# Harel Insurance Investments and Financial Services Ltd.

**Interim Report as at**
**March 31, 2021**

# Contents



**This document is an English translation of the Hebrew version of the Company's financial statements for Q1 2021 and is for informational purposes only. The Hebrew version of the reports is the binding version.**

# Board of Directors Report

# Harel Insurance Investments and Financial Services Ltd.

## Board of Directors Report

### for the three months ended March 31, 2021

The Board of Directors Report for the three months ended March 31, 2021 ("the Reporting Period"), reflects the principal changes in the state of the business of Harel Insurance Investments & Financial Services Ltd. ("Harel Investments" or "the Company") during this period, and it was prepared assuming that the reader is also in possession of the Group's full Periodic Report for 2020 which was published on March 21, 2021 ("the Periodic Report").

The Board of Directors' Report also contains forward-looking information, as defined in the Securities Law, 1968. Forward-looking information is uncertain information concerning the future based on information in the company's possession at the time of publishing the report and which includes the company's assessments or intentions at the date of the report. Actual performance may differ substantially from the results estimated or inferred from this information. In certain instances, sections can be found that contain forward-looking information, where words such as: "the Company/the Group estimates", "the Company/the Group believes", "the Company/the Group anticipates", and the like appear, and such forward-looking information may also be worded differently.

## 1 Description of the Company

### 1.1 General

Harel Insurance Investments and Financial Services Ltd. is a public company whose shares have been traded on the Tel Aviv Stock Exchange since 1982. The Company, together with its subsidiaries, ("the Group") operates principally in the following areas:

A. In the various sectors of insurance, the Company operates through the following subsidiaries: Harel Insurance Company Ltd. (fully controlled) ("Harel Insurance"); Interasco Societe Anonyme General Insurance Company S.A.G.I (in which the Company holds 94%) ("Interasco" - which operates in non-life insurance in Greece; Turk Nippon Sigorta A.S. (fully controlled) ("Turk Nippon"), operating in Turkey; ICIC. - Israel Credit Insurance Company Ltd. (in which the Company holds 50%) ("ICIC") and EMI - Ezer Mortgage Insurance Company Ltd. (fully controlled) ("EMI").[1]

B. In the long-term savings sector, the Company operates through the following subsidiaries that are provident fund and pension fund management companies: Harel Pension and Provident Ltd. (fully controlled) ("Harel Pension & Provident"), which manages pension and provident funds; Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd. (under full

[1] For additional information about approval of the restructuring for transferring EMI from Harel Insurance to the Company, see Section 2.1.3 below.

control) ("Tzva Hakeva Saving Fund - Provident Funds Management Company Ltd. (fully controlled) ("Tzva Hakeva"); LeAtid Pension Funds Management Company Ltd. (in which the Company holed 79%), which manages an old pension fund ("LeAtid").

C. In the financial services and capital market segment the Company operates through the subsidiary Harel Finance Ltd. ("Harel Finance") (fully controlled) and its key subsidiaries: Harel Mutual Funds Ltd. ("Harel Mutual Funds") - a mutual fund management company; Harel Finance Investment Management Ltd. ("Harel Finance Investments") - which is a licensed portfolio manager and manages investment portfolios; Harel Index Trade Ltd. - a company involved in market making for the ETFs managed by Harel Mutual Funds; Alfa Tech Investment Management Ltd., a licensed portfolio manager which manages investments for funds issued by Harel Mutual Funds using computerized models; Harel Finance Alternative R.E. Ltd., a company that serves as a general partner in the partnership Harel Finance Alternative R.E., a limited partnership registered in the USA; Harel Exchange Traded Deposit Ltd., a company that issued bonds backed by deposits.

D. In the provision of credit to medium businesses the Company began operates through a subsidiary, Hamazpen Shutaphim Laderech Ltd. (in which it has a 70% stake).

E. In the reverse mortgage sector the Company operates through Harel 60+ Ltd. ("Harel 60+"), a wholly owned subsidiary of Harel Insurance, providing loans for any purpose for those aged 60 or more.

The Company's separate activity centers on the management, control and supervision of the subsidiaries, on-going planning of the Group's operations, and initiating activity and investments, both directly and through the Group's companies.

### 1.2 The Company's shareholders

Yair Hamburger, Gideon Hamburger and Nurit Manor are the principal shareholders in the Company (in this section: "the Shareholders"), holding 46.49% of the voting rights and the issued share capital of the Company.

