaintiff's withdrawal from the motion to approve and from the claim, and to order the dismissal of the plaintiff's personal claim against Clal Insurance. As part of the motion to withdraw, Clal Insurance agreed, beyond the letter of the law, to provide a total of NIS 2,150,000 in favor of the establishment of a designated fund, which will be intended to provide payments, beyond the letter of the law, to the class members whose claims will be presented for re-evaluation to the fund's chairman, a judge emeritus, who will re-evaluate their cases. In January 2019, the motion to withdraw was approved.	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.)**

**A3. Material class actions and motions to approve class action status which concluded during the reporting period, until its signing (Cont.)**

9.	6/2016	Clal Insurance, the Ministry of Finance - Division of Capital Markets, and three other insurance companies	<p>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.</p> <p>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.</p>	<p>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.</p>	<p>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.</p>	<p>In December 2018, the Court gave a ruling which approved the plaintiffs' withdrawal of the class action claim, without ordering expenses.</p>	<p>The plaintiffs estimate the total damage claimed for all class members, through a gross estimate, as a total of NIS 7,000 million.</p>
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**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.)**

10.	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.	In December 2018, the Court gave it its decision, in which the plaintiff's withdrawal of the motion to approve was accepted, while dismissing the plaintiff's personal claim, without ordering expenses.	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.
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**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.)**

<b>Serial number</b>	<b>Date and instance</b>	<b>Defendants</b>	<b>Main claims and causes of action</b>	<b>Main remedies</b>	<b>Represented class</b>	<b>Status / additional details</b>	<b>Claim amount</b>
11.	11/2017  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.	In October 2018, the plaintiffs filed a motion to withdraw the proceedings, without ordering expenses.  In November 2018, the Court issued a ruling which approved the withdrawal of the claim, while determining that the withdrawal constitutes dismissal of the motion to approve.	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.)

#### 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<sup>25</sup>, and regarding which a detailed description was therefore not included in the financial statements. As of the reporting date, 21 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 452 million<sup>26</sup>.
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.

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.

<sup>25</sup> See note 2 above regarding the significance threshold.

<sup>26</sup> The foregoing number includes one claim in which Clal Insurance is a formal defendant, and no remedies are requested against it, and three claims in which the amount claimed was not attributed to the Company only, but to additional companies as well. The aforementioned amount does not include one claim in which the plaintiff specified an amount of NIS 6 to 100 million, as well as one claim in which the plaintiff did not specify the claim amount, but estimated it at tens of millions of NIS. For additional information regarding all class actions, see Note 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.)

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 regulatory authorities, 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, inter alia, 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 with respect to deposits which will be performed beginning from the application date of the regulations. In the short term, as reflected in the market and in the Group's institutional entities, a delay was caused in the distribution of some of the deposits, particularly due to inconsistencies between the reports of employers and the policy data, and specific inconsistencies arose 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 systems of the institutional entities during the reporting year resulted in 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 implementation of the Payment Regulations also resulted in possible temporary delays in reporting to members, in difficulties in identifying arrears, for the purpose of making direct contact with employers and operating entities, and in an increase of operating and automation expenses. The Group's institutional entities are still in the process of implementing and handling the issues which come up during the implementation of the Payment Regulations, and are working to reduce the aforementioned gaps, including through improvements in the automation system and in the work processes. However, it is noted that the entry into effect of the directive regarding the reporting requirement on the level of the policyholder, as part of the employers interface (as opposed to 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.

## 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.)

Following the Commissioner's audit report, which was received by Clal Insurance and which noted deficiencies, mostly pertaining to the manner of implementation of the Payment Regulations, Clal Insurance submitted to the Commissioner a response to address the findings of the report, which, subject to the Commissioner's satisfaction, will allow the continued marketing of pension products by Clal Insurance. Clal Insurance began implementing work plan, as part of the timetables which were formulated for its implementation. The Company is currently holding discussions with the Control of Insurance Office regarding the implementation of the plan.

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, most of the tasks involving the cleansing of data regarding accrued balances of policyholders have been completed. The Group's institutional entities are continuing their data cleansing activities with respect to members and policyholders, including with reference to additional gaps which are identified from time to time, including as regards the automation of classification of funds, in accordance with the layers of the regulatory directives, over the years, and these are in the final stages of handling. At this stage, the institutional entities in the Group are unable to estimate the scope, cost, and full implications of the aforementioned activities, or the scope of the future gaps in data cleansing, which may result from regulatory changes, due, inter alia, to the complexity of the products, the fact that they are long term products, and due to the multiplicity of automation systems in the segment, and their limitations. The Group's institutional entities update their insurance liabilities from time to time, as required.

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, on the retention of current products, 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.

## 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.)

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 which are received by the Authority, including in light of the fact that, from time to time, the Commissioner tends to determine positions in principle by way of industry-wide determinations, position papers and draft position papers which are published by him. For additional details regarding industry-wide determinations and position papers, see section D below.

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

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.

## Note 42: Contingent Liabilities and Claims (Cont.)

### B. Material claims and derivative claims

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

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.

In June 2017, the Court approved a consensus motion to dismiss a claim from May 2016 (hereinafter: the “**Previous Claim**”), which 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 plaintiffs and the Clal Finance companies, in connection with actions which were performed by the Clal Finance companies with respect to the plaintiff’s investment portfolio, 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 Amount**”). A ruling which gave force of ruling to the settlement agreement in which the parties to the arbitration engaged, which primarily includes the cancellation of the arbitration award, and payment in the total amount of NIS 9.2 million to the plaintiff and his attorneys, in consideration of a final and absolute waiver and dismissal of all of the plaintiffs’ claims, demands and lawsuits in the arbitration vis-à-vis the Clal Finance companies. According to the plaintiff, the Court is requested to order the cancellation of the cancellation ruling, due to extreme injustice, since it was given based on the plaintiff’s consent during a time when he was suffering from a severe emotional state, lack of judgment and inability to agree to the settlement agreement. The plaintiff further demands the cancellation of the ruling due to error, extortion and obstruction. The plaintiff is petitioning the Court to order the cancellation of the canceling judgment, and to require the Clal Finance companies to pay the arbitration award to him, less the amounts which were paid to him, and with the addition of linkage differentials and interest from the date of provision of the arbitration award until the actual payment date.

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**Note 42: Contingent Liabilities and Claims (Cont.)****B. Material claims and derivative claims****B1. Current or concluded material claims which are not in the ordinary course of business or exposure to such claims**

In September 2018, an additional claim was summarily dismissed, in light of the issuance of a final judgment, on the same matter as that described above, by the same plaintiffs, which had been filed, in May 2018, with the District Court of Tel Aviv-Yafo, and in which the Court was again requested to cancel the cancellation ruling, including its decision to dismiss the previous claim (hereinafter: the “**Additional Claim**”).

In October 2018, a motion for leave to appeal was filed against the decision to dismiss the additional motion.

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. It is noted, in this regard, that in accordance with the provisions of the agreement from October 2002, in which Clal Finance Batucha Investment Management Ltd. was acquired, IDB Development Corporation Ltd. and Discount Investment Corporation Ltd. are required to indemnify the Company for any direct damage, expense or loss which the Company (or by any of its subsidiaries) has incurred, including due to claims or demands whose cause of action materialized before the date specified in the aforementioned agreement.

**Note 42: Contingent Liabilities and Claims (Cont.)**

**B. Material claims and derivative claims (Cont.)**

**B2. 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 were associated with IDB Development or with the controlling shareholders of DIC at that time, including Clal Holdings and Clal Finance (all, jointly: the “Respondents”). <sup>27</sup>	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.	<p>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.</p> <p>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, and subsequently, a motion to summarily dismiss was filed by some of the defendants (hereinafter: the “<b>Motion To Dismiss</b>”). In accordance with the Court’s decision, a response to the motion to dismiss was filed by the Company, stating that it is joining the motion to dismiss.</p> <p>The proceedings are currently in the stage of hearing the motion to approve the claim as a derivative claim.</p>	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).

<sup>27</sup>The 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 higher<sup>28</sup>.

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	6	2,588
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 <sup>29</sup>	2	-
4. Annual amount specified (and accordingly, the total amount is period-dependent). <sup>30</sup>	1	107
B. <u>Pending motions to approve claims as class actions</u>		
1. Amount pertaining to the Company specified	34	4,037
2. The claim was filed against a number of entities, with no specific amount attributed to the Company. <sup>31</sup>	8	4,689
3. Claim amount not specified / possible range specified <sup>32</sup>	11	-
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	-	-
D. <u>Material claims which are not class action or derivative claims</u>		
1. Amount pertaining to the Company specified	1	86
2. The claim was filed against a number of entities, with no specific amount attributed to the Company	-	-
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 70 million. The causes of action against the Company and/or the consolidated companies within the framework of the aforementioned proceedings are varied and multiple.

<sup>28</sup> 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.

<sup>29</sup> In one of the motions, the plaintiff did not specify a claim amount, although an estimate was given of hundreds of millions of NIS.

<sup>30</sup> The specified amount refers to an estimation of the claim with respect to one damage year only. It is noted that the claim was filed in March 2010, with respect to a legislative amendment from 2008.

<sup>31</sup> Includes one claim in which Clal Insurance is a formal defendant, and no remedies are requested against it.

<sup>32</sup> These motions include the following: one motion to add as a formal defendant, 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, three motions which were estimated as tens of millions of NIS, and one motion in which the claim amount was estimated in the range of NIS 6 to 100 million.

## 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**"). Clal Insurance performed the aforementioned evaluation, and submitted its results to the Commissioner, who also requested data. In November 2017, Clal Insurance received a final determination on the matter (hereinafter: the "**Determination**"), according to which Clal Insurance 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 the subsequently approved outline, the Company is required to contact policyholders who were added to personal accidents insurance from January 1, 2014 until the end of 2016, 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, Clal Insurance 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.

At this stage, the Company has begun implementing the outline, in parallel with discussions which are being held with the Commissioner regarding the manner of implementation of the outline, and it is still unable to estimate its full implications, which depend, inter alia, on the conduct of policyholders, and on the effective framework for implementation.

2. The Company held discussions with the Commissioner, in connection with the draft determination regarding it, with respect to one-time deposits of policyholders in guaranteed return policies (hereinafter: the "**Policies**"). In accordance with the draft, the Company is obligated to take certain actions with respect to policyholders whose actual rate of deposits, which bore the returns of the portfolio of investment-linked insurance contracts, 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.)**

- 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) and 42(a)(a2)(29) 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, 2018, 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 154 million.

## Note 43: Additional Events During and After the Reporting Period

### A. Actuarial estimates

#### 1. The low interest rate environment and its effect on discount rates in life insurance

During the reporting period, the risk-free interest rate curve increased, as did the estimated rate of return in the portfolio of assets held against insurance liabilities. For additional details, see Note 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)(e1)(b)(2) for details regarding the update to the provision in light of the Winograd committee's recommendations, in accordance with the Company's estimate.

#### 3. Changes in non-interest assumptions regarding the calculation of the adequacy of long-term care reserves

See Note 37(e)(e1)(d)(5) for updates regarding the change in cancellation studies on liabilities with respect to ongoing claims regarding long-term care payments

### B. Appointment of a CEO in the Group

Further to the announcement dated March 7, 2018, of Mr. Izzy Cohen, CEO of the Company and Clal Insurance at the time, regarding his intention to conclude his tenure as CEO of the Company and Clal Insurance in June 2018, the Board of Directors appointed, on March 11, 2018, a committee to search for and recommend a new CEO for the Company, led by the Chairman of the Board, Danny Naveh, whose members include directors in the Company and in Clal Insurance (the "**Search Committee**"). The search committee worked to identify and screen candidates for the position of Company CEO.

On June 17, 2018, the Board of Directors of the Company and Clal Insurance approved the appointment of Mr. Yoram Naveh as the CEO of the Company and Clal Insurance, beginning on July 1, 2018, at which point the tenure of Mr. Izzy Cohen as the Company's CEO concluded, while the latter remained for an overlapping training period until August 31, 2018. For additional details regarding the employment terms of Mr. Yoram Naveh, see Note 40(B)(6).

**Note 43: Additional Events During and After the Reporting Period (Cont.)****C. Change to the Group's organizational structure**

On July 26, 2018, the Company's Board of Directors resolved to implement a change to the organizational structure of Clal Group, effective September 1, 2018, in which the life insurance and pension and provident fund divisions were merged into the long term savings division. A new division was created: the customers and distribution division, which merged the customers unit with the business unit. A new unit was created: the service and operations unit; the headquarters unit will be canceled; and the headquarters departments will be made directly subordinate to the CEO.

**D. Termination of engagement with Maccabi and Leumit health funds**

In 2018, the Maccabi, Leumit and Clalit health funds published new tenders for the selection of an insurer for collective long-term care insurance for the fund members, according to a different framework of engagement than that which applies to Clal Insurance's current engagement with Maccabi and Leumit (such that the winning insurer will bear only 20% of the insurance risk, and the policyholder fund will bear the rest). In accordance with the funds' notice, Clal Insurance's offer regarding the provision of collective long-term care insurance service to the fund members did not win the tender. Clal Insurance has insurance liability to cover claims of policyholders who were insured by it through the aforementioned insurance policies, with respect to insurance events which first occurred during the validity period of the collective insurance in Clal Insurance (until December 2018 with respect to Maccabi policyholders, and until March 2019 with respect to Clalit policyholders), including with respect to claims which were submitted after the end of the insurance period, and subject to obsolescence, in accordance with the law.

**E. Developments in markets subsequent to the reporting date**

During the period after the reporting date, and until proximate to the publication date of the report, there were increases in the capital markets which resulted, inter alia, as of the end of February 2019, in the closure of liabilities to policyholders in the collection of variable management fees, and in variable management fees and the collection of variable management fees in the amount of approximately NIS 136 million.

The risk-free interest rate curve also decreased. Further to that stated in Note 39(e)(e1) and (e2) to the financial statements, a decrease in the interest rate may lead to an increase in the liability to supplement annuity reserves, including a change in the K factor, in paid pension liabilities in life insurance, and also as part of the liability adequacy test (LAT), in insurance liabilities in non-life insurance, in the compulsory, liabilities and personal accidents branches.

At this stage, it is not possible to estimate the implications of the decreased risk-free interest rate curve during this period on the financial results for the first quarter of 2019, 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 2019, and the above does not any estimate regarding the Company's expected financial results for 2019.

For details regarding sensitivity tests to market risks, see Note 39 regarding risk management in the financial statements.

## 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, 2018			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets <sup>(1)</sup>	128,088	5,087,775	-	5,215,863
Non-marketable debt assets	3,411	-	21,986,582	21,989,993
Stocks <sup>(2)</sup>	-	1,416,905	-	1,416,905
Others <sup>(3)</sup>	166,784	2,695,537	-	2,862,321
<b>Total other financial investments</b>	<b>298,283</b>	<b>9,200,217</b>	<b>21,986,582</b>	<b>31,485,082</b>

NIS in thousands	As of December 31, 2017			
	Fair value through profit and loss	Available for sale	Loans and receivables	Total
Marketable debt assets <sup>(1)</sup>	108,231	5,396,511	-	5,504,742
Non-marketable debt assets	5,291	-	21,827,400	21,832,691
Stocks <sup>(2)</sup>	-	1,367,797	-	1,367,797
Others <sup>(3)</sup>	224,447	2,499,157	-	2,723,604
<b>Total other financial investments</b>	<b>337,969</b>	<b>9,263,465</b>	<b>21,827,400</b>	<b>31,428,834</b>

### 1. Marketable debt assets

NIS in thousands	As of December 31			
	2018		2017	
	Book value	Amortized cost	Book value	Amortized cost
<b>Government bonds</b>				
Presented at fair value through profit or loss:				
Available for sale	3,179,217	3,190,229	3,329,044	3,239,066
<b>Total government bonds</b>	<b>3,179,217</b>	<b>3,190,229</b>	<b>3,329,044</b>	<b>3,239,066</b>
<b>Other debt assets</b>				
<b>Non-convertible</b>				
Presented at fair value through profit and loss:				
Designated upon initial recognition	128,088	129,715	108,231	100,529
Available for sale	1,908,558	1,931,885	2,067,467	2,011,295
<b>Total other non-convertible debt assets</b>	<b>2,036,646</b>	<b>2,061,600</b>	<b>2,175,698</b>	<b>2,111,824</b>
<b>Total marketable debt assets</b>	<b>5,215,863</b>	<b>5,251,829</b>	<b>5,504,742</b>	<b>5,350,890</b>
Fixed impairments charged to income statement (cumulative)	17,148		-	

## Annex A - Details Regarding Other Financial Investments of Consolidated Insurance Companies Registered in Israel (Cont.)

