

March 23, 2017

**Harel Insurance and Finance Group presents an 11% increase
in comprehensive profit in 2016
to NIS 423 million**

The Group's assets under management reached an all-time high of NIS 185.1 billion in 2016

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**Harel Investments announced a dividend distribution of NIS 107 million in addition to dividends in the amount of NIS 171 million that were distributed in the course of 2016**

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The Group's equity increased to NIS 5.17 billion

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**In 2016, total earned premiums and benefit contributions increased to NIS 20 billion**

Harel Insurance Investments and Financial Services publishes its financial statements for 2016:

**Comprehensive profit increased by 11% to NIS 423 million in 2016, compared with NIS 381 million in 2015.**

**Comprehensive profit** was NIS 217 million in **Q4 2016**, compared with NIS 231 million in the corresponding quarter last year.

**Total earned premiums and benefit contributions** increased by 7% to NIS 20 billion in 2016, compared with NIS 19 billion last year.

**Total earned premiums and benefit contributions** increased by 9% to NIS 5.5 billion in Q4 2016, compared with NIS 5.1 billion in the corresponding period last year.

**Equity** attributed to the Company's shareholders at December 31, 2016 was NIS 5.17 billion.

**RoE** for the shareholders in 2016 was 9% in annual terms.

**Assets under management** held by the Group in insurance, pension funds, provident funds, mutual funds and financial services amounted to **NIS 185.1 billion** at December 31, 2016.

## **Long-term savings**

**Comprehensive profit in long-term savings activity (life assurance, pensions, provident and education funds)** decreased by 57% to NIS 127 million in 2016, compared with NIS 298 million in 2015. The decrease in comprehensive profit is mainly attributable to the decrease in the financial margin in the Reporting Period compared with the financial margin in the corresponding period last year.

Results in the Reporting Period were also affected by the decline in the risk-free interest rate and the decline in the yields embedded in the assets held against insurance liabilities, as a result of which the Group's insurance companies revised the discounting interest rates that are used to calculate some of the insurance liabilities. Accordingly, the

insurance liabilities increased by NIS 93 million before tax compared with an increase of about NIS 143 million before tax in the corresponding period last year.

**Comprehensive profit in the life assurance and long-term savings segment** decreased by 19% to NIS 147 million in Q4 2016, compared with NIS 181 million in the corresponding quarter last year. **Total earned premiums and benefit contributions** in the long-term savings segment **increased by 11%** to NIS 13 billion in 2016, compared with NIS 11.7 billion in 2015.

**Total earned premiums and benefit contributions** in the long-term savings segment increased by 12.5% to NIS 3.6 billion in **Q4 2016**, compared with NIS 3.2 billion in the corresponding quarter last year.

## Life assurance

**Comprehensive profit** in life assurance **decreased by 71%** to NIS 53 million in **2016**, compared with NIS 185 million in 2015. The decrease in comprehensive profit is attributable to the decrease in the financial margin in the Reporting Period compared with the financial margin in the corresponding period last year.

Additionally, in the Reporting Period, Harel Insurance revised the assumptions for the percentage of insureds who exercise their entitlement to annuity (take-up rate) and accordingly the insurance liabilities increased by NIS 70 million.

**Comprehensive profit in life assurance** decreased by 19% to NIS 125 million in **Q4 2016**, compared with NIS 154 million in the corresponding quarter last year.

**Total earned premiums in life assurance** increased by 1% to NIS 4.3 billion in **2016**, compared with NIS 4.2 billion in 2015. **Total earned premiums in life assurance** increased by 15% to NIS 1.2 billion in **Q4 2016**, compared with NIS 1.06 billion in the corresponding quarter last year.

## Pension funds

**Comprehensive profit from the management of pension funds** decreased by 22% to NIS 54 million in **2016**, compared with comprehensive profit of NIS 69 million in 2015. This decline in the Reporting Period compared with the corresponding period last year is mainly attributable to revised terms of the agreement for operating services that Harel Insurance provides to Harel Pension. **Comprehensive profit from the management of pension funds** was NIS 15 million in Q4 2016, similar to the corresponding quarter last year.

**Benefit contributions** collected by the Group's pension funds **increased by 14%** to NIS 6.3 billion in **2016**, compared with NIS 5.5 billion in 2015. **Benefit contributions** collected by the pension funds **increased by 10%** to NIS 1.7 billion in **Q4 2016**, compared with NIS 1.52 billion in the corresponding quarter last year.

**Assets under management** held by the pension funds **increased by 19%** to NIS 44.3 billion at December 31, 2016, compared with NIS 37.1 billion at December 31, 2015. This increase is attributable to an increase in the volume of activity, new members who joined the funds, an increase in the amounts of provision made by members and the yield attained during the Reporting Period.