The Shareholders hold the Company principally through G.Y.N. Financial Consulting & Management Ltd. 2017, a limited partnership fully owned and controlled by the Shareholders, which they hold, as limited partners, through private companies fully owned by them ("G.Y.N. Partnership") and they also hold the general partner in G.Y.N. Partnership.

## 2 Financial position and results of operations, equity and cash flow

### 2.1 Material changes in the Group's business and events in the Reporting Period

#### 2.1.1 The COVID-19 virus

Following the outbreak of COVID-19 at the beginning of 2020 ("COVID-19 crisis" or "the Pandemic") which spread to many countries, Israel included, the volume of economic activity dropped sharply and restrictions were imposed on movement and employment in many parts of the world and in Israel.

In view of the concern for the health and wellbeing of our employees, since the onset of the crisis the Group's management took and continues to take measures to mitigate the risk for the Group's employees. The Group made several decisions regarding limiting work in the Company's offices in accordance with the directives and recommendations published by the Ministry of Health from time to time, while deploying and adapting work methods to working from home and taking stringent care to continue to provide regular, ongoing service to the Group's customers and agents.

In accordance with the regulations that require the Group to be prepared for business continuity scenarios, and thanks to the Group's strong awareness of the importance of serving its customers, and its investment in technology and digital processes over the last four years, the Group has in place solutions for providing regular, continuous service for its customers even in times of emergency and it was and continues to be prepared for ongoing business activity in an adjusted format throughout the crisis period.

At the date of publication of the report, most of the Group's employees have returned to full and regular activity in the Company's offices, taking care to comply with the social distancing rules intended to prevent COVID-19 contagion. Some of the Group's employees continue to work from home by remote access on some days of the week.

Notwithstanding the successful campaign to vaccinate Israel's population and the return to almost normal routine in Israel, the Company believes that the COVID-19 crisis is an evolving global event and there is no certainty regarding its conclusion and the extent of its impact on the Group's assets and performance, particularly while additional outbreaks of the virus and its variants in the future cannot be ruled out.

2.1.2 Midroog rating

On a rating for the Company by Midroog, see Note 6 to the Financial Statements.

2.1.3 Restructuring - EMI

On February 28, 2021, the Company's Board of Directors (after receiving the approval of the board of directors of the subsidiary, Harel Insurance) approved the transfer of all the holdings of Harel Insurance in Mortgage Holdings Israel Ltd. ("EMI Holdings"), which holds all the share capital of the insurance company EMI, to the Company ("the Restructuring"). The transfer of these holdings in EMI Holdings from Harel Insurance to the Company as part of the Restructuring will be accounted for as a dividend in kind from Harel Insurance to the Company, from distributable profits. In April 2021, formal approval was received from the Capital Market, Insurance and Savings Authority for the restructuring. The Restructuring will take place in accordance with the provisions of Section 104C of the Income Tax Ordinance, based on the approval of the Tax Authority which was received in May 2021. After completion of the restructuring, the Company will be able to receive a dividend of NIS 310 million from EMI Holdings and EMI, and it will also be able to receive an ongoing annual dividend flow of NIS 40 million from the current activities of these companies. Additionally, the Solvency ratio of Harel Insurance is expected to be reduced by 6%-7%. It is stipulated that as a result of the Restructuring, there will be no change in the Company's accounting equity on a consolidated basis. See also Note 39D to the annual 2020 Financial Statements.

2.1.4 Dividend distribution policy

On February 28, 2021, the Company's Board of Directors approved a dividend distribution policy whereby the Company will distribute a dividend of at least 30% of the comprehensive income according to its annual consolidated financial statements.

On February 28, 2021, the board of directors of the subsidiary Harel Insurance approved a dividend distribution policy in which Harel Insurance will distribute a dividend of at least 35% of the comprehensive income according to the annual consolidated financial statements of Harel Insurance, and this as long as Harel Insurance is in compliance with the minimum targets for solvency based on Solvency II (minimum solvency was set at 135% taking into account the transitional provisions, and 105% excluding the transitional provisions in the transitional period).

Distribution of the dividend by the Company could be affected, *inter alia*, by the ability of Harel Insurance to actually distribute a dividend.

It is stipulated that this policy should not be construed as an undertaking by the Company to distribute a dividend and that any dividend distribution in practice is subject to specific approval by the Board of Directors at its exclusive discretion. In practice, the Board of Directors may decide to distribute different (higher or lower) rates of dividend or not to distribute any dividend at all. Furthermore, any actual dividend distribution will be subject to compliance with the statutory provisions applicable to dividend distributions, including the Companies Law, 1999, and to the financial covenants undertaken by Harel and/or that the Company may commit to in the future, to satisfying adequate amounts of distributable profits on the relevant dates and to the extent to which the Company requires cash to finance its operations, including future investments, as they may be from time to time, and/or its anticipated and/or planned future activity.