### 2. Stocks

NIS in thousands	As of December 31			
	2018		2017	
	Book value	Amortized cost	Book value	Amortized cost
<b>Marketable</b>				
Presented at fair value through profit or loss:				
Available for sale	1,125,663	1,080,466	1,114,256	992,993
<b>Total marketable stocks</b>	<b>1,125,663</b>	<b>1,080,466</b>	<b>1,114,256</b>	<b>992,993</b>
<b>Non-marketable</b>				
Presented at fair value through profit or loss:				
Available for sale	291,242	304,336	253,541	286,668
<b>Total non-marketable stocks</b>	<b>291,242</b>	<b>304,336</b>	<b>253,541</b>	<b>286,668</b>
<b>Total stocks</b>	<b>1,416,905</b>	<b>1,384,802</b>	<b>1,367,797</b>	<b>1,279,661</b>
Fixed impairments charged to income statement (cumulative)	148,232		144,854	

### 3. Other financial investments

NIS in thousands	As of December 31			
	2018		2017	
	Book value	Amortized cost	Book value	Amortized cost
<b>Marketable</b>				
Presented at fair value through profit or loss:				
Designated upon initial recognition	87,682	87,686	139,636	140,781
Available for sale	1,049,234	1,027,569	1,210,031	1,122,361
Derivative instruments	34,557	23,992	6,165	5,274
<b>Total marketable financial investments</b>	<b>1,171,473</b>	<b>1,139,247</b>	<b>1,355,832</b>	<b>1,268,416</b>
<b>Non-marketable</b>				
Presented at fair value through profit or loss:				
Designated upon initial recognition	17,981	26,717	18,859	26,684
Available for sale	1,646,303	1,241,792	1,289,126	1,040,768
Derivative instruments	26,564	-	59,787	1,560
<b>Total non-marketable financial investments</b>	<b>1,690,848</b>	<b>1,268,509</b>	<b>1,367,772</b>	<b>1,069,012</b>
<b>Total other financial investments</b>	<b>2,862,321</b>	<b>2,407,756</b>	<b>2,723,604</b>	<b>2,337,428</b>
Fixed impairments charged to income statement (cumulative)	85,994	-	72,627	-

**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

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**Balance sheet date** : December 31, 2018

**Report publication date** : March 26, 2019

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<b>שגיאה! הסימניה אינה מוגדרת.</b>	
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**1. Details required in connection with a material valuation (Regulation 8B)**

None.



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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, 2018 and 2017, and for each of the three years the last of which ended December 31, 2018, 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 in its entirety. We believe that our audit, along with the reports provided by the other auditors, 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 26, 2019

Kost Forer Gabbay and Kasierer  
Certified Public Accountants

Somekh Chaikin  
Certified Public Accountants

Joint Auditors

**Data Regarding the Financial Position**

NIS in thousands	Additional information	As of December 31	
		2018	2017
<b>Assets</b>			
Investments in investee companies	2.5	<b>4,855,501</b>	5,011,035
Loans and balances of investee companies	2.5	<b>14</b>	63
Other accounts receivable		<b>67</b>	151
Other financial investments:			
Marketable debt assets		<b>14,864</b>	26,589
Stocks		<b>70</b>	44
Others		<b>56</b>	-
Total other financial investments	2.2 (A)	<b>14,990</b>	26,633
Cash and cash equivalents	2.3	<b>33,441</b>	16,652
<b>Total assets</b>		<b>4,904,013</b>	5,054,534
<b>Capital</b>			
Share capital		<b>143,382</b>	143,367
Premium on shares		<b>1,009,801</b>	1,001,880
Capital reserves		<b>587,118</b>	649,964
Retained earnings		<b>3,157,874</b>	3,251,608
<b>Total capital</b>		<b>4,898,175</b>	5,046,819
<b>Liabilities</b>			
Other accounts payable	2.2 (B)	<b>5,657</b>	7,303
Balances of investee companies		<b>181</b>	412
<b>Total liabilities</b>		<b>5,838</b>	7,715
<b>Total capital and liabilities</b>		<b>4,904,013</b>	5,054,534

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

March 26, 2019				
Approval date of the financial statements	Danny Naveh Chairman of the Board	Yoram Naveh Chief Executive Officer	Eran Cherninsky Executive VP Finance Division Manager	Tal Cohen Senior VP, Comptrollership Division Manager

**Data Regarding Income**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Company's share in the income (loss) of investee companies, net of tax	(89,475)	207,609	104,864
From investee companies	-	-	29
Others	255	(117)	218
<b>Total income</b>	<b>(89,220)</b>	<b>207,492</b>	<b>105,111</b>
General and administrative expenses	2,890	3,337	3,278
Financing expenses	-	1,044	1,715
Other expenses	(665)	15	5,539
<b>Total expenses</b>	<b>2,225</b>	<b>4,396</b>	<b>10,532</b>
<b>Income (loss) before taxes on income</b>	<b>(91,445)</b>	<b>203,096</b>	<b>94,579</b>
Taxes on income (tax benefit)	-	-	(1,822)
<b>Income (loss) for the period</b>	<b>(91,445)</b>	<b>203,096</b>	<b>96,401</b>

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		
	2018	2017	2016
Income (loss) for the period	<b>(91,445)</b>	203,096	96,401
Other comprehensive income:			
Components of other comprehensive income which, following initial recognition in comprehensive income, have been or will be transferred to profit and loss:			
Change, net, in the fair value of available-for-sale financial assets applied to capital reserves	<b>28</b>	(53)	(288)
Change, net, in the fair value of available-for-sale financial assets transferred to profit and loss	<b>(39)</b>	(68)	(2)
Other comprehensive income (loss) with respect to investee companies	<b>(62,835)</b>	165,920	23,901
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	<b>(62,846)</b>	165,799	23,611
Taxes (tax benefit) with respect to other components of comprehensive income (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	<b>(62,846)</b>	165,799	23,611
Components of other comprehensive income which will not be transferred to profit and loss:			
Other comprehensive income with respect to investee companies which will not be transferred to profit and loss, net of tax	<b>5,814</b>	1,177	2,228
Other comprehensive income for the period which will not be transferred to profit and loss, net of tax	<b>5,814</b>	1,177	2,228
Other comprehensive income (loss) for the period	<b>(57,032)</b>	166,976	25,839
Total comprehensive income for the period	<b>(148,477)</b>	370,072	122,240

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

## Data Regarding Cash Flows

NIS in thousands	For the year ended December 31		
	2018	2017	2016
<b>Cash flows from operating activities</b>			
Income (loss) for the period	(91,445)	203,096	96,401
Adjustments:			
Company's share in the income (loss) of investee companies	89,475	(207,609)	(104,864)
Dividends from investee companies	9,038	15,045	17,300
Interest accrued with respect to liabilities to banking corporations	-	1,044	1,686
Income from other financial investments	588	1,337	1,174
Taxes on income (tax benefit)	-	-	(1,822)
	<b>99,101</b>	<b>(190,183)</b>	<b>(86,526)</b>
Changes to other items in the data regarding financial position, net:			
Change in other accounts receivable	84	(70)	68
Change in other accounts payable	(1,646)	(51)	5,763
	<b>(1,562)</b>	<b>(121)</b>	<b>5,831</b>
Cash which were received during the period for:			
Net cash from operating activities with respect to transactions with investee companies	(349)	2,062	4,817
Interest received	-	-	29
<b>Net cash from operating activities</b>	<b>5,745</b>	<b>14,854</b>	<b>20,552</b>
<b>Cash flows from investing activities</b>			
Investment in available for sale financial assets	(15,054)	(9,916)	(36,998)
Consideration from sale of available for sale financial assets	26,098	28,380	47,058
<b>Net cash from investing activities</b>	<b>11,044</b>	<b>18,464</b>	<b>10,060</b>
<b>Cash flows from financing activities</b>			
Repayment of liabilities to banking corporations	-	(70,000)	-
Interest paid with respect to liabilities to banking corporations	-	(1,194)	(1,715)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(71,194)</b>	<b>(1,715)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>16,789</b>	<b>(37,876)</b>	<b>28,897</b>
Cash and cash equivalents at beginning of period	16,652	54,528	25,631
<b>Cash and cash equivalents at end of period</b>	<b>33,441</b>	<b>16,652</b>	<b>54,528</b>

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

## 2. Financial Data from the Consolidated Financial Statements Attributed to the Company Itself as of December 31, 2018 (Regulation 9C)

### 2.1 General

Presented below are financial data regarding the Company's consolidated financial statements as of December 31, 2018 (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.

**2. Financial Data from the Consolidated Financial Statements Attributed to the Company Itself as of December 31, 2018 (Regulation 9C) (Cont.)**

**B. Transactions between the Company and investee companies**

1. Presentation

The inter-company balances in the Group, and income and expenses due to inter-company transactions, which were canceled within the framework of the preparation of the consolidated reports, were presented separately from the balance with respect to investee companies and income with respect to investee companies, together with similar balances vis-à-vis third parties.

Unrealized profit and loss which are due to transactions between the Company and its investee companies were presented under the balance with respect to investee companies and under income with respect to investee companies.

2. Measurement

Transactions which were performed between the Company and its consolidated companies were measured in accordance with the principles of recognition and measurement, as set forth in International Financial Reporting Standards, which establish the accounting treatment for transactions of this kind which are performed vis-à-vis third parties.

**2. Financial Data from the Consolidated Financial Statements Attributed to the Company Itself as of December 31, 2018 (Regulation 9C) (Cont.)**

**2.2 Financial instruments**

**A. Financial investments**

The composition is as follows:

NIS in thousands	As of December 31	
	2018	2017
<b>Marketable debt assets</b>		
Government bonds (1)	<b>14,864</b>	26,589
<b>Total marketable debt assets</b>	<b>14,864</b>	26,589
<b>Stocks (2)</b>		
Non-marketable - available for sale	<b>10</b>	10
Marketable - available for sale	<b>60</b>	34
<b>Total stocks</b>	<b>70</b>	44
Other financial investments	<b>56</b>	-
<b>Total financial investments</b>	<b>14,990</b>	26,633

(1) Short term NIS bills, repayable in 2019, at an effective interest rate of 1.23% 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	
	2018	2017
Expenses payable	<b>577</b>	1,109
Institutions	-	15
Suppliers	<b>22</b>	68
Others **)	<b>5,058</b>	6,111
<b>Total</b>	<b>5,657</b>	7,303

\*) The balances of payables are unlinked.

\*\*) Primarily with respect to the provision for claims. For additional details, see Note 42 to the consolidated reports.

## 2. Financial Data from the Consolidated Financial Statements Attributed to the Company Itself as of December 31, 2018 (Regulation 9C) (Cont.)

### 2.3 Cash and cash equivalents

Composition and linkage:

NIS in thousands	Interest as	As of December 31	
	of December 31, 2018 %	2018	2017
Unlinked NIS		32,944	16,180
Linked to the EUR	0.0-0.1	279	273
Linked to the USD	-	214	195
Linked to the GBP	-	4	4
<b>Total</b>		<b>33,441</b>	<b>16,652</b>

Most of the cash and cash equivalents are checking account balances and daily deposits in banking corporations. The interest rates on checking account balances are based on interest rates with respect to daily deposits.

### 2.4 Taxes on income

- A. For details regarding the tax environment in which the Company operates, 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	
	2018	2017
Investments in investee companies	4,896,767	5,011,035
Current balances	14	63
<b>Total</b>	<b>4,896,781</b>	<b>5,011,098</b>

- 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 economic solvency regime, see Note 16(e) to the consolidated reports.
- C. The Company has agreements in immaterial amounts with investees which include management fees to the Company.

### 3. Report Regarding the Liabilities of the Reporting Corporation and its Consolidated Companies by Repayment Dates as of December 31, 2018 (Regulation 9D)

As of December 31, 2018, the Company and the consolidated companies have no liabilities in accordance with Regulation 9D.

### 4. Condensed quarterly statements of comprehensive income (Regulation 10A)

#### Condensed quarterly statements of comprehensive income for 2018

NIS in thousands	Q1	Q2	Q3	Q4	Total
Gross premiums earned	2,475,118	2,518,584	2,653,952	2,627,364	10,275,018
Premiums earned by reinsurers	334,460	357,525	368,035	320,013	1,380,033
Premiums earned on retention	2,140,658	2,161,059	2,285,917	2,307,351	8,894,985
Income (loss) from investments, net, and financing income	295,523	1,238,179	1,907,388	(2,196,221)	1,244,869
Income from management fees and portfolio management	233,508	215,288	338,738	96,663	884,197
Income from commissions	77,174	76,155	79,340	58,677	291,346
Other income	19	11	42	3	75
<b>Total income</b>	<b>2,746,882</b>	<b>3,690,692</b>	<b>4,611,425</b>	<b>266,473</b>	<b>11,315,472</b>
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	2,372,741	2,998,233	4,058,187	(78,467)	9,350,694
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	235,855	320,497	231,429	319,003	1,106,784
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	2,136,886	2,677,736	3,826,758	(397,470)	8,243,910
Commissions, marketing expenses and other acquisition costs	468,120	507,955	511,718	532,272	2,020,065
General and administrative expenses	224,595	217,503	233,929	234,203	910,230
Impairment of intangible assets	-	114,824	-	-	114,824
Other expenses	4,399	3,356	2,123	819	10,697
Financing expenses	30,080	59,175	35,670	33,006	157,931
<b>Total expenses</b>	<b>2,864,080</b>	<b>3,580,549</b>	<b>4,610,198</b>	<b>402,830</b>	<b>11,457,657</b>
Share in the results of associate companies accounted by the equity method, net	1,345	687	1,067	(28,767)	(25,668)
Income (loss) before taxes on income	(115,853)	110,830	2,294	(165,124)	(167,853)
Taxes on income (tax benefit)	(42,030)	32,374	3,681	(75,717)	(81,692)
<b>Income (loss) for the period</b>	<b>(73,823)</b>	<b>78,456</b>	<b>(1,387)</b>	<b>(89,407)</b>	<b>(86,161)</b>
Company shareholders	(75,141)	76,837	(2,547)	(90,594)	(91,445)
Minority interests	1,318	1,619	1,160	1,187	5,284
<b>Income (loss) for the period</b>	<b>(73,823)</b>	<b>78,456</b>	<b>(1,387)</b>	<b>(89,407)</b>	<b>(86,161)</b>
<b>Earnings per share attributable to Company shareholders</b>					
Basic earnings (loss) per share (in NIS)	(1.35)	1.38	(0.05)	(1.63)	(1.65)
Diluted earnings (loss) per share (in NIS)	(1.35)	1.38	(0.05)	(1.63)	(1.65)
<b>Number of shares used to calculate earnings per share</b>					
Basic	55,576	55,577	55,577	55,577	55,577
Diluted	55,576	55,577	55,577	55,577	55,577

## 4. Condensed quarterly statements of comprehensive income (Regulation 10A) (Cont.)

**Condensed quarterly statements of comprehensive income for 2018 (Cont.)**

NIS in thousands	Q1	Q2	Q3	Q4	Total
Income for the period	(73,823)	78,456	(1,387)	(89,407)	(86,161)
Components of other comprehensive income	-	-	-	-	-
Foreign currency translation differences for operations applied to capital reserves	7,669	8,928	(3,258)	15,301	28,640
Foreign currency translation differences applied to the statement of income	-	-	-	92	92
Change, net, in the fair value of available for sale financial assets applied to capital reserves	12,000	78,084	167,051	(140,926)	116,209
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	(95,239)	(40,005)	(74,595)	(78,011)	(287,850)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	9,275	5,716	6,837	19,223	41,051
Tax impact	23,541	(16,958)	(33,211)	64,700	38,072
Total components of net profit which will subsequently be reclassified to profit and loss	(42,754)	35,765	62,824	(119,621)	(63,786)
Actuarial income (loss) from defined benefit plan	1,809	(1,149)	(128)	7,749	8,281
Taxes with respect to other components of comprehensive income	(438)	256	65	(2,331)	(2,448)
Total components of net income (loss) which will not subsequently be reclassified to profit and loss	1,371	(893)	(63)	5,418	5,833
Other comprehensive income (loss) for the period, before taxes on income	(41,383)	34,872	62,761	(114,203)	(57,953)
Other comprehensive income (loss) for the period	(115,206)	113,328	61,374	(203,610)	(144,114)
Attributable to:					-
Non-controlling interests	(116,231)	111,937	60,051	(204,234)	(148,477)
Non-controlling interests	1,025	1,391	1,323	624	4,363
Total comprehensive income (loss) for the period	(115,206)	113,328	61,374	(203,610)	(144,114)

## 5. Use of consideration from securities (Regulation 10C)

None.

**6. Investments in subsidiaries and related companies which are material 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 %			Country of incorporation other than Israel
						In equity	In voting rights	In right to appoint directors	
<b>Clal Insurance Company Ltd. ("Clal Insurance") [1]</b>		Ordinary shares with a value of NIS 1	118,490,456	118,490,456	4,704,502	99.98	99.98	99.98	
<b>Clal Agency Holdings (1998) Ltd. ("Clal Agencies")</b>		Ordinary shares with a value of NIS 1	99	99	81,468	100.00	100.00	100.00	
<b>Clalbit Systems Ltd. ("Clalbit Systems") [2]</b>		Ordinary shares with a value of NIS 1	1,000	1,000	8,017	100.00	100.00	100.00	
<b>Clal Credit and Finance Ltd. [3]</b>		Ordinary shares with a value of NIS 1	34,667	34,667	59,531	100.00	100.00	100.00	
<b><u>Subsidiaries and related companies of Clal Insurance</u></b>									
<b>Clal Credit Insurance Ltd. ("Clal Credit") [4]</b>		Ordinary shares with a value of NIS 1	8,537,280	8,537,280	194,545	80.00	80.00	80.00	
<b>ADC Holdings Ltd. [5]</b>		Ordinary shares with a value of NIS 1	500	500	16,100	33.00	33.00	33.00	
<b>Clal Insurance Company Property Ltd. [6]</b>		Ordinary shares with a value of NIS 0.0001	100	0.1	103,242	100.00	100.00	100.00	
<b>Clal Pension and Provident Funds Ltd. [7] ("Clal Pension and Provident Funds")</b>		Ordinary shares with a value of NIS 1	124,638	124,638	693,966	100.00	100.00	100.00	

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 %			Country of incorporation other than Israel
						In equity	In voting rights	In right to appoint directors	
<b>HaClal HaRishon Ltd. [8]</b>		Ordinary shares with a value of NIS 1	101	101	2,661	100.00	100.00	100.00	
<b>Clalbit Finance Ltd.</b>		Ordinary shares with a value of NIS 1	1,000	1,000	-	100.00	100.00	100.00	
<b>Clal Insurance Company Property Ltd. [9]</b>		Ordinary shares with a value of NIS 1	100	100	25,460	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)(6) to the financial statements. In December 2018, 1 ordinary share which was held by Clal Credit and Finance Ltd. was transferred to the Company, in consideration of cash.