## Provident funds

**Comprehensive profit from the management of provident funds and education funds was NIS 20 million in 2016** compared with NIS 44 million in 2015. The decline is mainly attributable to a one-time provision for the refund of management fees to members as part of the optimization project and to an erosion in the rate of the management fees. **Comprehensive profit from the management of provident funds and education funds was NIS 8 million in Q4 2016** compared with NIS 11 million in the corresponding quarter last year.

**Benefit contributions** collected by the Group's provident funds and education funds **increased by 25%** to NIS 2.4 billion in **2016**, compared with NIS 1.9 billion in 2015. The **benefit contributions** collected by the Group's provident funds and education funds **increased by 18%** to NIS 728 million in **Q4 2016**, compared with NIS 617 billion in the corresponding quarter last year.

**Asset under management** held by the Group's provident funds and education funds **increased by 7%** to NIS 31.7 billion at December 31, 2016, compared with NIS 29.6 billion at December 31, 2015.

## Health insurance

**Comprehensive profit in the health insurance segment was NIS 158 million in 2016, compared with NIS 2 million in 2015.** The increase in comprehensive profit is mainly attributable to an improvement of the percentage of claims in group health policies.

Comprehensive profit in the health insurance segment was NIS 30 million in Q4 2016, compared with NIS 40 million in the corresponding quarter last year.

**Premiums earned in the health insurance segment increased by 5%** to NIS 4.2 billion in **2016**, compared with NIS 4 billion in 2015. Total earned premiums in the health insurance segment **increased by 5%** to NIS 1.06 billion in **Q4 2016**, compared with about NIS 1 billion in the corresponding quarter last year.

## Non-life insurance

Comprehensive profit in non-life insurance was NIS 74 million in 2016 compared with NIS 124 million in 2015. Profit in the Reporting Period includes the effect of the publication of the recommendations of the inter-ministerial committee headed by Dr. Eliahu Winograd. As a result of the foregoing, Harel Insurance revised its insurance liabilities by NIS 201 million in retention before tax, so as to reflect an up-to-date estimate of the repayments that the Company will be expected to pay for claims in compulsory motor and liabilities insurance.

Comprehensive profit in non-life insurance was NIS 39 million in Q4 2016, compared with NIS 68 million in the corresponding quarter last year. The decrease in comprehensive profit is mainly attributable to the revised interest rates in the fourth quarter based on the recommendations of the Winograd Committee in the amount of NIS 26 million.

**Gross premiums in the non-life insurance segment** amounted to NIS 3 billion in **2016**, similar to the corresponding period last year. Gross premiums in the non-life insurance segment amounted to NIS 761 million in **Q4 2016**, compared with NIS 696 million in the corresponding period last year.

## Harel Finance

**Assets under management in the capital market and financial services segment under Harel Finance Investment House** amounted to NIS 39.4 billion at **December 31, 2016**, compared with NIS 47.5 billion at December 31, 2015.

**Revenues in the capital market and financial services segment amounted** to NIS 253 million in **2016**, compared with NIS 300 million in 2015.

Comprehensive profit in the capital market and financial services segment amounted to NIS 3 million before tax in 2016, after adjustment for impairment, compared with NIS 8 million in the corresponding period last year. **Profit in the Reporting Period includes an impairment of NIS 75 million before tax** in the value of the mutual fund activity, in contrast with an impairment of NIS 68 million before tax in the corresponding period last year. After adjustment for this impairment, pre-tax profit in the capital market and financial services segment decreased by 5% to NIS 72 million before tax in the Reporting Period, compared with NIS 76 million before tax in the corresponding period last year.

## Equity

Based on the IQIS5 exercise performed by Harel Insurance, in accordance with the new Solvency II regime that the Ministry of Finance intends to apply, Harel Insurance has a capital surplus of NIS 1 billion at December 31, 2015 on a consolidated basis and before the transition provisions. Taking the transition provisions into account, the capital surplus is NIS 1.7 billion.

The capital surplus is expected to increase significantly when the revised regulations are approved, to the extent that they are approved in their current format, by the Knesset Finance Committee. Harel Insurance believes that implementation of the key changes in these regulations will improve its capital surplus ratio at the date of the calculation by about 17% including the transition provisions, and by 15% if the calculation does not include the transition provision. The ratio based on a full calculation will be 139% (instead of 122%) and the ratio calculated without the transition provisions will be 128% (instead of 113%).

## Taxes

Profit includes tax revenues in the amount of NIS 112 million in the Reporting Period, attributable to the effect of a NIS 62 million reduction in the corporate tax rate, as well as to the elimination of provision for taxes relating to a dispute with the Tax Authority for which a court ruling was received accepting the arguments of Harel Insurance that amounts should not be added for direct income originating in foreign real-estate in the amount of NIS 50 million.