The Board of Directors may review its dividend distribution policy from time to time and may, at any time, based on business considerations and the provisions of law and regulations applicable to the Company, resolve to make changes in the dividend distribution policy, including the rate of the dividend to be distributed.

2.1.5 Dividend distributions

On a decision from January 27, 2021, concerning a dividend distribution in the amount of NIS 107 million, that was paid on February 11, 2021, and a decision from March 2021 concerning a dividend distribution in the amount of NIS 150 million, that was paid on April 20, 2021, see Note 9 to the Financial Statements.

## 2.2 Material changes in the Group's business and events after the Reporting Period

2.2.1 Planned rotation of the CEO and Chairman of Harel Insurance.

On April 18, 2021, the Board of Directors of Harel Insurance approved the following, at the request of Mr. Michel Siboni, CEO of the Company and CEO of Harel Insurance, to make an organizational change his position in the Group:

Mr. Michel Siboni, who has been CEO of Harel Insurance for 12 years and CEO of the Company for most of this period, will step down as CEO of Harel Insurance on July 1, 2021.

Michel Siboni will continue to serve as CEO of the Company and the Company will work towards appointing him as a director in Harel Insurance, with the intention of appointing him as Chairman of the Board of Harel Insurance instead of Mr. Yair Hamburger who is Chairman of the Company's Board of Directors and Chairman of the Board of Harel Insurance. Yair Hamburger will continue to serve as Chairman of the Company's Board of Directors and as a director in Harel Insurance after the appointment of Michel Siboni as Chairman of the Board of Harel Insurance.

Mr. Nir Cohen, who is currently the Deputy CEO of Harel Insurance and heads the HQ Division, will be appointed to replace Michel Siboni as CEO of Harel Insurance, effective from July 1 2021.

The appointments are subject to the approval of the Commissioner of the Capital Market, Insurance and Savings in the Finance Ministry and also to receiving the approvals of the relevant organs in the relevant Group companies.

2.2.2 Agreement in a Memorandum of Understanding (MOU) to acquire the activity of Shirbit Insurance Company Ltd. ("Shirbit").

On May 4, 2021, the subsidiary Harel Insurance entered into agreement with Shirbit, in a Memorandum of Understanding. Accordingly, subject to satisfying suspensive conditions, Harel Insurance will acquire the insurance activity of Shirbit so that from the date of completion of the transaction, all the customers of Shirbit will become customers of Harel Insurance.

Completion of the transaction is subject to satisfying certain suspensive conditions, including: completion of a due diligence to the satisfaction of Harel Insurance; court approval under Section 350 of the Companies Law, 1999 and obtaining the approval of the Competition Authority and the Capital Market, Insurance and Savings Authority.

2.2.3 Restructuring of Harel Insurance

On May 19, 2021, Harel Insurance announced a restructuring in which the life assurance department will be transferred to the Health Division, which will become the Health and Life Division, headed by Mr. Alon Eliraz. In this context, the life assurance department headed by Mr. Ofir Rotschild will become part of the Health and Life Insurance Division of Harel Insurance.

The Long-term Savings Division will continue to be part of pension and provident activity and it will also hold the responsibility for the business aspects of managers insurance and personal lines savings, while their operating system will be transferred to the Health and Life Insurance Division of Harel Insurance.

This restructuring will enable better cooperation between these strategic sectors from the operating perspective and will allow Harel Insurance to better plan for upcoming challenges.

Mr. Dudi Leidner, who is currently CEO of the Group's management companies, will be appointed to head the Long-term Savings Division in the new structure, replacing Mr. Doron Ginat who is stepping down from his position in Harel Insurance.

2.2.4 Approval of the terms of office of Mr. Michel Siboni

On May 23, 2021 and on May 26, 2021, the Compensation Committee and Board of Directors of the Company, respectively, approved the terms of office of Mr. Michel Siboni who is currently

CEO of the Company and CEO of Harel Insurance, for the period commencing July 1, 2021, in which he will serve as CEO of the Company and Chairman of the Board of Harel Insurance. The terms of office were approved without any change compared with his present conditions. Approval of the terms of office is subject to the approval of the Company's General Meeting, as specified in Section 2.2.5 below.