[2] Includes holding of 1 ordinary share through Betach - Thorne Insurance Agency Ltd.

In December 2018, several processes were implemented with the intention of completing the dissolution of the finance division, while transferring the activities which took place therein to Clal Insurance, as specified below: (A) Merging the activity of the mortgage unit (which operates through Clal Credit and Finance) and the consumer credit activity (through Clal Consumer Credit) into Clal Insurance; and (B) Transferring the Group's holdings in Clal Business Credit and in Clal Factoring, which are in the run-off stages of their activity, to the direct holding of the Company. As part of the above, merger agreements were signed between Clal Credit and Finance and Clal Consumer Credit, and Clal Insurance, and a motion was filed to approve a capital reduction in Clal Credit, in order to allow a distribution of shares of Clal Business Credit and Clal Factoring as a payment in kind dividend to the Company. As of the publication date of the report, not all of the authorizations which are required to complete the aforementioned processes have been

[3] received, and there is no certainty that they will be received.

[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] In December 2018, the merger of HaClal HaRishon with and into Clal Insurance was approved, and a merger agreement was signed between HaClal HaRishon and Clal Insurance. As of the publication date of the report, not all of the authorizations which are required to complete the aforementioned processes have been received, and there is no certainty that they will be received.

[9] Includes direct holding of 1 ordinary share through the Company.

6. Investments in subsidiaries and related companies which are material active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report As defined in Regulation 9C NIS in thousands	Holding rates in %			Country of incorporation other than Israel
						In equity	In voting rights	In right to appoint directors	
<b>Atudot Pension Fund for Workers &amp; Independent Workers Ltd.</b>		Ordinary shares with a value of NIS 1	4,000,000	4,000,000	43,785	50.00	50.00	50.00	
<b>Canaf - Clal Financial Management Ltd. ("Canaf")</b>		Ordinary shares with a value of NIS 1	1,000	1,000	4,431	100.00	100.00	100.00	

## 6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report As defined in Regulation 9C NIS in thousands	Holding rates in %			Country of incorporation other than Israel
						In equity	In voting rights	In right to appoint directors	
<b><u>Subsidiaries and related companies of Clal Agencies</u></b>									
<b>Betach - Thorne Insurance Agency Ltd. (Betach - Thorne) [9]</b>		Ordinary shares with a value of NIS 1	20,339	20,339	42,603	100.00	100.00	100.00	
<b>Tmura Insurance Agency (1987) Ltd. ("Tmura")</b>		Class A management shares with a value of NIS 1	418	418	42,938	-	-	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	-	
		Preferred shares with a value of NIS 1	1,392	1,132	-	100.00	-	-	
<b><u>Subsidiaries and related companies of Tmura</u></b>									
<b>Tmura Mele'a Insurance Agency Ltd.</b>		Ordinary shares with a value of NIS 0.001	100,000,000	100,000	2,839	100.00	100.00	100.00	

[9] Formerly Batach Ltd.

6. Investments in subsidiaries and related companies which are material active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report As defined in Regulation 9C NIS in thousands	Holding rates in %			Country of incorporation other than Israel
						In equity	In voting rights	In right to appoint directors	
<b><u>Subsidiaries and related companies of Clal Credit and Finance [11]</u></b>									
<b>Clal Finance Consumer Credit Ltd.</b>		Ordinary shares with a value of NIS 1	10,000	10,000	18,638	100.00	100.00	100.00	
<b>Clal Finance Business Credit Ltd.</b>		Ordinary shares with a value of NIS 1	10,000	10,000	22,024	100.00	100.00	100.00	
<b>Clal Factoring and Finance Ltd. ("Clal Factoring and Finance")</b>		Ordinary shares with a value of NIS 1	10,001	10,001	15,805	100.00	100.00	100.00	

[11] See footnote 3.

## 7. Loans and capital notes to the Company's subsidiaries and related companies

<u>Loan provider</u>	<u>Loan recipient</u>	<u>Balance of loans and capital notes (including accrued interest), NIS thousands</u>	<u>Interest rate in %</u>	<u>Linkage type</u>	<u>Repayment years</u>
<b>Loans from Clal Insurance</b>					
Clal Insurance	Clal Agencies	2,886	4.00%	Consumer price index	Ten equal principal payments beginning on December 1, 2010
Clal Insurance	Elite Real Estate A.P. Ltd. [12]	19,028	-	Unlinked capital note	Undetermined
<b>Loans to Clal Insurance</b>					
ADC Holdings	Clal Insurance	16,077	3.06%	Unlinked	Loan until 2021
<b>Loans from Clal Agencies</b>					
Clal Agencies	Clal Leaders Insurance Agency Ltd. [12]	15,176	-	Unlinked capital note	Undetermined
Tmura Insurance Agency (1987) Ltd.	Clal Agencies	1,800	3.48%	Unlinked	Half year loan - maturity date June 2019

[12] Inactive

**7.1 Changes in loans to subsidiaries and to related companies during the reporting period (Regulation 12)**

**Clal Holdings and subsidiaries**

<b>The Company</b>	<b>Date</b>	<b>Name of investee company</b>	<b>Description of change</b>	<b>Amounts in thousands of NIS</b>
<b>Clal Insurance</b>				
Clal Insurance	December 2018	Clal Agencies	Current repayment of loan	3,200
<b>Clal Agencies</b>				
Clal Agencies	March and December 2018	Tmura Insurance Agency (1987) Ltd.	Final repayment of loan	1,600
<b>Tmura</b>				
Tmura Insurance Agency (1987) Ltd.	December 2018	Clal Agencies	Provision of loan to the parent company - Clal Agencies	1,800



**8. Income and loss of material active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2018 (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>
	<b>NIS in thousands</b>								
<b><u>Subsidiaries and related companies of Clal Insurance</u></b>									
Clal Credit Insurance Ltd.	21,136	5,284	3,598	899	17,538	4,385	-	-	-
ADC Holdings Ltd.	347	-	-	-	347	-	-	-	-
Clal Pension and Provident Funds Ltd.	(19,160)	-	(2,336)	-	(21,496)	-	-	-	-
HaClal HaRishon Ltd.	(717)	-	1,032	-	315	-	-	-	-
Atudot Pension Fund for Workers & Independent Workers Ltd.	(1,281)	-	(104)	-	(1,385)	-	-	-	14,075
Canaf - Clal Financial Management Ltd.	(762)	-	360	-	(402)	-	-	-	-

**8. Income and loss of material active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2018 (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>Management fees and directors compensation</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>	
	<b>NIS in thousands</b>								
<b><u>Subsidiaries and related companies of Clal Agencies</u></b>									
Betach - Thorne Insurance Agency Ltd.	3,249	-	368	-	3,617	-	1,700	-	380
Tmura Insurance Agency (1987) Ltd.	8,565	-	487	-	9,052	-	4,000	64	380
<b><u>Subsidiaries and related companies of Clal Credit and Finance</u></b>									
Clal Finance Consumer Credit Ltd.	1,984	-	-	-	1,984	-	1,400	-	-
Clal Finance Business Credit Ltd.	649	-	-	-	649	-	-	-	-
Clal Factoring and Finance Ltd.	157	-	-	-	157	-	-	-	-

**9. List of groups of loan balances which were given as of the date of the statement of financial position (Regulation 14)**

N/A.

**10. Trading on the stock exchange (Regulation 20)****A. Securities listed for trading during the reporting year**

During the reporting year, 15,370 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.

**B. 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 2018 (NIS in thousands), as recognized in the financial statements for 2018:**

1. Each of the five highest recipients of compensation among the corporate officers in the Company or in companies under its control, if the compensation was given in connection with their tenure in the Company or in companies under its control, and regardless of whether the compensation was given by the Company or by companies under its control;
2. Each of the three highest recipients of compensation in the Company, to whom the compensation was given in connection with their tenure in the Company itself, and who is not listed in section 1 above;
3. Any interested party in the Company who is not listed in sections 1 and 2 above, except for a subsidiary of the Company, if the compensation was given to them by the Company or by a corporation under its control, in connection with the services which they provided as a senior position holder in the corporation or in a corporation under his control, regardless of whether or not an employer - employee relationship exists, including if the interested party is not a corporate officer.

Details of compensation recipient					Compensation for services							Other compensation			Total		
				Holding rate in the corporation's capital													
			Scope of position					Share-based payment [3]	מגד Management fees	Consulting fees	Commission	Other	Interest	Rent	Other		
Name	Gender	Position			Salary [1]	Additional provision	Bonus [2]										
Yoram Naveh [4]	Male	Company CEO	100%	0.01	2,191 <sup>33</sup>	1,64234	-	14	-	-	-	-	-	-	-	-	3,847
Akiva Kaliman [5] [6]	Male	CEO of Tmura	100%	-	1,287	-	1,000	-	-	-	-	-	-	-	-	-	2,287
Danny Naveh [7]	Male	Chairman of the Board	85%	-	2,239	-	-	-	-	-	-	-	-	-	-	-	2,239
Izzy Cohen [8]	Male	Former CEO	100%	-	1,998	-	-	-	-	-	-	-	-	-	-	-	1,998
Shimon Kalman [9][5]	Male	Former special adviser to the CEO	60%	-	1,615	-	-	-	-	-	-	-	-	-	-	-	1,615
<p><b>It is hereby clarified that the details regarding the compensation which was given in 2018, as provided in the table above, are as recognized in the financial statements for 2018, and are not necessarily identical to the calculation which is performed for the purpose of the correspondence between the corporate officers' compensation and the Company's compensation policy, which is attached as an annex to the periodic report for 2018.</b></p>																	

<sup>33</sup>It is noted that Mr. Yoram Naveh's salary, without provisions for compensation, including loss of working capacity and the provision for severance pay, in accordance with the law, amounted to approximately NIS 1.78 million. Added to this amount were provisions for compensation, for loss of working capacity insurance and for severance pay, with respect to 2018, in the amount of approximately NIS 0.41 million.

<sup>34</sup>The provision with respect to the supplementation of senior debt for severance pay, with respect to Mr. Yoram Naveh's period of employment in the Group, beginning in 2008, in the amount of approximately NIS 1.1 million, and the provision with respect to an adjustment bonus in the amount of approximately NIS 0.5 million, in light of the update to his salary, at the time of his appointment as CEO.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

### 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, the former 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 and/or redemption of vacation days for those who have concluded their tenure, 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. In general, bonuses were not paid during the reporting year. Additionally, in 2019, bonuses which had been spread out with respect to previous years were not released, due to the non-fulfillment of the terms for release, which were determined in the compensation policy. Accordingly, the payment of the proportional part which was supposed to be paid shortly after the publication of this report, will be postponed to 2020, subject to the fulfillment of the minimum conditions for release with respect to 2019.
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. Yoram Naveh, the Company's CEO, see Note 40(b)(6) to the Company's financial statements.

It is noted that Mr. Yoram Naveh served as an Executive VP from January 2014 to June 30, 2018, and previously served as CEO of Clal Finance and Clal Finance Batucha, beginning in December 2011. The terms of his employment as Executive VP are set forth in his personal employment agreement, as specified in section 5 below.

For details regarding the warrants which were allocated to the Company's CEO in February 2014, with respect to his previous position, see Note 41(a) to the financial statements.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

5. In general, the employment terms of the Company's corporate officers, including those specified in the above table (excluding the CEO and the Chairman, and unless specified otherwise), (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 4.5 to 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, nor any other engagements and/or rights of the employees in connection with their tenure and employment in the Company, which applied prior to the entry into effect and publication of the compensation circular and/or the amendment to the compensation circular, and prior to the publication of the compensation policy, or with respect to periods which were subject to previous agreements (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.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

6. 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 thereto. 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 2018 was set as a total of NIS 1 million. The bonus with respect to 2018, 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, and will be paid subject to the fulfillment of the conditions for release. 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.<sup>35</sup>
7. 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.
8. For details regarding the employment terms of Mr. Izzy Cohen, the Company's former CEO, see Note 40(b)(5) to the Company's financial statements.
9. Shimon Kalman, Executive VP, has served as the personal assistant and advisor to the Company's CEO since November 2016. His employment terms were defined in the personal employment agreement which generally corresponds to the employment agreement specified in subsection 5 above. In accordance with Mr. Kalman's employment terms, he is not entitled to an annual bonus, and no options were granted to him. On February 28, 2019, Mr. Kalman concluded his employment in the Company.

<sup>35</sup>It is noted that the foregoing does not include payments with respect to business engagements between Tmura and Clal Insurance, and a company in which Mr. Kaliman is a shareholder.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

### A. 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.

### B. Directors' compensation

The Company's payments in each of the years 2018 and 2017 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 1,928 thousand and approximately NIS 1,670 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 director, who serves 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 the table above and Note 40(b)(4) to the Company's financial statements.

## 12. Controlling shareholder of the corporation (Regulation 21A)

Approximately 20.3% 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 25.32% of the Company's issued capital<sup>36</sup> (approximately 25.15% at full dilution). IDB Development also engaged in swap transactions with respect to Company shares at a rate of approximately 29%<sup>37</sup>.

For the sake of caution, the Company considers IDB Development as the Company's controlling shareholder for the purpose of Regulation 21A.<sup>38</sup>

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, see the Commissioner's letters, as specified in Note 1 to the financial statements.

<sup>30</sup> 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 4.94% 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.

<sup>37</sup> For details regarding swap transactions which were performed by IDB Development with respect to shares in the Company which it held, see Note 1(B)(2)(i) to the financial statements. It is noted that IDB Development announced that, in accordance with legal position number 101-22, which was published by the Israel Securities Authority on February, 28, 2019 (the "**Authority's Position**"), and for the sake of prudence, it is considered (in accordance with the Authority's position) as holding approximately 54.2% of the Company's issued and paid-up share capital, whereby, with respect to approximately 28.9%, IDB Development is considered as the holder jointly with third parties, whose identity is not known to it, in accordance with the terms of the swap transactions. The staff of the Israel Securities Authority clarified to the Company that, as stated in its position, the position enters into effect beginning from its date of publication, and therefore, it does not apply to existing transactions which have not yet concluded, and whose commencement date occurred before the publication date of the position.

<sup>31</sup> 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 below.

## 12. Controlling shareholder of the corporation (Regulation 21A) (Cont.)

Until November 8, 2018, Bank Hapoalim held 9.47% of the Company's shares.

For details regarding an agreement between IDB Development and Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**") from March 1999, with respect to approximately 9.47% of the Company's shares (the "**Sold Shares**"), in which, inter alia, IDB Development was given the right of first refusal upon the sale of Company shares (all or some) by Bank Hapoalim, 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 October 9, 2018 (reference number 2018-01-094068).

On October 17, 2018, IDB Development reported that it had signed a time-limited agreement with Bank Hapoalim (the "**Agreement**"), according to which IDB Development was given a for the purpose of finding several buyers, with whom Bank Hapoalim will engage, subject to any applicable law, in transactions for the sale of (all of) the sold shares, at a price of NIS 62 per share, in unconditional over the counter transactions, and which will be completed on a single day, and no later than November 10, 2018 (the "**Acquisition Date**").

On November 8, 2018, IDB Development reported that it had notified Bank Hapoalim that, in accordance with the terms of the agreement, IDB Development had found several buyers with whom Bank Hapoalim would engage in over the counter transactions for the sale of (all of) the sold shares, in unconditional over the counter transactions, and that the acquisition of the shares had been performed by them at that time. In accordance with the terms of the agreement, the shareholders agreement was canceled.

IDB Development also reported that it had engaged in a swap transaction with a banking institution in connection with 2,771,309 of the sold shares, which constitute approximately 5% of the Company's shares, according to a base price of NIS 62 per share, in accordance with the same principles as those which applied in previous swap transactions which were performed by IDB Development with respect to the Company's shares which it held, as stated in Note 1(b)(2)(i) to the financial statements.

## 13. Transactions with the controlling shareholder (Regulation 22).<sup>39</sup>

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 corporations <sup>40</sup>, 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.

<sup>39</sup> 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, it will continue, for now, to consider the trustee for the control shares, and for the sake of caution only, 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.

<sup>40</sup> 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**").

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### A. Insignificant transactions

The Company's Audit Committee and Board of Directors adopted 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 also serve to evaluate the scope of disclosure in the periodic report and in the prospectus (including in shelf offering reports) regarding a transaction of the Company, a corporation under its control, or its related company, with the controlling shareholder, or regarding which the controlling shareholder has a personal interest in its approval, as determined in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "**Periodic Reports Regulations**"), and in Regulation 54 of the Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus), 1969 (the "**Details of Prospectus Regulations**"), 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.

**On February 17 and March 26, 2019, the Company's Audit Committee and Board of Directors, respectively, discussed the aforementioned guidelines and rules, and the criteria which had been determined, and as part of the above, they were presented with the findings of the control unit and the internal audit report on the subject (in accordance with the policy as specified in section D below), and resolved to ratify them, subject to immaterial changes.**

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, 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; (**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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### 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 and the Board of Directors, 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.

#### **B. Transactions which are not specified in section 270(4) of the Companies Law, and which are not insignificant**

During the reporting year, the Company and the Group's member companies did not engage in transactions with entities from the IDB Group and/or with other parties in which IDB and/or the trustee have a personal interest, and which were not listed in section 270(4) of the Companies Law, and are not insignificant, and no such transactions were in effect as of the reporting date.