2.2.5 Convening of an Annual General Meeting of the Company

On May 26, 2021, the Company's Board of Directors resolved to convene an annual and special general meeting of the Company, with the following items on the agenda: (1) discussion of the Periodic Report for 2020; (2) appointment of external auditors for 2021 and appointing the Company's Board of Directors to determine their fee; (3) reappointment of the Company's incumbent directors, who are not external directors, for a further term of office (Yair Hamburger, Gideon Hamburger, Ben Hamburger, Yoav Manor, Doron Cohen, Josef Ciechanover and Eli Defes); (4) approval of the terms of office of Michel Siboni who serves as CEO of the Company and CEO of Harel Insurance, for the period commencing July 1, 2021, in which he will serve as CEO of the Company and Chairman of the Board of Harel Insurance (with no change compared with his present conditions). The General Meeting is convened for June 30, 2021. For additional information, see an Immediate Report of the Company dated May 26, 2021, Ref-2021-01-031033.

2.2.6 Full early redemption of bonds (Series 5) of Harel Financing & Issuing

On a decision concerning the full early redemption of Series 5 bonds that were issued by Harel Financing & Issuing, see Note 6 to the Financial Statements.

## 2.3 Developments in the macroeconomic environment of the Group

The results of the Group's operations are significantly affected by the yields attained in the capital market and by the economic, political and security situation in Israel and worldwide. The following discusses the key factors in the macroeconomic environment which affect the Group's activity:

2.3.1 General

The COVID-19 vaccination was rolled out in Q1 2021, setting the global economy on the road to recovery. The International Monetary Fund and the OECD revised their forecasts upwards for growth this year for most countries. World trade grew in Q1 together with an improvement in the sentiment of companies worldwide.

Inflation rose worldwide, however the core indices remained low in most developed countries and monetary policy at the major central banks continues to be very accommodative.

The USA leads the recovery due to the vaccine rollout, reducing the restrictions and the launching of a substantial fiscal plan. In Europe, morbidity remained widespread, leading the key Eurozone countries to announce a renewal of the social distancing restrictions in Q1 2021. The Chinese economy continues its rapid recovery from the pandemic crisis.

2.3.2 Developments in the Israeli economy

The Israeli economy began Q1 2021 under the restrictions of a third lockdown, contributing to GDP shrinking by 6.5% annual rate (according to initial estimates). The effectiveness of the vaccination campaign led to a sharp drop in morbidity, allowing the restrictions to be relaxed in the quarter.

At the end of Q1, the broad unemployment rate (consisting of the jobless plus those workers who were temporarily absent from their jobs due to COVID-19) dropped to 9.5% of the workforce.

2.3.3 Stock market

In Q1 2021, shares prices continued to rise in most markets around the world, supported by the launching of an additional fiscal program in the USA and continuation of the extremely expansionist monetary policy of the world’s main central banks.

By the end of Q1 2021, the MSCI World Index was up 5% and the corresponding MSCI Emerging Markets Index rose by 2.3%. In Israel, the TA-125 Index rose by 6.1%.

2.3.4 Bond market

Yields on government bonds in most of the developed countries increased (led by the USA) in Q1 2021, accompanied by a corresponding increase in expectations for inflation.

The spreads in Israel between yields on government bonds and those on corporate bonds continued to decline in Q1 2021, despite the fact that the Bank of Israel did not purchase corporate bonds in the quarter.

At the end of Q1 2021, the general bond index was 0.3% up, while the government shekel bond index was down 1.5% and the government linked bond index rose by 0.4%. The corporate bond index rose 2.1% during the period.

2.3.5 Mutual funds

In the final outcome of Q1 2021, the mutual funds raised a net NIS 9.6 billion. The funds specializing in bonds raised a noticeable NIS 7.9 billion ,in contrast with net redemptions of NIS 2.2 billion in the money market funds.

2.3.6 ETFs

In the final outcome of 2021, the ETFs raised a net NIS 0.1 billion.

2.3.7 Foreign exchange market

At the end of Q1 2021, the shekel was 1.3% weaker against the Bank of Israel’s basket of currencies; with depreciation of 3.7% against the US dollar and revaluation of 0.8% against the Euro. In January, the Bank of Israel announced a target of USD 30 billion for the purchase of foreign exchange in 2021. This announcement led to a weakening of the shekel in the quarter.

2.3.8 Inflation

According to the last known index (February), the CPI rose by 0.1% in Q1 2021 (December - February) and inflation for the last 12 months was zero. Transportation and housing were the key factors contributing to the higher index in the quarter. Clothing and shoes were the key contributing factor to lowering the index.

2.3.9 Bank of Israel interest

The Bank of Israel left the interest rate unchanged at 0.1%. In Q1 2021, the Bank purchased USD 13.6 billion, it purchased government bonds for NIS 12.7 billion, it gave NIS 8.5 billion in loans to the banking system for the purpose of increasing credit to businesses, but it did not purchase any corporate bonds.