#### **C. Transactions specified in section 270 (4) of the Companies Law**

Presented below are details, to the best of the Company's knowledge, regarding extraordinary transactions of the Company with the Company's controlling shareholders, including with a company under their control, or extraordinary transactions of the Group with third parties in which the Company's controlling shareholders, or any company under their control, 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. **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.

### 13. Transactions with the controlling shareholder (Regulation 22) (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 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 former or current controlling shareholders and/or the tenure of their 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; however, claims are still being conducted with respect to them, as specified below.

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.

During 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.

It is noted that member companies of the IDB Group, and its controlling shareholder, purchase, from time to time, directors and officers liability insurance from Clal Insurance. These engagements are insignificant for the Company. To the best of the Company's knowledge, two claims are being conducted in the Courts with respect to the 2018 underwriting year, which do not exceed the liability limit amount in the policy.

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 39(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.

2. **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.

3. **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 wholly owned subsidiary of Discount Investment Corporation Ltd., a public company which is directly and indirectly controlled by Mr. Eduardo Elsztain, and which is a fellow subsidiary of IDB Development (hereinafter: "**Koor**")<sup>41</sup>, will undertake 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.

<sup>41</sup>On March 2, 2014, Koor was merged with Discount Investment Corporation Ltd.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### 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 40.5 million which were received, amounts to approximately USD 2.6 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 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, and due to the fact that the investors in the fund (including Koor) are or were related parties of Credit Suisse, or were among 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 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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

On November 23, 2014, the Audit Committee adopted a permanent policy<sup>42</sup> which defines, inter alia, the method used to perform a competitive process, and alternative processes and procedures regarding the classification and approval of such transactions<sup>43</sup>. Presented below are the main details of the policy which was approved, **subject to immaterial changes**, by the Audit Committee on March 17, 2019.

The processes for the approval of extraordinary transactions will be in accordance with the provisions of the Companies Law.

- **Transactions with corporate officers or in which corporate officers have a personal interest**<sup>44</sup>
  - **Extraordinary transactions** - will be presented to the Audit Committee and Board of Directors for approval.
  - **Non-extraordinary and non-insignificant transactions**<sup>45</sup> - Will be presented to the Audit Committee or Board of Directors for approval.
  - **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**
  - **Extraordinary transactions** - will be approved in accordance with the provisions of the Companies Law.
  - **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.
  - **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).

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<sup>42</sup> In accordance with the decisions 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.

<sup>43</sup> For the avoidance of doubt, the provisions of the policy will apply both upon the approval of the transaction, and upon its renewal.

<sup>44</sup> Investment transactions with a related party in the investment segment will also be subject to the current provisions, in accordance with the law, including institutional entities circular 2013-9-13, "Investment rules for institutional entities", and including the Control of Financial Services Regulations (Insurance) (Board of Directors and its Committees), 2007, and therefore, transactions involving members' funds or the funds of profit sharing policies will be presented for approval to the relevant Investment Committee, in addition to, or instead of, the approval of the aforementioned organs, and investment transactions involving nostro funds will be presented to the Audit Committee for approval, in addition to, or instead of, the aforementioned organs.

<sup>45</sup> For the purpose of this policy, an "**Insignificant Transaction**" will be as defined in the Company's insignificance policy (see section E below).

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

- **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 individuals and to small employers. These transactions are approved insofar as the premium amount or management fees with respect to the transaction, as applicable, according to the Company’s price list, do not exceed NIS 50,000 per year, except with respect to deposits to pension products. Insofar as the matter involves a deposit to a pension / savings product, a highly insignificant transaction is a transaction where the management fees collected with respect thereto are in accordance with the Company’s price list F43<sup>46</sup>, provided that, in the case of a one-time deposit, it does not exceed NIS 1.5 million per year. The aforementioned approval was given on the condition that the aforementioned transactions are performed in accordance with price lists which include prices (premiums, management fees), discount grades and predetermined underwriting terms, and apply to all of the Company’s retail engagements (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.

<sup>46</sup> It is hereby clarified that, in managers insurance or in a pension fund, the Company’s price list will be in accordance with the conventional arrangement for Company employees, including with respect to interested parties.

### 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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### E. 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.

###### 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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### 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, and was approved on March 26, 2019), in which the Company established for itself guidelines and rules regarding the evaluation of whether a certain event or affair of the Company and/or its investee company (the "**Event**") is significant to the Company, with respect to the obligation to file an immediate report regarding it by virtue of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970, and for the purpose of the classification of the transactions specified in section 270(1), (4) and (4a) of the Companies Law. The main principles of the policy are as follows:

In principle, each case is evaluated on its own merits, and a quantitative and qualitative evaluation is 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 above, the quantitative and qualitative evaluations will be conducted in the manner described below.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### F. Policy regarding the evaluation of significance (Cont.)

##### 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<sup>47</sup>; (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 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.

<sup>47</sup> 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.

### 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 Company's estimate regarding the amount of the claim, 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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### F. Policy regarding the evaluation of significance (Cont.)

Notwithstanding the above, 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

##### A. Stocks and other securities which are held by interested parties in the corporation -

On this matter, see the immediate reports dated January 6, 2019 (reference number 2019-01-001872), January 8, 2019 (reference number 2019-01-003978), January 23, 2019 (reference number 2019-01-009081) and February 6, 2019 (reference number 2019-01-010639).

##### B. Holding of the Company's warrants by corporate officers - On this matter, see the immediate reports dated January 6, 2019 (reference number 2019-01-001872), January 23, 2019 (reference number 2019-01-009081) and February 6, 2019 (reference number 2019-01-010639).

##### C. 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 25, 2019 \***

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 A)	1097138	58,786	0.11%
		Clalbit Finance Ltd. - bonds (Series C)	1120120	1,259,434	0.16%
		Clalbit Finance Ltd. - bonds (Series F)	1132950	2,015,732	0.55%
		Clalbit Finance Ltd. - bonds (Series H)	1132968	1,594,325	0.34%
		Clalbit Finance Ltd. - bonds (Series I)	1136050	1,849,691	0.44%
		Clalbit Finance Ltd. - bonds (Series J)	1136068	936,535	0.10%

\* 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.

**14.3 Dormant shares** - The Company has no dormant shares.

**15. Registered capital, issued capital and convertible securities (Regulation 24A)**

- A. **Number of shares included in the corporation's registered capital** - 100,000,000 ordinary shares with a par value of NIS 1 each
- B. **Number of shares included in the corporation's issued share capital** - 55,578,867 ordinary shares with a par value of NIS 1 each.
- C. **Number of shares included in the corporation's issued capital, less dormant shares** - 55,578,867 ordinary shares with a par value of NIS 1 each.
- D. **Number of shares which do not confer voting rights** - None.
- E. **There are no shares in the corporation's issued share capital which do not confer any rights whatsoever.**
- F. **Convertible securities of the corporation** - See the immediate report dated March 6, 2019 (reference number 2019-01-019654).

**16. Register of shareholders (Regulation 24B)**

- A. For details, see the immediate report dated March 6, 2019 (reference number 2019-01-019654).

**17. Directors of the corporation as of December 31, 2018 (Regulation 26)**

Name: <b>Danny Naveh, Chairman</b>	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 <sup>48</sup> , 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 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

<sup>48</sup> For the sake of caution, it is noted that, prior to the appointment of Mr. Naveh as Chairman of the Board, subsidiaries of the Company invested in funds in which Mr. Naveh was a partner and manager. For details, see the immediate report dated June 6, 2013 (reference number 2013-01-058722).

17. Directors of the corporation as of December 31, 2018 (Cont.)

Name: <b>Varda Alsheich</b>	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: <b>Hana Mazal (Mali) Margaliot</b>	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, Risk Management and Information Technology Committee and Nostro Committee of Clal Insurance.
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Actuary (F.I.L.A.A), full member of the Israel Association of Actuaries; M.B.A. with a specialization in Finance and Information Systems from The Hebrew University of Jerusalem; B.A. in Economics and Communication from The Hebrew University; Actuarial certificate studies at Magid Institute. 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, 2018 (Cont.)**

Name: <b>Avraham Knobel</b>	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 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 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, served as a director in Idud Ltd. and in Binyanei HaUma Conference Center Ltd. Served as Chairman of the Board and Investment Committee member of the Managing Company of the Biochemical & Microbiological Association Study Fund 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: <b>Yosef Yagil</b>	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 Chairman, 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 M.B.A. Program at University of Haifa. Served 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.

**17. Directors of the corporation as of December 31, 2018 (Cont.)**

Name: <b>Sami Moualem</b>	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 and Balance Sheet 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 corporation<sup>36</sup> as of December 31, 2018 (Regulation 26A)**

Name: <b>Yoram Naveh</b>	ID number 028865301
Year of birth:	1971
Position in the corporation:	CEO
Position in a subsidiary, related company or interested party of the corporation:	CEO of Clal Insurance and director in the subsidiaries <sup>49</sup> .
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:	Executive VP and Head of Resources Division in Clal Insurance, CEO and director in Clal Finance
First year of tenure:	2014

Name: <b>Moshe Arnst</b>	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, Long Term Savings Division Manager in Clal Insurance and CEO of Clal Pension and Provident Funds, serves as a director of Atudot and of 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:	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:	Served as Headquarters Division Manager in Clal Insurance. Served as a director in Clal Pension and Provident Funds, serves as a director in Atudot and in subsidiaries of Clal Holdings Group.
First year of tenure:	2013

Name: <b>Eran Shahaf</b>	ID number 027985894
Year of birth:	1971
Position in the corporation:	Internal auditor
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Internal Auditor in Clal Insurance and in additional institutional entities of Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Attorney, LL.B., B.A. in Logistics and Economics and M.B.A. from Bar Ilan University, LL.M. from Tel Aviv University.
Business experience in the last five years:	Internal auditor of the Company and of member companies in Clal Holdings Group; Board member of the Institute of Internal Auditors in Israel (IIA Israel) and Chairman of the Internal Auditors Committee of the institutional entities in the Institute; Deputy internal auditor of the Company and of member companies in Clal Holdings Group;
First year of tenure:	2014

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Company's corporate officers, members of management of Clal Insurance, a subsidiary of the Company. For details regarding changes in the Company's management and organizational structure, which took place in the Company in September 2018, see Note 43(c) to the financial statements.

**18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)**

<sup>49</sup> Began his tenure as CEO on July 1, 2018.

Name: <b>Hadar Brin Weiss</b>	ID number 27788421
Year of birth:	1970
Position in the corporation:	General Counsel of the Company
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, General Counsel and Head of the Legal Consulting and Regulation Division in Clal Insurance and in other member companies of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	LL.B. and LL.M. from Tel Aviv University
Business experience in the last five years:	General Counsel and Head of the Legal Consulting and Regulation Division in Clal Group.
First year of tenure:	2013

Name: <b>Hila Conforti</b>	ID number 058368408
Year of birth:	1963
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Economics and International Relations from The Hebrew University of Jerusalem, M.A. in Economics from Bar Ilan University
Business experience in the last five years:	Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group
First year of tenure:	2007

Name: <b>Tal Cohen</b>	ID number 027427681
Year of birth:	1974
Position in the corporation:	Comptrollership Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Manager of the Comptrollership Division in the Company and Clal Insurance, CFO and director in Clalbit Finance Ltd., and director in member companies of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	C.P.A., Bachelor's degree in Accounting from Tel Aviv University, Bachelor's degree in Economics and M.B.A from The Hebrew University
Business experience in the last five years:	Comptroller and Manager of the Comptrollership Division in the Company and in Clal Insurance, CFO and director in Clalbit Finance Ltd.; Comptroller in the Company, in Clal Insurance and in Clalbit Finance. Board member in companies of Clal Holdings Group.
First year of tenure:	2013

Name: <b>Elite Caspi</b>	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 Chair 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: <b>Ofer Brandt</b> <sup>50</sup>	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

Name: <b>Galli Schved</b>	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

<sup>50</sup> Concludes his term in 2019.

**18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)**

Name: <b>Dror Sessler</b>	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, director 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:	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: <b>Yaron Shamay</b>	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, Customers and Distribution Division Manager
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, 2018 (Regulation 26A) (Cont.)**

Name: <b>Shlomi Tamman</b>	ID number 54141767
Year of birth:	1957
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Business Unit Manager
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: <b>Eran Cherninsky</b>	ID number 57693236
Year of birth:	1962
Position in the corporation:	Executive VP, Financial Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Financial Division 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 Economics and accounting from Tel Aviv University, Certified Public Accountant, Member of the Professional Committee of the Institute of Certified Public Accountants in Israel.
Business experience in the last five years:	CEO and CFO of Migdal Insurance and Financial Holdings Ltd. and of Migdal Insurance Agency Holdings and Management Ltd. Head of the Finance and Actuarial Division of Migdal Insurance Company Ltd.
First year of tenure:	2018

Name: <b>Nis Agmon</b>	ID number 058846767
Year of birth:	1964
Position in the corporation:	Executive VP, Resources Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Resources Division 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 Business Administration from Derby University.
Business experience in the last five years:	Senior VP of Service and member of Phoenix's management board
First year of tenure:	2018

**18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)**

Name: <b>Liat Strauss</b>	ID number 035881549
Year of birth:	1978
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Manager of the Service, Operations and Collection Unit
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 degree, Tel Aviv University, Bachelor's degree in Humanities, University of Haifa.
Business experience in the last five years:	Senior VP, Service Department Manager in Clal Insurance.
First year of tenure (in the current position):	2018

Name: <b>Yosef Dori</b>	ID number 028047959
Year of birth:	1971
Position in the corporation:	Executive VP, Investments Division Manager
Position in a subsidiary, related company or interested party of the corporation:	CEO of Canaf, Investments Division Manager of 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 Business Administration and M.B.A. with a specialization in Finance, with honors, from The College of Management Academic Studies.
Business experience in the last five years:	CEO of Canaf, Nostro Division Manager in the Investments Division of Clal Insurance
First year of tenure:	2018

Name: <b>David Arnon</b>	ID number 027850791
Year of birth:	1970
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Heath Division Manager of Clal Insurance, director 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:	Bachelor's degree in Business Administration from the University of Maryland. M.B.A. from Cornell University.
Business experience in the last five years:	CEO of Standard Insurance of Harel Group
First year of tenure:	2019

**18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)**

Name: <b>Adi Kaplan</b>	ID number 025266727
Year of birth:	1973
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	CEO of Clalbit Systems Ltd., and Information Systems Supervisor in the institutional entities of Clal Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	M.B.A. from The Open University and Bachelor's degree in Computer Science from The College of Management Academic Studies.
Business experience in the last five years:	Development Division Manager in Bank Hapoalim
First year of tenure:	2018

**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 May 6, 2018, it was resolved to re-appoint Mr. Yossi Yagil as an outside director of the corporation for a (third) term of 3 years, in accordance with the recommendation of the Company's Board of Directors.

In the Company's special general meeting which was convened on August 14, 2018, it was resolved to approve the terms of tenure and employment of Mr. Yoram Naveh, the Corporation's CEO, who also serves as the CEO of Clal Insurance, 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(1) above.<sup>51</sup>

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, 2017 to November 30, 2018 (the “**Policy for 2018**”), 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, 2018 to November 30, 2019 (the “**Policy for 2019**”), 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 2018 and 2019 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.

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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.

**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.)**

- 2.1.2 The undertaking to indemnify specified in section 2.1.1 above will apply with respect to any debt or expense which is indemnifiable by law, as follows:
- A. Any monetary debt which may be imposed on them towards another person, in accordance with a court ruling, including a court ruling issued in a settlement or a court-approved arbitration award;
  - B. Reasonable litigation expenses, including legal fees, which they may spend or be ordered to pay by the court, in proceedings which were filed against them by the Company or in its name or by another person, or with respect to a criminal indictment of which they are acquitted, or with respect to a criminal indictment of which they are convicted, in case of a crime which does not require proof of criminal intent;
- 2.1.3 The indemnification amount which the Company will pay (in addition to the amounts which will be received from the insurance company, if any, within the framework of insurance which the Company acquired and/or amounts which will be received, if any, as part of the indemnification of any party other than the Company) to all of the Company's corporate officers, cumulatively, in accordance with all of the letters of indemnity which will be issued for them by the Company in accordance with the indemnification resolution, with respect to one or more of the types of events specified in the letter of indemnity, will not exceed 25% (twenty five percent) of the Company's equity in accordance with its last financial statements which were published proximate to the actual date of indemnification (hereinafter: the **Maximum Indemnification Amount**”).
- 2.1 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.

**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.)**

- 2.2 On April 16, 2008, the Company's Board of Directors approved, after approval was received for this purpose from the Company's Audit Committee, to amend, inter alia, the list of companies whose corporate officers (who do not serve as directors in the Company and who are not the Company's controlling shareholders or their relatives) are entitled to indemnification, and to clarify that the undertaking to indemnify will also apply with respect to the actions of the aforementioned corporate officers, within the framework of their status as corporate officers in subsidiaries and/or related companies of the aforementioned companies, and to update the types of events for which the letter of indemnity will be given (hereinafter: the "**Additional Letter of Indemnity**").
- 2.3 The additional letter of indemnity which was given will not prejudice or derogate from the Company's undertakings in accordance with previous letters of indemnity which were given, if any, before the date of the additional letter of indemnity, insofar as such undertakings are legally valid, and provided that the Company will not be obligated to indemnify the corporate officers with respect to that event, both in accordance with a previous letter of indemnity and in accordance with the additional letter of indemnity.
- 2.4 On May 3, 2012, the general meeting of the Company's shareholders approved the provision of new and amended letters of indemnity to the corporate officers of the Company and/or of additional member companies in the Group (hereinafter: the New Letter of Indemnity"), in light of Amendment 16 to the Companies Law, and in accordance with the provisions of the Efficiency of Enforcement Procedures Law (Legislative Amendments), 2011, and the Law to Increase Enforcement in the Capital Market (Legislative Amendments), 2011 - on this matter, see the immediate report dated March 22, 2012 (reference number 2012-01-077232).
- 2.5 On July 28, 2013, the general meeting of the Company's shareholders approved the implementation of a correction to omissions in the definitions of "administrative procedure" and "payment to injured party due to breach" in the letters of indemnity, which were approved in the Company's general meeting on May 3, 2012. For additional details, see the immediate report regarding the convention of a general meeting of the Company dated July 22, 2013 (reference number 2013-01-098091).
- 2.6 The provisions of the new letter of indemnity take precedence over any previous agreement or understanding (prior to the signing of the new letter of indemnity), whether verbal or in writing, between the Company and a corporate officer on the subjects specified in the new letter of indemnity, including with regard to events which took place prior to the signing of the new letter of indemnity. The 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.
- 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.

**23. Resolutions of the Company (Regulation 29A) (Cont.)**

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 such an exemption.
- 3.3 In accordance with the aforementioned resolutions, the Company granted letters of exemption to directors and corporate officers in the Company.

**Clal Insurance Enterprises Holdings Ltd.**

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**Danny Naveh**  
**Chairman of the Board of**  
**Directors**

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**Yoram Naveh**  
**Chief Executive**  
**Officer**

**Date: March 26, 2019**

## 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. Yoram Naveh, CEO of the Company and of Clal Insurance, and CEO of Clal Finance Ltd.;
2. Eran Cherninsky, Executive VP of Clal Insurance, Financial Division Manager;
3. Yossi Dori, Executive VP of Clal Insurance, Investments Division Manager and CEO of Canaf;
4. Hadar Brin Weiss, Executive VP of Clal Insurance, Legal Counsel;
5. Eran Shahaf, Executive VP of Clal Insurance, Internal Auditor;
6. Moshe Ernst, Executive VP of Clal Insurance, Long Term Savings Division Manager;
7. Elite Caspi, Executive VP of Clal Insurance, Non-Life Insurance Division Manager;
8. David Arnon, Executive VP of Clal Insurance, Health Insurance Division Manager;
9. Yaron Shamay, Executive VP of Clal Insurance, Customers and Distribution Division Manager;
10. Nis Agmon, Executive VP of Clal Insurance, Resources Division Manager;
11. Liat Strauss, Senior VP of Clal Insurance, Service and Operations Unit Manager;
12. Dror Sessler, Executive VP of Clal Insurance, Claims Unit Manager;
13. Shlomi Taman, Executive VP of Clal Insurance, Business Unit Manager;
14. Hila Conforti, Executive VP of Clal Insurance, Chief Risk Officer;
15. Ofer Brandt, Executive VP of Clal Insurance, Chief Actuary;
16. Adi Kaplan, Executive VP of Clal Insurance, CEO of Clalbit Systems Ltd.;
17. Galli Schved, Senior VP of Clal Insurance, Marketing, Strategy and Spokesmanship Division Manager;

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, 2018, 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, 2018, is effective.

**Executive Certification  
Certification of the CEO**

I, Yoram Naveh, hereby certify the following:

1. I have evaluated the periodic report of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) for 2018 (hereinafter: the “**Reports**”).
2. To the best of my knowledge, the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.
3. To the best of my knowledge, the financial statements and the other financial information included in the reports adequately reflect, in all material respects, the corporation’s financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer.
4. I have disclosed to the corporation’s auditor, to the Board of Directors and to the Balance Sheet Committee of the Company’s Board of Directors, based on my most current assessment regarding internal control over financial reporting and disclosure:
  - A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure, which may reasonably have an adverse effect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of financial reporting and the preparation of the financial reports in accordance with the provisions of the law; And:
  - B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.
5. I, alone or together with others in the corporation:
  - A. I have established controls and policies, or have verified the establishment and implementation, under my supervision, of controls and policies which are intended to ensure that material information pertaining to the corporation, including its consolidated companies, as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the corporation and in the consolidated companies, particularly during the preparation period of the reports; And:
  - B. I have established controls and policies, or have verified the establishment and implementation 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 26, 2019

\_\_\_\_\_  
Yoram Naveh  
Chief Executive Officer

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

I, Eran Cherninsky, 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 2018 (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 effect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:
  - B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.
5. I, alone or together with others in the corporation:
  - A. I have established controls and policies, or have verified the establishment and implementation, under 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 26, 2019

\_\_\_\_\_  
Eran Cherninsky  
Executive VP of Clal Insurance  
Finance Division Manager

**Executive Certification**  
**Certification of the Comptrollership Division Manager**

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 2018 (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 effect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:
  - B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.
5. I, alone or together with others in the corporation:
  - A. I have established controls and policies, or have verified the establishment and implementation, under 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 26, 2019

\_\_\_\_\_  
Tal Cohen  
Senior VP  
Comptrollership 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, Yoram Naveh, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the “**Company**”) for 2018 (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 26, 2019

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Yoram Naveh  
Chief Executive Officer

**Clal Insurance Company Ltd.  
Certification**

I, Eran Cherninsky, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the “**Company**”) for 2018 (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 26, 2019

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Eran Cherninsky  
Executive VP of Clal Insurance  
Finance 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 2018 (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 26, 2019

\_\_\_\_\_  
Tal Cohen  
Senior VP  
Comptrollership Division Manager



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03 684 8000

**Auditors' report to the shareholders of Clal Insurance Enterprises Holdings Ltd., regarding the audit of internal controls over financial reporting in accordance with section 9b(c) of the Securities Regulations (Periodic and Immediate Reports), 1970**

We have audited internal controls over financial reporting of Clal Insurance Enterprises Holdings Ltd. and its subsidiaries (hereinafter, jointly: the "**Company**") as of December 31, 2018. These controls were established in the manner specified in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment regarding the effectiveness of internal controls over financial reporting, which is attached to the periodic report as of the aboverefereced date. Our responsibility is to express an opinion regarding the Company's internal controls over financial reporting, based on our audit.

Internal controls over financial reporting which were audited in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Internal Controls over Financial Reporting", as amended (hereinafter: "**Auditing Standard 104**").

These controls include: (1) Entity-level controls, including controls over the process of preparing and finalizing financial reports, and general controls over information systems; (2) controls over processes which are not highly material to the financial reporting and disclosure of a consolidated company - Clal Insurance Company Ltd., and of other material consolidated companies (hereinafter: the "**Audited Controls**").

We have conducted our audit in accordance with Audit Standard 104. Pursuant to this standard, we are required to plan and execute the audit with the aim of identifying the audited controls, and to obtain a reasonable measure of assurance as to whether these controls were effectively fulfilled, in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited controls, evaluating the risk of existence of any material weakness in the audited controls, as well as testing and evaluating the effectiveness of the design and operation of those internal controls, based on the evaluated risk. Our audit of those controls also included conducting additional procedures that we deemed necessary under the circumstances. Our audit only addressed the audited controls, as opposed to an internal audit of all material procedures in connection with financial reporting, and thus our opinion pertains to the audited controls only. Furthermore, our audit did not address the mutual effects between the audited controls and the unaudited controls, and thus our opinion does not take such possible effects into account. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, and specific controls in particular, may fail to prevent or discover a misrepresentation. Furthermore, reaching conclusions about the future, based on any current evaluation of effectiveness, involves exposure to the risk that the controls may become unsuitable, due to changes in circumstances or a change for the worse in the fulfillment of policies or procedures.

In our opinion, the Company effectively fulfilled, in all material respects, the audited controls as of December 31, 2018.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, and our report dated March 26, 2019, included an unqualified opinion regarding those financial statements, based on our audit and on the reports of the other auditors, as well as a reference to that stated in Note 42 to the consolidated financial statements, regarding the exposure to contingent liabilities.

Tel Aviv,  
March 26, 2019

Kost Forer Gabbay and Kasierer  
Certified Public Accountants  
Joint Auditors

Somekh Chaikin  
Certified Public Accountants

# Part D

**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** : December 31, 2018  
**Publication date of the report** : March 26, 2019

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**1. Details required in connection with a material valuation (Regulation 8B)**

None.



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

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, 2018 and 2017, and for each of the three years the last of which ended December 31, 2018, 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 in its entirety. We believe that our audit, along with the reports provided by the other auditors, 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 26, 2019

\_\_\_\_\_  
Kost Forer Gabbay and Kasierer  
Certified Public Accountants  
Joint Auditors

\_\_\_\_\_  
Somekh Chaikin  
Certified Public Accountants

**Data Regarding the Financial Position**

NIS in thousands	Additional information	As of December 31	
		2018	2017
<b>Assets</b>			
Investments in investee companies	2.5	4,855,501	5,011,035
Loans and balances of investee companies	2.5	14	63
Other accounts receivable		67	151
Other financial investments:			
Marketable debt assets		14,864	26,589
Stocks		70	44
Others		56	-
<b>Total other financial investments</b>	2.2 (A)	<b>14,990</b>	26,633
Cash and cash equivalents	2.3	33,441	16,652
<b>Total assets</b>		<b>4,904,013</b>	5,054,534
<b>Capital</b>			
Share capital		143,382	143,367
Premium on shares		1,009,801	1,001,880
Capital reserves		587,118	649,964
Retained earnings		3,157,874	3,251,608
<b>Total capital</b>		<b>4,898,175</b>	5,046,819
<b>Liabilities</b>			
Other accounts payable	2.2 (B)	5,657	7,303
Balances of investee companies		181	412
<b>Total liabilities</b>		<b>5,838</b>	7,715
<b>Total capital and liabilities</b>		<b>4,904,013</b>	5,054,534

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

March 26, 2019				
Approval date of the financial statements	Danny Naveh Chairman of the Board	Yoram Naveh Chief Executive Officer	Eran Cherninsky Executive VP Finance Division Manager	Tal Cohen Senior VP Comptrollership Division Manager

## Data Regarding Income

NIS in thousands	For the year ended December 31		
	2018	2017	2016
Company's share in the income (loss) of investee companies, net of tax	(89,475)	207,609	104,864
From investee companies	-	-	29
Others	255	(117)	218
<b>Total income</b>	<b>(89,220)</b>	<b>207,492</b>	<b>105,111</b>
General and administrative expenses	2,890	3,337	3,278
Financing expenses	-	1,044	1,715
Other expenses	(665)	15	5,539
<b>Total expenses</b>	<b>2,225</b>	<b>4,396</b>	<b>10,532</b>
<b>Income (loss) before taxes on income</b>	<b>(91,445)</b>	<b>203,096</b>	<b>94,579</b>
Taxes on income (tax benefit)	-	-	(1,822)
<b>Income (loss) for the period</b>	<b>(91,445)</b>	<b>203,096</b>	<b>96,401</b>

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		
	2018	2017	2016
Income (loss) for the period	<b>(91,445)</b>	203,096	96,401
Other comprehensive income:			
Components of other comprehensive income which, following initial recognition in comprehensive income, have been or will be transferred to profit and loss:			
Change, net, in the fair value of available-for-sale financial assets carried to capital reserves	<b>28</b>	(53)	(288)
Change, net, in the fair value of available-for-sale financial assets transferred to profit and loss	<b>(39)</b>	(68)	(2)
Other comprehensive income (loss) with respect to investee companies	<b>(62,835)</b>	165,920	23,901
Other comprehensive income (loss) for the period which has been or will be transferred to profit and loss, before tax	<b>(62,846)</b>	165,799	23,611
Taxes (tax benefit) with respect to other components of comprehensive income (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	<b>(62,846)</b>	165,799	23,611
Components of other comprehensive income which will not be transferred to profit and loss:			
Other comprehensive income with respect to investee companies which will not be transferred to profit and loss, net of tax	<b>5,814</b>	1,177	2,228
Other comprehensive income for the period which will not be transferred to profit and loss, net of tax	<b>5,814</b>	1,177	2,228
Other comprehensive income (loss) for the period	<b>(57,032)</b>	166,976	25,839
Total comprehensive income for the period	<b>(148,477)</b>	370,072	122,240

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

**Data Regarding Cash Flows**

NIS in thousands	For the year ended December 31		
	2018	2017	2016
<b>Cash flows from operating activities</b>			
Income (loss) for the period	(91,445)	203,096	96,401
Adjustments:			
Company's share in the income (loss) of investee companies	89,475	(207,609)	(104,864)
Dividends from investee companies	9,038	15,045	17,300
Interest accrued with respect to liabilities to banking corporations	-	1,044	1,686
Income from other financial investments	588	1,337	1,174
Taxes on income (tax benefit)	-	-	(1,822)
	<b>99,101</b>	<b>(190,183)</b>	<b>(86,526)</b>
Changes to other items in the data regarding financial position, net:			
Change in other accounts receivable	84	(70)	68
Change in other accounts payable	(1,646)	(51)	5,763
	<b>(1,562)</b>	<b>(121)</b>	<b>5,831</b>
Cash which were received during the period for:			
Net cash from operating activities with respect to transactions with investee companies	(349)	2,062	4,817
Interest received	-	-	29
<b>Net cash from operating activities</b>	<b>5,745</b>	<b>14,854</b>	<b>20,552</b>
<b>Cash flows from investing activities</b>			
Investment in available for sale financial assets	(15,054)	(9,916)	(36,998)
Consideration from sale of available for sale financial assets	26,098	28,380	47,058
<b>Net cash from investing activities</b>	<b>11,044</b>	<b>18,464</b>	<b>10,060</b>
<b>Cash flows from financing activities</b>			
Repayment of liabilities to banking corporations	-	(70,000)	-
Interest paid with respect to liabilities to banking corporations	-	(1,194)	(1,715)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(71,194)</b>	<b>(1,715)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>16,789</b>	<b>(37,876)</b>	<b>28,897</b>
Cash and cash equivalents at beginning of period	16,652	54,528	25,631
<b>Cash and cash equivalents at end of period</b>	<b>33,441</b>	<b>16,652</b>	<b>54,528</b>

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

## 2. Financial Data from the Consolidated Financial Statements Attributed to the Company Itself as of December 31, 2018 (Regulation 9C)

### 2.1 General

Presented below are financial data regarding the Company's consolidated financial statements as of December 31, 2018 (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.

2. **Financial Data from the Consolidated Financial Statements Attributed to the Company Itself as of December 31, 2018 (Regulation 9C) (Cont.)**

**B. Transactions between the Company and investee companies**

1. Presentation

The inter-company balances in the Group, and income and expenses due to inter-company transactions, which were canceled within the framework of the preparation of the consolidated reports, were presented separately from the balance with respect to investee companies and income with respect to investee companies, together with similar balances vis-à-vis third parties.

Unrealized profit and loss which are due to transactions between the Company and its investee companies were presented under the balance with respect to investee companies and under income with respect to investee companies.

2. Measurement

Transactions which were performed between the Company and its consolidated companies were measured in accordance with the principles of recognition and measurement, as set forth in International Financial Reporting Standards, which establish the accounting treatment for transactions of this kind which are performed vis-à-vis third parties.

2.2 **Financial instruments**

**A. Financial investments**

The composition is as follows:

NIS in thousands	As of December 31	
	2018	2017
<b>Marketable debt assets</b>		
Government bonds (1)	<b>14,864</b>	26,589
<b>Total marketable debt assets</b>	<b>14,864</b>	26,589
<b>Stocks (2)</b>		
Non-marketable - available for sale	<b>10</b>	10
Marketable - available for sale	<b>60</b>	34
<b>Total stocks</b>	<b>70</b>	44
Other financial investments	<b>56</b>	-
<b>Total financial investments</b>	<b>14,990</b>	26,633

(1) Short term NIS bills, repayable in 2019, at an effective interest rate of 1.23% per year.

(2) The forecasted exercise date of the shares has not yet been determined.

2. Financial Data from the Consolidated Financial Statements Attributed to the Company Itself as of December 31, 2018 (Regulation 9C) (Cont.)

2.2 Financial instruments (Cont.)

B. Other accounts payable

The composition is as follows: \*)

NIS in thousands	As of December 31	
	2018	2017
Expenses payable	577	1,109
Institutions	-	15
Suppliers	22	68
Others **)	5,058	6,111
<b>Total</b>	<b>5,657</b>	<b>7,303</b>

\*) The balances of payables are unlinked.

\*\*) Primarily with respect to the provision for claims. For additional details, see Note 42 to the consolidated reports.

2.3 Cash and cash equivalents

Composition and linkage:

NIS in thousands	Interest as of December 31, 2018 %	As of December 31	
		2018	2017
Unlinked NIS		32,944	16,180
Linked to the EUR	0.0-0.1	279	273
Linked to the USD	-	214	195
Linked to the GBP	-	4	4
<b>Total</b>		<b>33,441</b>	<b>16,652</b>

Most of the cash and cash equivalents are checking account balances and daily deposits in banking corporations. The interest rates on checking account balances are based on interest rates with respect to daily deposits.

2.4 Taxes on income

A. For details regarding the tax environment in which the Company operates, 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. Financial Data from the Consolidated Financial Statements Attributed to the Company Itself as of December 31, 2018 (Regulation 9C) (Cont.)**

**2.5 Investee companies - investments, balances, engagements and material transactions**

The composition is as follows:

NIS in thousands	As of December 31	
	2018	2017
Investments in investee companies	<b>4,896,767</b>	5,011,035
Current balances	<b>14</b>	63
<b>Total</b>	<b>4,896,781</b>	5,011,098

- 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 economic solvency regime, see Note 16(e) to the consolidated reports.
- C. The Company has agreements in immaterial amounts with investees which include management fees to the Company.

**3. Report Regarding the Liabilities of the Reporting Corporation and its Consolidated Companies by Repayment Dates as of December 31, 2018 (Regulation 9D)**

As of December 31, 2018, the Company and the consolidated companies have no liabilities in accordance with Regulation 9D.

## 4. Condensed quarterly statements of comprehensive income (Regulation 10A)

## Condensed quarterly statements of comprehensive income for 2018

NIS in thousands	Q1	Q2	Q3	Q4	Total
Gross premiums earned	2,475,118	2,518,584	2,653,952	2,627,364	10,275,018
Premiums earned by reinsurers	334,460	357,525	368,035	320,013	1,380,033
Premiums earned on retention	2,140,658	2,161,059	2,285,917	2,307,351	8,894,985
Income (loss) from investments, net, and financing income	295,523	1,238,179	1,907,388	(2,196,221)	1,244,869
Income from management fees and portfolio management	233,508	215,288	338,738	96,663	884,197
Income from commissions	77,174	76,155	79,340	58,677	291,346
Other income	19	11	42	3	75
<b>Total income</b>	<b>2,746,882</b>	<b>3,690,692</b>	<b>4,611,425</b>	<b>266,473</b>	<b>11,315,472</b>
Payments and changes in liabilities with respect to insurance contracts and investment contracts, gross	2,372,741	2,998,233	4,058,187	(78,467)	9,350,694
Share of reinsurers in payments and change in liabilities with respect to insurance contracts	235,855	320,497	231,429	319,003	1,106,784
Payments and changes in liabilities with respect to insurance contracts and investment contracts on retention	2,136,886	2,677,736	3,826,758	(397,470)	8,243,910
Commissions, marketing expenses and other acquisition costs	468,120	507,955	511,718	532,272	2,020,065
General and administrative expenses	224,595	217,503	233,929	234,203	910,230
Impairment of intangible assets	-	114,824	-	-	114,824
Other expenses	4,399	3,356	2,123	819	10,697
Financing expenses	30,080	59,175	35,670	33,006	157,931
<b>Total expenses</b>	<b>2,864,080</b>	<b>3,580,549</b>	<b>4,610,198</b>	<b>402,830</b>	<b>11,457,657</b>
Share in the results of associate companies accounted by the equity method, net	1,345	687	1,067	(28,767)	(25,668)
Income (loss) before taxes on income	(115,853)	110,830	2,294	(165,124)	(167,853)
Taxes on income (tax benefit)	(42,030)	32,374	3,681	(75,717)	(81,692)
<b>Income (loss) for the period</b>	<b>(73,823)</b>	<b>78,456</b>	<b>(1,387)</b>	<b>(89,407)</b>	<b>(86,161)</b>
Company shareholders	(75,141)	76,837	(2,547)	(90,594)	(91,445)
Minority interests	1,318	1,619	1,160	1,187	5,284
<b>Income (loss) for the period</b>	<b>(73,823)</b>	<b>78,456</b>	<b>(1,387)</b>	<b>(89,407)</b>	<b>(86,161)</b>
<b>Earnings per share attributable to Company shareholders</b>					
Basic earnings (loss) per share (in NIS)	(1.35)	1.38	(0.05)	(1.63)	(1.65)
Diluted earnings (loss) per share (in NIS)	(1.35)	1.38	(0.05)	(1.63)	(1.65)
<b>Number of shares used to calculate earnings per share</b>					
Basic	55,576	55,577	55,577	55,577	55,577
Diluted	55,576	55,577	55,577	55,577	55,577

**4. Condensed quarterly statements of comprehensive income (Regulation 10A) (Cont.)**
**Condensed quarterly statements of comprehensive income for 2018 (Cont.)**

NIS in thousands	Q1	Q2	Q3	Q4	Total
Income for the period	(73,823)	78,456	(1,387)	(89,407)	(86,161)
Components of other comprehensive income	-	-	-	-	-
Foreign currency translation differences for operations applied to capital reserves	7,669	8,928	(3,258)	15,301	28,640
Foreign currency translation differences applied to the statement of income	-	-	-	92	92
Change, net, in the fair value of available for sale financial assets applied to capital reserves	12,000	78,084	167,051	(140,926)	116,209
Change, net, in the fair value of available for sale financial assets transferred to profit and loss	(95,239)	(40,005)	(74,595)	(78,011)	(287,850)
Impairment loss with respect to available for sale financial assets transferred to profit and loss	9,275	5,716	6,837	19,223	41,051
Tax impact	23,541	(16,958)	(33,211)	64,700	38,072
Total components of net profit which will subsequently be reclassified to profit and loss	(42,754)	35,765	62,824	(119,621)	(63,786)
Actuarial income (loss) from defined benefit plan	1,809	(1,149)	(128)	7,749	8,281
Taxes with respect to other components of comprehensive income	(438)	256	65	(2,331)	(2,448)
Total components of net income (loss) which will not subsequently be reclassified to profit and loss	1,371	(893)	(63)	5,418	5,833
Other comprehensive income (loss) for the period, before taxes on income	(41,383)	34,872	62,761	(114,203)	(57,953)
Other comprehensive income (loss) for the period	(115,206)	113,328	61,374	(203,610)	(144,114)
Attributable to:					-
Non-controlling interests	(116,231)	111,937	60,051	(204,234)	(148,477)
Non-controlling interests	1,025	1,391	1,323	624	4,363
Total comprehensive income (loss) for the period	(115,206)	113,328	61,374	(203,610)	(144,114)

**5. Use of consideration from securities (Regulation 10C)**

None.

6. Investments in subsidiaries and related companies which are material 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 %			Country of incorporation other than Israel
						In capital	In voting rights	In right to appoint directors	
<b>Clal Insurance Company Ltd. ("Clal Insurance") [1]</b>		Ordinary shares with a value of NIS 1	118,490,456	118,490,456	4,704,502	99.98	99.98	99.98	
<b>Clal Agency Holdings (1998) Ltd. ("Clal Agencies")</b>		Ordinary shares with a value of NIS 1	99	99	81,468	100.00	100.00	100.00	
<b>Clalbit Systems Ltd. ("Clalbit Systems") [2]</b>		Ordinary shares with a value of NIS 1	1,000	1,000	8,017	100.00	100.00	100.00	
<b>Clal Credit and Finance Ltd. [3]</b>		Ordinary shares with a value of NIS 1	34,667	34,667	59,531	100.00	100.00	100.00	
<b><u>Subsidiaries and related companies of Clal Insurance</u></b>									
<b>Clal Credit Insurance Ltd. ("Clal Credit") [4]</b>		Ordinary shares with a value of NIS 1	8,537,280	8,537,280	194,545	80.00	80.00	80.00	
<b>ADC Holdings Ltd. [5]</b>		Ordinary shares with a value of NIS 1	500	500	16,100	33.00	33.00	33.00	
<b>Clal Insurance Company Property Ltd. [6]</b>		Ordinary shares with a value of NIS 0.0001	100	0.1	103,242	100.00	100.00	100.00	
<b>Clal Pension and Provident Funds Ltd. [7] ("Clal Pension and Provident Funds")</b>		Ordinary shares with a value of NIS 1	124,638	124,638	693,966	100.00	100.00	100.00	
<b>HaClal HaRishon Ltd. [8]</b>		Ordinary shares with a	101	101	2,661	100.00	100.00	100.00	

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	Holding rates in %			Country of incorporation other than Israel
						NIS in thousands	In capital	In right to appoint directors	
		value of NIS 1							
		Ordinary shares with a value of NIS 1	1,000	1,000	-	100.00	100.00	100.00	
<b>Clalbit Finance Ltd.</b>		Ordinary shares with a value of NIS 1	100	100	25,460	100.00	100.00	100.00	
<b>Clal Insurance Company Property Ltd. [9]</b>		Ordinary shares with a value of NIS 1							

[1] For details regarding the Company's undertaking to supplement the equity of Clal Insurance and the validity thereof, see Note 16(e)(6) to the financial statements. In December 2018, 1 ordinary share which was held by Clal Credit and Finance Ltd. was transferred to the Company, in consideration of cash.

[2] Includes holding of 1 ordinary share through Betach - Thorne Insurance Agency Ltd.

In December 2018, several processes were implemented with the intention of completing the liquidation of the finance division, while transferring the activities which took place therein to Clal Insurance, as specified below: (a) Merging the activity of the mortgage unit (which operates through Clal Credit and Finance) and the consumer credit activity (through Clal Consumer Credit) into Clal Insurance; and (b) transferring the Group's holdings in Clal Business Credit and in Clal Factoring, which are in the run-off stages of their activity, to the direct holding of the Company. As part of the above, merger agreements were signed between Clal Credit and Finance and Clal Consumer Credit, and Clal Insurance, and a motion was filed to approve a capital reduction in Clal Credit, in order to allow a distribution of shares of Clal Business Credit and Clal Factoring as a payment in kind dividend to the Company. As of the publication date of the report, all of the authorizations which are required to complete the aforementioned processes have not yet been received, and there is no certainty that they will be received.

[3] 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.

[4] Formerly Shagrir Towing Services Ltd.

[5] Includes holding of 1 ordinary share through Canaf - Clal Financial Management Ltd.

[6] 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.

[7] In December 2018, the merger of HaClal HaRishon with and into Clal Insurance was approved, and a merger agreement was signed between HaClal HaRishon and Clal Insurance. As of the publication date of the report, all of the authorizations which are required to complete the merger have not yet been received, and there is no certainty that they will be received.

[8] Includes direct holding of 1 ordinary share through the Company.

6. Investments in subsidiaries and related companies which are material active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in %			Country of incorporation other than Israel
						In capital	In voting rights	In right to appoint directors	
<b>Atudot Pension Fund for Workers &amp; Independent Workers Ltd.</b>		Ordinary shares with a value of NIS 1	4,000,000	4,000,000	43,785	50.00	50.00	50.00	
<b>Canaf - Clal Financial Management Ltd. ("Canaf")</b>		Ordinary shares with a value of NIS 1	1,000	1,000	4,431	100.00	100.00	100.00	

## 6. Investments in subsidiaries and related companies which are active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in %			Country of incorporation other than Israel
						in capital	In voting rights	In right to appoint directors	
<b><u>Subsidiaries and related companies of Clal Agencies</u></b>									
<b>Betach - Thorne Insurance Agency Ltd. (Betach - Thorne) [9]</b>		Ordinary shares with a value of NIS 1	20,339	20,339	42,603	100.00	100.00	100.00	
		Class A management shares with a value of NIS 1	418	418	42,938	-	-	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	-	
<b>Tmura Insurance Agency (1987) Ltd. ("Tmura")</b>		Preferred shares with a value of NIS 1	1,392	1,132	-	100.00	-	-	
<b><u>Subsidiaries and related companies of Tmura</u></b>									
<b>Tmura Mele'a Insurance Agency Ltd.</b>		Ordinary shares with a value of NIS 0.001	100,000,000	100,000	2,839	100.00	100.00	100.00	

[9] Formerly Batach Ltd.

6. Investments in subsidiaries and related companies which are material active companies as of the date of the statement of financial position (Regulation 11) (Cont.)

Company name	Stock number on the stock exchange	Share class and par value	Number of shares	Total par value in NIS	Value in the separate financial report as defined in Regulation 9C NIS in thousands	Holding rates in %			Country of incorporation other than Israel
						In capital	In voting rights	In right to appoint directors	
<b>Subsidiaries and related companies of Clal Credit and Finance [11]</b>									
<b>Clal Finance Consumer Credit Ltd.</b>		Ordinary shares with a value of NIS 1	10,000	10,000	18,638	100.00	100.00	100.00	
<b>Clal Finance Business Credit Ltd.</b>		Ordinary shares with a value of NIS 1	10,000	10,000	22,024	100.00	100.00	100.00	
<b>Clal Factoring and Finance Ltd. ("Clal Factoring and Finance")</b>		Ordinary shares with a value of NIS 1	10,001	10,001	15,805	100.00	100.00	100.00	

[11] See footnote 3.

## 7. Loans and capital notes to the Company's subsidiaries and related companies

<u>Loan provider</u>	<u>Loan recipient</u>	<u>Balance of loans and capital notes (including accrued interest), NIS thousands</u>	<u>Interest rate in %</u>	<u>Linkage type</u>	<u>Repayment years</u>
<b>Loans from Clal Insurance</b>					
		2,886	4.00%	Consumer price index	Ten equal principal payments beginning on December 1, 2010
Clal Insurance	Clal Agencies				
Clal Insurance	Elite Real Estate A.P. Ltd. [12]	19,028	-	Unlinked capital note	Undetermined
<b>Loans to Clal Insurance</b>					
ADC Holdings	Clal Insurance	16,077	3.06%	Unlinked	Loan until 2021
<b>Loans from Clal Agencies</b>					
Clal Agencies	Clal Leaders Insurance Agency Ltd. [12]	15,176	-	Unlinked capital note	Undetermined
Tmura Insurance Agency (1987) Ltd.	Clal Agencies	1,800	3.48%	Unlinked	Half year loan - repayment date June 2019

[12] Inactive

## 7.1 Changes in loans to subsidiaries and to related companies during the reporting period (Regulation 12)

## Clal Holdings and subsidiaries

<u>The Company</u>	<u>Date</u>	<u>Name of investee company</u>	<u>Description of change</u>	<u>Amounts in thousands of NIS</u>
<b>Clal Insurance</b>				
Clal Insurance	December 2018	Clal Agencies	Current repayment of loan	3,200
<b>Clal Agencies</b>				
Clal Agencies	March and December 2018	Tmura Insurance Agency (1987) Ltd.	Final repayment of loan	1,600
<b>Tmura</b>				
Tmura Insurance Agency (1987) Ltd.	December 2018	Clal Agencies	Provision of loan to the parent company - Clal Agencies	1,800

8. Income and loss of material active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2018  
(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
<b>NIS in thousands</b>									
<b><u>Subsidiaries of Clal Holdings through direct holding</u></b>									
Clal Insurance Company Ltd.	(106,387)	5,284	(58,201)	(900)	(164,588)	4,384	-	-	-
Clal Agency Holdings (1998) Ltd.	11,955	-	855	-	12,810	-	7,000	-	-
Clalbit Systems Ltd.	1,003	-	129	-	1,132	-	-	-	-
Clal Credit and Financing Ltd.	4,103	-	46	-	4,149	-	1,400	-	303

8. Income and loss of material active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2018

(Cont.) (Regulation 13)

8.1 Clal Holdings and subsidiaries (Cont.)

	Income (loss) for the year		Other comprehensive income (loss) for the year		Total comprehensive income (loss) for the year		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
	NIS in thousands								
<b>Subsidiaries and related companies of Clal Insurance</b>									
Clal Credit Insurance Ltd.	21,136	5,284	3,598	899	17,538	4,385	-	-	-
ADC Holdings Ltd.	347	-	-	-	347	-	-	-	-
Clal Pension and Provident Funds Ltd.	(19,160)	-	(2,336)	-	(21,496)	-	-	-	-
HaClal HaRishon Ltd.	(717)	-	1,032	-	315	-	-	-	-
Atudot Pension Fund for Workers & Independent Workers Ltd.	(1,281)	-	(104)	-	(1,385)	-	-	-	14,075
Canaf - Clal Financial Management Ltd.	(762)	-	360	-	(402)	-	-	-	-

8. Income and loss of material active subsidiaries and active related companies, and (direct and indirect) income from them, for the year ended December 31, 2018

(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>
	<u>NIS in thousands</u>								
<b><u>Subsidiaries and related companies of Clal Agencies</u></b>									
Betach - Thorne Insurance Agency Ltd.	3,249	-	368	-	3,617	-	1,700	-	380
Tmura Insurance Agency (1987) Ltd.	8,565	-	487	-	9,052	-	4,000	64	380
<b><u>Subsidiaries and related companies of Clal Credit and Finance</u></b>									
Clal Finance Consumer Credit Ltd.	1,984	-	-	-	1,984	-	1,400	-	-
Clal Finance Business Credit Ltd.	649	-	-	-	649	-	-	-	-
Clal Factoring and Finance Ltd.	157	-	-	-	157	-	-	-	-

**9. List of groups of loan balances which were given as of the date of the statement of financial position (Regulation 14)**

N/A.

**10. Trading on the stock exchange (Regulation 20)**

**A. Securities listed for trading during the reporting year**

During the reporting year, 15,370 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.

**B. 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 2018 (NIS in thousands), as recognized in the financial statements for 2018:**

1. Each of the five highest recipients of compensation among the corporate officers in the Company or in companies under its control, if the compensation was given in connection with their tenure in the Company or in companies under its control, and regardless of whether the compensation was given by the Company or by companies under its control;
2. Each of the three highest recipients of compensation in the Company, to whom the compensation was given in connection with their tenure in the Company itself, and who is not listed in section 1 above;
3. Any interested party in the Company who is not listed in sections 1 and 2 above, except for a subsidiary of the Company, if the compensation was given to them by the Company or by a corporation under its control, in connection with the services which they provided as a senior position holder in the corporation or in a corporation under his control, regardless of whether or not an employer - employee relationship exists, including if the interested party is not a corporate officer.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

Details of compensation recipient								Compensation for services					Other compensation			Total
Name	Gender	Position	Scope of position	Rate of holding in the corporation's capital	Salary [1]	Additional provision	Bonus [2]	Share-based payment [3]	Management fees	Consulting fees	Commission	Other	Interest	Rent	Other	
Yoram Naveh [4]	Male	Company CEO	100%	0.01	2,191 <sup>1</sup>	1,642 <sup>2</sup>	-	14	-	-	-	-	-	-	-	3,847
Akiva Kaliman [5] [6]	Male	CEO of Tmura	100%	-	1,287	-	1,000	-	-	-	-	-	-	-	-	2,287
Danny Naveh [7]	Male	Chairman of the Board	85%	-	2,239	-	-	-	-	-	-	-	-	-	-	2,239
Izzy Cohen [8]	Male	Former CEO	100%	-	1,998	-	-	-	-	-	-	-	-	-	-	1,998
Shimon Kalman [9][5]	Male	Former special adviser to the CEO	60%	-	1,615	-	-	-	-	-	-	-	-	-	-	1,615
<b>It is hereby clarified that the details regarding the compensation which was given in 2018, as provided in the table above, are as recognized in the financial statements for 2018, and are not necessarily identical to the calculation which is performed for the purpose of the correspondence between the corporate officers' compensation and the Company's compensation policy, which is attached as an annex to the periodic report for 2018.</b>																

<sup>1</sup> It is noted that Mr. Yoram Naveh's salary, without provisions for compensation, including loss of working capacity and the provision for severance pay, in accordance with the law, amounted to approximately NIS 1.78 million. Added to this amount were provisions for compensation, for loss of working capacity insurance and for severance pay, with respect to 2018, in the amount of approximately NIS 0.41 million.

<sup>2</sup> The provision with respect to the supplementation of senior debt for severance pay, with respect to Mr. Yoram Naveh's period of employment in the Group, beginning in 2008, in the amount of approximately NIS 1.1 million, and the provision with respect to an adjustment bonus in the amount of approximately NIS 0.5 million, in light of the update to his salary, at the time of his appointment as CEO.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

### 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, the former 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 and/or redemption of vacation days for those who have concluded their tenure, 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. In general, bonuses were not paid during the reporting year. Additionally, in 2019, bonuses which had been deferred with respect to previous years were not released, due to the non-fulfillment of the terms for release which were determined in the compensation policy. Accordingly, the payment of the proportional part which was supposed to be paid shortly after the publication of this report, will be postponed to 2020, subject to the fulfillment of the minimum conditions for release with respect to 2019.
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. Yoram Naveh, the Company's CEO, see Note 40(b)(6) to the Company's financial statements.

It is noted that Mr. Yoram Naveh, served as an Executive VP from January 2014 to June 30, 2018. Previously served as CEO of Clal Finance and Clal Finance Batucha, beginning in December 2011. The terms of his employment as Executive VP are set forth in his personal employment agreement, as specified in section 5 below.

For details regarding the warrants which were allocated to the Company's CEO in February 2014, with respect to his previous position, see Note 41(a) to the financial statements.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

5. In general, the employment terms of the Company's corporate officers, including those specified in the above table (excluding the CEO and the Chairman, and unless specified otherwise), (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 4.5 to 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, nor any other engagements and/or rights of the employees in connection with their tenure and employment in the Company, which existed prior to the entry into effect and publication of the compensation circular and/or the amendment to the compensation circular, and prior to the publication of the compensation policy, or with respect to periods to which previous agreements applied (the "**Transitional Provision**"). It is 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.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

6. 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 thereto. 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 2018 was set as a total of NIS 1 million. The bonus with respect to 2018, 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, and will be paid subject to the fulfillment of the conditions for release. 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.<sup>3</sup>
7. 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.
8. For details regarding the employment terms of Mr. Izzy Cohen, the Company's former CEO, see Note 40(b)(5) to the Company's financial statements.
9. Shimon Kalman, Executive VP, served as the Company's CEO personal assistant and advisor since November 2016. His employment terms were defined in the personal employment agreement which generally corresponds to the employment agreement specified in subsection 5 above. In accordance with Mr. Kalman's employment terms, he is not entitled to an annual bonus, and no options were granted to him. On February 28, 2019, Mr. Kalman concluded his employment in the Company.

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<sup>3</sup> It is noted that the foregoing does not include payments with respect to business engagements between Tmura and Clal Insurance, and a company in which Mr. Kaliman is a shareholder.

## 11. Compensation to interested parties and corporate officers (Regulation 21) (Cont.)

### A. 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.

### B. Directors' compensation

The Company's payments in each of the years 2018 and 2017 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 1,928 thousand and approximately NIS 1,670 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 director, who serves 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 the table above and Note 40(b)(4) to the Company's financial statements.

## 12. Controlling shareholder of the corporation (Regulation 21A)

Approximately 20.3% 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 25.32% of the Company's issued capital<sup>4</sup> (approximately 25.15% at full dilution). IDB Development also engaged in swap transactions with respect to Company shares at a rate of approximately 29%<sup>5</sup>.

For the sake of caution, the Company considers IDB Development as the Company's controlling shareholder for the purpose of Regulation 21A<sup>6</sup>.

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.

<sup>3</sup> 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 4.94% 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.

<sup>5</sup> For details regarding swap transactions which were performed by IDB Development with respect to shares in the Company which it held, see Note 1(b)(2)(i) to the financial statements. It is noted that IDB Development announced, in accordance with legal position number 101-22, which was published by the Israel Securities Authority on February, 28, 2019 (the "Authority's Position"), and for the sake of prudence, that it is considered (in accordance with the Authority's position) as holding approximately 54.2% of the Company's issued and paid-up share capital, whereby, with respect to approximately 28.9%, IDB Development is considered as the holder jointly with third parties, whose identity is not known to it, in accordance with the terms of the swap transactions. The staff of the Israel Securities Authority clarified to the Company that, as stated in its position, the position entered into effect beginning on its date of publication, and therefore, it does not apply to existing transactions which have not yet concluded, and whose commencement date was before the publication date of the position.

<sup>3</sup> 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 below.

## 12. Controlling shareholder of the corporation (Regulation 21A) (Cont.)

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, see the Commissioner's letters, as specified in Note 1 to the financial statements.

Until November 8, 2018, Bank Hapoalim held 9.47% of the Company's shares.

For details regarding an agreement between IDB Development and Bank Hapoalim Ltd. (hereinafter: "**Bank Hapoalim**") from March 1999, with respect to approximately 9.47% of the Company's shares (the "**Sold Shares**"), in which, inter alia, IDB Development was given the right of first refusal upon the sale of Company shares (all or some) by Bank Hapoalim, 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 October 9, 2018 (reference number 2018-01-094068).

On October 17, 2018, IDB Development reported that it had signed a time-limited agreement with Bank Hapoalim (the "**Agreement**"), according to which IDB Development was given a for the purpose of finding several buyers, with whom Bank Hapoalim will engage, subject to any applicable law, in transactions for the sale of (all of) the sold shares, at a price of NIS 62 per share, in unconditional over the counter transactions, and which will be completed on a single day, and no later than November 10, 2018 (the "**Acquisition Date**").

On November 8, 2018, IDB Development reported that it had notified Bank Hapoalim that, in accordance with the terms of the agreement, IDB Development had found several buyers with whom Bank Hapoalim would engage in over the counter transactions for the sale of (all of) the sold shares, in unconditional over the counter transactions, and that the acquisition of the shares had been performed by them at that time. In accordance with the terms of the agreement, the shareholders agreement was terminated.

IDB Development also reported that it had engaged in a swap transaction with a banking institution in connection with 2,771,309 of the sold shares, which constitute approximately 5% of the Company's shares, according to a base price of NIS 62 per share, in accordance with the same principles as those which applied in previous swap transactions which were performed by IDB Development with respect to the Company's shares which it held, as stated in Note 1(b)(2)(i) to the financial statements.

## 13. Transactions with the controlling shareholder (Regulation 22).<sup>7</sup>

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 corporations<sup>8</sup>, in which case it will not regard them as transactions in which the Company's controlling shareholders have a personal

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<sup>7</sup> 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, it will continue, for now, to consider the trustee for the control shares, and for the sake of caution only, 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.

<sup>8</sup> 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**").

interest, which require approvals in accordance with sections 270(4) and 275 of the Companies Law.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### A. Insignificant transactions

The Company's audit committee and board of directors adopted 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 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. On February 17 and March 26, 2019, the Company's audit committee and board of directors, respectively, discussed the aforementioned guidelines and rules, and the criteria which had been determined. In their discussions, they were presented with the findings of the control unit and the internal audit report on the subject (in accordance with the policy as specified in section D below), and decided to ratify them, subject to immaterial changes.

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, 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; (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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### 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 and the board of directors, 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.

#### **B. Transactions which are not specified in section 270(4) of the Companies Law, and which are not insignificant**

During the reporting year, the Company and the Group's member companies did not engage in transactions with entities from the IDB Group and/or with other parties in which IDB and/or the trustee have a personal interest, and which were not listed in section 270(4) of the Companies Law, and are not insignificant, and no such transactions were in effect as of the reporting date.

#### **C. Transactions specified in section 270 (4) of the Companies Law**

Presented below are details, to the best of the Company's knowledge, regarding extraordinary transactions of the Company with the Company's controlling shareholders, including with a company under their control, or extraordinary transactions of the Group with third parties in which the Company's controlling shareholders, or any company under their control, 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:

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

- 1. 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 former or current controlling shareholders and/or the tenure of their 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; however, claims are still being conducted with respect to them, as specified below.

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.

During 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.

It is noted that member companies of the IDB Group, and its controlling shareholder, purchase, from time to time, directors and officers liability insurance from Clal Insurance. These engagements are insignificant for the Company. To the best of the Company's knowledge, two claims are being conducted in the Courts with respect to the 2018 underwriting year, which do not exceed the liability limit amount in the policy.

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 39(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.

- 2. 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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

3. **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 wholly owned subsidiary of Discount Investment Corporation Ltd., a public company which is directly and indirectly controlled by Mr. Eduardo Elsztain, and which is a fellow subsidiary of IDB Development (hereinafter: "**Koor**")<sup>9</sup>, will undertake to invest a sum total of USD 250 million and USD 125 million by Clal Insurance Group and USD 125 million by Koor, in Credit Suisse Emerging Markets Opportunity Fund L.P. (hereinafter: the "**Fund**"), which is a private investment fund which will be managed by corporations from the Swiss banking group Credit Suisse (hereinafter: "**Credit Suisse**"), and whose purpose is to invest in emerging markets, primarily through debt products.

An agreement was signed between member companies of the Clal Insurance Group and Koor in order to formalize their mutual rights and obligations in the fund. It was further approved, in accordance with Regulation 1(4) of the Companies Regulations (Easements Regarding Transactions with Interested Parties), 2000, that the terms of the joint investment in the fund, with respect to the Clal Insurance Group, are not materially differently from its terms with respect to Koor, in consideration of their relative share in the joint investment. On November 22, 2010, the investment agreements in the fund were signed, according to which the Clal Insurance Group and Koor undertook to invest in the fund a total of USD 250 million (USD 125 million by the Clal Insurance Group, of which, a total of USD 33 million out of funds held against non-investment-linked liabilities, and the remainder out of members' funds (funds held against investment-linked liabilities, provident funds and pension funds), and USD 125 million by Koor), out a total scope of investment in the fund, in the amount of approximately USD 1 billion. On May 8, 2013, the fund manager announced that it had reduced the balance of the investors' liability in the fund to 2.5% of the original liability amount to the fund, which will be continued only with respect to the management fees, investments and continuation of the undertaking to indemnify. 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 40.5 million which were received, amounts to approximately USD 2.6 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 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, and due to the fact that the investors in the fund (including Koor) are or were related parties of Credit Suisse, or were among 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.

<sup>9</sup> On March 2, 2014, Koor was merged with Discount Investment Corporation Ltd.

**13. Transactions with the controlling shareholder (Regulation 22) (Cont.)**

**D. Policy regarding the identification and approval of transactions with interested parties**

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.

On November 23, 2014, the Audit Committee adopted a permanent policy<sup>10</sup> which defines, inter alia, the method used to perform a competitive process, and alternative processes and procedures regarding the classification and approval of such transactions<sup>11</sup>. Presented below are the main details of the policy which was approved, subject to immaterial changes, by the audit committee on March 17, 2019.

The processes for the approval of extraordinary transactions will be in accordance with the provisions of the Companies Law.

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<sup>10</sup> In accordance with the decision of the audit committee on January 14 and February 16, 2014, which were reached following the amendment to section 117(2a) of the Companies Law, a temporary policy was approved regarding the implementation of the aforementioned amendment to the Companies Law, until the permanent policy has been established.

<sup>11</sup> For the avoidance of doubt, the provisions of the policy will apply both upon the approval of the transaction, and upon its renewal.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

- **Transactions with corporate officers or in which corporate officers have a personal interest**<sup>12</sup>
  - **Extraordinary transactions** - will be presented to the audit committee and board of directors for approval.
  - **Non-extraordinary and non-insignificant transactions**<sup>13</sup> - Will be presented to the audit committee or board of directors for approval.
  - **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**
  - **Extraordinary transactions** - will be approved in accordance with the provisions of the Companies Law.
  - **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.
  - **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 individuals and to small employers. These transactions are approved insofar as the premium amount or management fees with respect to the transaction, as applicable, according to the Company's price list, do not exceed NIS 50,000 per year, except with respect to deposits to pension products. Insofar as the matter involves a deposit to a pension / savings product, a highly insignificant transaction is a transaction where the management fees collected with respect thereto are in accordance with the Company's price list F43<sup>14</sup>, provided that, in the case of a one-time deposit, it does not exceed NIS 1.5 million per year. The aforementioned approval was given on the condition that the aforementioned transactions are performed in accordance with price lists which include prices (premiums, management fees), discount grades and predetermined underwriting terms, and apply to all of the Company's retail engagements (hereinafter: "**Highly Insignificant Current Transaction**").

<sup>12</sup> Investment transactions with a related party in the investment segment will also be subject to the current provisions, in accordance with the law, including institutional entities circular 2013-9-13, "Investment rules for institutional entities", and including the Control of Financial Services Regulations (Insurance) (Board of Directors and its Committees), 2007, and therefore, transactions involving members' funds or the funds of profit sharing policies will be presented for approval to the relevant investment committee, in addition to, or instead of, the approval of the aforementioned organs, and investment transactions involving nostro funds will be presented to the audit committee for approval, in addition to, or instead of, the aforementioned organs.

<sup>13</sup> For the purpose of this policy, an "**Insignificant Transaction**" will be as defined in the Company's insignificance policy (see section E below).

<sup>14</sup> It is hereby clarified that, in managers insurance or in a pension fund, the Company's price list will be in accordance with the conventional arrangement for Company employees, including with respect to interested parties.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### 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.

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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### 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.

#### **E. 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 property, plant and equipment (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 property, plant and equipment (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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

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, and was approved on March 26, 2019), in which the Company established for itself guidelines and rules regarding the evaluation of whether a certain event or affair of the Company and/or its investee company (the "Event") is significant to the Company, with respect to the obligation to file an immediate report regarding it by virtue of Regulation 36 of the Securities Regulations (Periodic and Immediate Reports), 1970, and for the purpose of the classification of the transactions specified in section 270(1), (4) and (4a) of the Companies Law. The main principles of the policy are as follows:

In principle, each case will be evaluated on its own merits, and a quantitative and 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 therein: (A) Assets ratio - the total scope of assets involved in the event (assets acquired or sold) divided by total assets<sup>15</sup>; (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

<sup>15</sup> 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.

which are calculated for it, as specified in section 1(a) above, are lower than 5%.

**13. Transactions with the controlling shareholder (Regulation 22) (Cont.)**

**F. Policy regarding the evaluation of significance (Cont.)**

1. Quantitative evaluation (Cont.)

- 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 regarding the consequences of the relevant event on the Company, also with respect to additional relevant accounting items, which pertain to the characteristics of the event in question.

2. Qualitative evaluation

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.

### 13. Transactions with the controlling shareholder (Regulation 22) (Cont.)

#### F. Policy regarding the evaluation of significance (Cont.)

##### 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 Company's estimate regarding the amount of the claim, 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

**A. Stocks and other securities which are held by interested parties in the corporation -**

On this matter, see the immediate reports dated January 6, 2019 (reference number 2019-01-001872), January 8, 2019 (reference number 2019-01-003978), January 23, 2019 (reference number 2019-01-009081) and February 6, 2019 (reference number 2019-01-010639).

**B. Holding of the Company's warrants by corporate officers -** On this matter, see the immediate reports dated January 6, 2019 (reference number 2019-01-001872), January 23, 2019 (reference number 2019-01-009081) and February 6, 2019 (reference number 2019-01-010639).

**C. Holding of the Company's liability certificates -** None

### 14.2 Stocks and other securities which are held by an interested party in the Company whose activity is material to the corporation's activity, as of February 25, 2019 \*

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 A)	1097138	58,786	0.11%
		Clalbit Finance Ltd. - bonds (Series C)	1120120	1,259,434	0.16%
		Clalbit Finance Ltd. - bonds (Series F)	1132950	2,015,732	0.55%
		Clalbit Finance Ltd. - bonds (Series H)	1132968	1,594,325	0.34%
		Clalbit Finance Ltd. - bonds (Series I)	1136050	1,849,691	0.44%
		Clalbit Finance Ltd. - bonds (Series J)	1136068	936,535	0.10%

\* 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.

### 14.3 Dormant shares -

The Company has no dormant shares.

## 15. Registered capital, issued capital and convertible securities (Regulation 24A)

- A. **Number of shares included in the corporation's registered capital** - 100,000,000 ordinary shares with a par value of NIS 1 each
- B. **Number of shares included in the corporation's issued share capital** - 55,578,867 ordinary shares with a par value of NIS 1 each.
- C. **Number of shares included in the corporation's issued capital, less dormant shares** - 55,578,867 ordinary shares with a par value of NIS 1 each.
- D. **Number of shares which do not confer voting rights** - None.
- E. **There are no shares in the corporation's issued share capital which do not confer any rights whatsoever.**
- F. **Convertible securities of the corporation** - See the immediate report dated March 6, 2019 (reference number 2019-01-019654).

## 16. Register of shareholders (Regulation 24B)

- A. For details, see the immediate report dated March 6, 2019 (reference number 2019-01-019654).

## 17. Directors of the corporation as of December 31, 2018 (Regulation 26)

Name: <b>Danny Naveh, Chairman</b>	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 <sup>16</sup> , 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 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

<sup>16</sup> For the sake of caution, it is noted that, prior to the appointment of Mr. Naveh as Chairman of the Board, subsidiaries of the Company invested in funds in which Mr. Naveh was a partner and manager. For details, see the immediate report dated June 6, 2013 (reference number 2013-01-058722).

17. Directors of the corporation as of December 31, 2018 (Cont.)

Name: <b>Varda Alsheich</b>	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: <b>Hana Mazal (Mali) Margaliot</b>	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, risk management and information technology committee and nostro committee of Clal Insurance.
Outside director:	No
Employee of the corporation, or of a subsidiary, related company, or interested party:	No
Serves as a director since:	2016
Education:	Actuary (F.I.L.A.A), full member of the Israel Association of Actuaries; M.B.A. with a specialization in Finance and Information Systems from The Hebrew University of Jerusalem; B.A. in Economics and Communication from The Hebrew University; Actuarial certificate studies at Magid Institute. 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
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#### 17. Directors of the corporation as of December 31, 2018 (Cont.)

Name: <b>Avraham Knobel</b>	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 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 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, served as a director in Idud Ltd. and in Binyanei HaUma Conference Center Ltd. Served as Chairman of the Board and investment committee member of the Managing Company of the Biochemical & Microbiological Association Study Fund 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, 2018 (Cont.)

Name: <b>Yosef Yagil</b>	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 chairman, 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. Served 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: <b>Sami Moualem</b>	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 and balance sheet 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 corporation<sup>36</sup> as of December 31, 2018 (Regulation 26A)**

Name: <b>Yoram Naveh</b>	ID number 028865301
Year of birth:	1971
Position in the corporation:	CEO
Position in a subsidiary, related company or interested party of the corporation:	CEO of Clal Insurance and director in the subsidiaries <sup>17</sup> .
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:	Executive VP and Head of Resources Division in Clal Insurance, CEO and director in Clal Finance
First year of tenure:	2014

Name: <b>Moshe Arnst</b>	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, Long Term Savings Division Manager in Clal Insurance and CEO of Clal Pension and Provident Funds, serves as a director of Atudot and of 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:	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:	Served as Headquarters Division Manager in Clal Insurance. Served as a director in Clal Pension and Provident Funds, and as a director in Atudot and in subsidiaries of Clal Holdings Group.
First year of tenure:	2013

Name: <b>Eran Shahaf</b>	ID number 027985894
Year of birth:	1971
Position in the corporation:	Internal auditor
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Internal Auditor in Clal Insurance and in additional institutional entities of Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Attorney, LL.B., B.A. in Logistics and Economics and M.B.A. from Bar Ilan University, LL.M. from Tel Aviv University.
Business experience in the last five years:	Internal auditor of the Company and of member companies in Clal Holdings Group; Board member of the Institute of Internal Auditors in Israel (IIA Israel) and Chairman of the Internal Auditors Committee of the institutional entities in the Institute; Deputy internal auditor of the Company and of member companies in Clal Holdings Group;
First year of tenure:	2014

[36] Corporate officers in the Company, and, in accordance with the Company's decision regarding the classification of the Company's corporate officers, members of management of Clal Insurance, a subsidiary of the Company. For details regarding changes in the Company's management and organizational structure, which took place in the Company in September 2018, see

<sup>17</sup> Began his tenure as CEO on July 1, 2018.

Note 43(c) to the financial statements.

18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)

Name: <b>Hadar Brin Weiss</b>	ID number 27788421
Year of birth:	1970
Position in the corporation:	General Counsel of the Company
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, General Counsel and Head of the Legal Consulting and Regulation Division in Clal Insurance and in other member companies of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	LL.B. and LL.M. from Tel Aviv University
Business experience in the last five years:	General Counsel and Head of the Legal Consulting and Regulation Division in Clal Group.
First year of tenure:	2013

Name: <b>Hila Conforti</b>	ID number 058368408
Year of birth:	1963
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	Bachelor's degree in Economics and International Relations from The Hebrew University of Jerusalem, M.A. in Economics from Bar Ilan University
Business experience in the last five years:	Head of the Risk, Control and Enforcement Division of Clal Insurance and of institutional entities in Clal Holdings Group
First year of tenure:	2007

Name: <b>Tal Cohen</b>	ID number 027427681
Year of birth:	1974
Position in the corporation:	Comptrollership Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Senior VP Comptrollership Division Manager in the Company and Clal Insurance, CFO and director in Clalbit Finance Ltd., and director in member companies of Clal Holdings Group.
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	C.P.A., Bachelor's degree in Accounting from Tel Aviv University, Bachelor's degree in Economics and M.B.A from The Hebrew University
Business experience in the last five years:	Comptroller and Manager of the Comptrollership Division in the Company and in Clal Insurance, CFO and director in Clalbit Finance Ltd.; Comptroller in the Company, in Clal Insurance and in Clalbit Finance. Board member in companies of Clal Holdings Group.
First year of tenure:	2013

**18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)**

Name: <b>Elite Caspi</b>	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: <b>Ofer Brandt</b> <sup>18</sup>	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

Name: <b>Galli Schved</b>	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

<sup>18</sup> Concludes his tenure in 2019.



**18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)**

Name: <b>Dror Sessler</b>	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, director 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:	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: <b>Yaron Shamay</b>	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, Customers and Distribution Division Manager
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, 2018 (Regulation 26A) (Cont.)

Name: <b>Shlomi Tamman</b>	ID number 54141767
Year of birth:	1957
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Business Unit Manager
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: <b>Eran Cherninsky</b>	ID number 57693236
Year of birth:	1962
Position in the corporation:	Executive VP, Financial Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Financial Division 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:	B.A. in Economics and accounting from Tel Aviv University, Certified Public Accountant, Member of the Professional Committee of the Institute of Certified Public Accountants in Israel.
Business experience in the last five years:	CEO and CFO of Migdal Insurance and Financial Holdings Ltd. and of Migdal Insurance Agency Holdings and Management Ltd. Head of the Finance and Actuarial Division of Migdal Insurance Company Ltd.
First year of tenure:	2018

Name: <b>Nis Agmon</b>	ID number 058846767
Year of birth:	1964
Position in the corporation:	Executive VP, Resources Division Manager
Position in a subsidiary, related company or interested party of the corporation:	Resources Division 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:	B.A. in Business Administration from Derby University.
Business experience in the last five years:	Senior VP of Service and member of Phoenix's management board
First year of tenure:	2018

**18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)**

Name: <b>Liat Strauss</b>	ID number 035881549
Year of birth:	1978
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Senior VP, Manager of the Service, Operations and Collection Unit
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 degree, Tel Aviv University, Bachelor's degree in Humanities, University of Haifa.
Business experience in the last five years:	Senior VP, Service Department Manager in Clal Insurance.
First year of tenure (in the current position):	2018

Name: <b>Yosef Dori</b>	ID number 028047959
Year of birth:	1971
Position in the corporation:	Executive VP, Investments Division Manager
Position in a subsidiary, related company or interested party of the corporation:	CEO of Canaf, Investments Division Manager of 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.A. in Business Administration and MBA with a specialization in Finance, with honors, from The College of Management Academic Studies.
Business experience in the last five years:	CEO of Canaf, Nostro Division Manager in the Investments Division of Clal Insurance
First year of tenure:	2018

Name: <b>David Arnon</b>	ID number 027850791
Year of birth:	1970
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	Executive VP, Heath Division Manager of Clal Insurance, director 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:	BA in Business Administration from the University of Maryland. MBA from Cornell University.
Business experience in the last five years:	CEO of Standard Insurance of Harel Group
First year of tenure:	2019

**18. Corporate officers of the corporation as of December 31, 2018 (Regulation 26A) (Cont.)**

Name: <b>Adi Kaplan</b>	ID number 025266727
Year of birth:	1973
Position in the corporation:	None
Position in a subsidiary, related company or interested party of the corporation:	CEO of Clalbit Systems Ltd., and Information Systems Supervisor in the institutional entities of Clal Group
Interested party in the corporation:	No
Family member of another corporate officer or of another interested party in the corporation:	No
Education:	MBA from The Open University and BA in Computer Science from The College of Management Academic Studies.
Business experience in the last five years:	Development Division Manager in Bank Hapoalim
First year of tenure:	2018

**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:**

The Company's special general meeting, which was convened on May 6, 2018, resolved to re-appoint Mr. Yossi Yagil as an outside director of the Corporation, for a (third) term of 3 years, in accordance with the recommendation of the Company's board of directors.

In the Company's special general meeting which was convened on August 14, 2018, it was resolved to approve the terms of tenure and employment of Mr. Yoram Naveh, the Corporation's CEO, who also serves as the CEO of Clal Insurance, 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(1) above.<sup>19</sup>

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, 2017 to November 30, 2018 (the “**Policy for 2018**”), 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, 2018 to November 30, 2019 (the “**Policy for 2019**”), 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 2018 and 2019 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.

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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.

**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.)**

- 2.1.2 The undertaking to indemnify specified in section 2.1.1 above will apply with respect to any debt or expense which is indemnifiable by law, as follows:
  - A. Any monetary debt which may be imposed on them towards another person, in accordance with a court ruling, including a court ruling issued in a settlement or a court-approved arbitration award;
  - B. Reasonable litigation expenses, including legal fees, which they may spend or be ordered to pay by the court, in proceedings which were filed against them by the Company or in its name or by another person, or with respect to a criminal indictment of which they are acquitted, or with respect to a criminal indictment of which they are convicted, in case of a crime which does not require proof of criminal intent;
- 2.1.3 The indemnification amount which the Company will pay (in addition to the amounts which will be received from the insurance company, if any, within the framework of insurance which the Company acquired and/or amounts which will be received, if any, as part of the indemnification of any party other than the Company) to all of the Company's corporate officers, cumulatively, in accordance with all of the letters of indemnity which will be issued for them by the Company in accordance with the indemnification resolution, with respect to one or more of the types of events specified in the letter of indemnity, will not exceed 25% (twenty five percent) of the Company's equity in accordance with its last financial statements which were published proximate to the actual date of indemnification (hereinafter: the **Maximum Indemnification Amount**”).
- 2.1 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.

## 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.)

- 2.2 On April 16, 2008, the Company's board of directors approved, after approval was received for this purpose from the Company's audit committee, to amend, inter alia, the list of companies whose corporate officers (who do not serve as directors in the Company and who are not the Company's controlling shareholders or their relatives) are entitled to indemnification, and to clarify that the undertaking to indemnify will also apply with respect to the actions of the aforementioned corporate officers, within the framework of their status as corporate officers in subsidiaries and/or related companies of the aforementioned companies, and to update the types of events for which the letter of indemnity will be given (hereinafter: the "**Additional Letter of Indemnity**").
- 2.3 The additional letter of indemnity which was given will not prejudice or derogate from the Company's undertakings in accordance with previous letters of indemnity which were given, if any, before the date of the additional letter of indemnity, insofar as such undertakings are legally valid, and provided that the Company will not be obligated to indemnify the corporate officers with respect to that event, both in accordance with a previous letter of indemnity and in accordance with the additional letter of indemnity.
- 2.4 On May 3, 2012, the general meeting of the Company's shareholders approved the provision of new and amended letters of indemnity to the corporate officers of the Company and/or of additional member companies in the Group (hereinafter: the "New Letter of Indemnity"), in light of Amendment 16 to the Companies Law, and in accordance with the provisions of the Efficiency of Enforcement Procedures Law (Legislative Amendments), 2011, and the Law to Increase Enforcement in the Capital Market (Legislative Amendments), 2011 - on this matter, see the immediate report dated March 22, 2012 (reference number 2012-01-077232).
- 2.5 On July 28, 2013, the general meeting of the Company's shareholders approved the implementation of a correction to omissions in the definitions of "administrative procedure" and "payment to injured party due to breach" in the letters of indemnity, which were approved in the Company's general meeting on May 3, 2012. For additional details, see the immediate report regarding the convention of a general meeting of the Company dated July 22, 2013 (reference number 2013-01-098091).
- 2.6 The provisions of the new letter of indemnity take precedence over any previous agreement or understanding (prior to the signing of the new letter of indemnity), whether verbal or in writing, between the Company and a corporate officer on the subjects specified in the new letter of indemnity, including with regard to events which took place prior to the signing of the new letter of indemnity. The 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.
- 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.

**23. Resolutions of the Company (Regulation 29A) (Cont.)**

**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 such an exemption.
- 3.3 In accordance with the aforementioned resolutions, the Company granted letters of exemption to directors and corporate officers in the Company.

**Clal Insurance Enterprises Holdings Ltd.**

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**Danny Naveh**  
**Chairman of the Board of Directors**

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**Yoram Naveh**  
**Chief Executive Officer**

**Date: March 26, 2019**

## **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. Yoram Naveh, CEO of the Company and of Clal Insurance, and CEO of Clal Finance Ltd.;
2. Eran Cherninsky, Executive VP of Clal Insurance, Financial Division Manager;
3. Yossi Dori, Executive VP of Clal Insurance, Investments Division Manager and CEO of Canaf;
4. Hadar Brin Weiss, Executive VP of Clal Insurance, Legal Counsel;
5. Eran Shahaf, Executive VP of Clal Insurance, Internal Auditor;
6. Moshe Ernst, Executive VP of Clal Insurance, Long Term Savings Division Manager;
7. Elite Caspi, Executive VP of Clal Insurance, Non-Life Insurance Division Manager;
8. David Arnon, Executive VP of Clal Insurance, Health Insurance Division Manager;
9. Yaron Shamay, Executive VP of Clal Insurance, Customers and Distribution Division Manager;
10. Nis Agmon, Executive VP of Clal Insurance, Resources Division Manager;
11. Liat Strauss, Senior VP of Clal Insurance, Service and Operations Unit Manager;
12. Dror Sessler, Executive VP of Clal Insurance, Claims Unit Manager;
13. Shlomi Taman, Executive VP of Clal Insurance, Business Unit Manager;
14. Hila Conforti, Executive VP of Clal Insurance, Chief Risk Officer;
15. Ofer Brandt, Executive VP of Clal Insurance, Chief Actuary;
16. Adi Kaplan, Executive VP of Clal Insurance, CEO of Clalbit Systems Ltd.;
17. Galli Schved, Senior VP of Clal Insurance, Marketing, Strategy and Spokesmanship Division Manager;

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, 2018, 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, 2018, is effective.

**Executive Certification**  
**Certification of the CEO**

I, Yoram Naveh, hereby certify the following:

1. I have evaluated the periodic report of Clal Insurance Enterprises Holdings Ltd. (hereinafter: the “**Corporation**”) for 2018 (hereinafter: the “**Reports**”).
2. To the best of my knowledge, the reports do not include any incorrect representation of any material fact, and do not lack any representation of any material fact which is required in order for the representations which are included therein to not be misleading with respect to the period of the reports.
3. To the best of my knowledge, the financial statements and the other financial information included in the reports adequately reflect, in all material respects, the corporation’s financial position, results of operations and cash flows as of the dates and for the periods to which the reports refer.
4. I have disclosed to the corporation’s auditor, to the board of directors and to the balance sheet committee of the Company’s board of directors, based on my most current assessment regarding internal control over financial reporting and disclosure:
  - A. All material deficiencies and material weaknesses in the establishment or implementation of internal control over financial reporting and disclosure, which may reasonably have an adverse effect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the 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, involving the CEO or any of his direct subordinates, or involving employees who fulfill 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 liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2019

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Yoram Naveh  
Chief Executive Officer

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

I, Eran Cherninsky, 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 2018 (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 corporation’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 effect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:
  - B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.
5. I, alone or together with others in the corporation:
  - A. I have established controls and policies, or have verified the establishment and implementation, under 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 liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2019

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Eran Cherninsky  
Executive VP of Clal Insurance  
Finance Division Manager

**Executive Certification**  
**Certification of the Comptrollership Division Manager**

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 2018 (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 corporation’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 effect on the corporation’s ability to collect, process, summarize or report financial information in a manner which could cast doubt on the reliability of the preparation of the financial reports and the preparation of the financial reports in accordance with the provisions of the law; And:
  - B. Any fraud, whether material or immaterial, in which the CEO or any of his direct subordinates are involved, or in which are involved employees who have significant positions in the Company’s financial reporting control over financial reporting.
5. I, alone or together with others in the corporation:
  - A. I have established controls and policies, or have verified the establishment and implementation, under 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 liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2019

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Tal Cohen  
Senior VP  
Comptrollership 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, Yoram Naveh, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the “**Company**”) for 2018 (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 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 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 liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2019

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Yoram Naveh  
Chief Executive Officer

**Clal Insurance Company Ltd.**  
**Certification**

I, Eran Cherninsky, hereby certify the following:

1. I have reviewed the annual report of Clal Insurance Company Ltd. (hereinafter: the “**Company**”) for 2018 (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 liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2019

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Eran Cherninsky  
Executive VP of Clal Insurance  
Finance 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 2018 (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 liability, or from the liability of any other person, in accordance with any applicable law.

March 26, 2019

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Tal Cohen  
Senior VP  
Comptrollership Division Manager