## 2.4 Legislation and regulation in the Group's operating segments

Description of significant changes in legislation and regulations in connection with the Group's operating segments since the Periodic Report:

2.4.1 General

2.4.1.1 Circulars

2.4.1.1.1 On May 26, 2021, a circular was published amending the provisions of the Consolidated Circular - Chapter 4, Section 5 - Management of Investment Assets, concerning the lending of securities. The circular adjusts the provisions of the circular to an amendment to the articles of the Tel Aviv Stock Exchange, in which a central securities lending pool was launched.

2.4.1.1.2 On May 13, 2021, a circular was published concerning an amendment to the provisions of the Consolidated Circular - Chapter 4, Section 5 - Management of Investment Assets - Debt Arrangements and Rating Companies. These provisions provide relief for the regulatory burden which applies to financial institutions with respect to debt arrangements for non-problematic debts, and the provisions were extended to also cover problematic debts and debt arrangements with respect to debt instruments that were issued outside Israel where the financial institution or group of investors holds at least 5% of the debt.

2.4.1.1.3 In the Reporting Period, the Commissioner published a number of regulations, including adjustment of the regulations for this period due to the spread of COVID-19. These include regulations which determine that financial institutions must continue to deduct the cost of the insurance cover from the amounts accrued to members or insureds for 12 months from the month in which the deposit period ended, unless the member instructs otherwise, and as applicable even unrelated to a wage reduction, as well as a circular which extends the validity of the relief with respect to cancellation of the obligation of the Board of Directors and its committees to convene physically at least once a quarter, until June 30, 2021.

2.4.1.2 Draft circulars

2.4.1.2.1 On February 3, 2021, a second draft was published updating the Consolidated Circular on Measurement - Professional Issues in the Application of IFRS 17 ("the Standard"). The update proposes establishing principles for application of the Standard, including by separating components in certain categories of insurance contracts; the method of including a series of insurance policies; allocating insurance contracts into portfolios; risk adjustment for non-financial risk; the method of calculating the investment component in policies with a savings component and long-term care policies; and the method of calculating discounting interest.

2.4.1.3 Directives and clarifications

On January 14, 2021, a Commissioner's position was published concerning the independence of an external auditor which may be prejudiced due to the rendering of a related service. The opinion details situations in which the Commissioner considers the independence required of an external auditor to have been prejudiced in the provisions of the Consolidated Circular, including, among others, providing an expert opinion such as a valuation or fairness opinion with respect to the economic value of assets or liabilities and preparation of a business plan which affects the life of the business; configuration and implementation of computerized information systems relating to the financial reports or to economic solvency reports; the providing of actuarial services; and provisions concerning a service provided by the external auditor on deployment for the application of IFRS 17.

2.4.1.4 Regulations concerning Solvency

On March 14, 2021, the Commissioner published a letter for insurance company directors concerning the reporting and publication of the results of an economic solvency ratio at December 31, 2020 and June 30, 2021, which postpones the date of publication of the economic solvency report at December 31, 2020 as well as the related reporting files to the Commissioner, to June 30, 2021. The letter also states that the insurance companies are permitted not to publish the economic solvency report by June 30, 2021.

2.4.2 Life assurance and long-term savings

2.4.2.1 Provisions of law

2.4.2.1.1 On May 10, 2021, the Knesset Finance Committee approved draft Supervision of Financial Services (Provident Funds) (Investment Rules applicable to Financial Institutions) (Amendment) Regulations, 2021. The draft regulations propose amending the Supervision of Financial Services (Provident Funds) (Investment Rules applicable to Financial Institutions) Regulations, 2012, and among other things, to allow institutional investors to acquire an additional 29% in an issuance by corporations whose shareholders equity does not exceed NIS 300 million and 15% in corporations whose shareholders equity exceeds this amount, and whose activity was limited to the setting up and development of a designated infrastructure project in Israel, or whose purpose is to raise capital for projects in this sector, where in May 2023 the Finance Minister may submit a request to increase the investment and set it at 49% with the approval of the Finance Committee. The draft regulations also propose broadening the categories of investment permitted to old funds and the rates of investment permitted in the fund's assets, determining cumulative conditions whereby institutional investors are permitted to invest in hybrid bonds issued in Israel and determining that the limitation on the investment of financial institutions in ETNs will only apply to

ETFs which are a related party to the financial institutional, and are not funds which invest in accordance with Jewish Law.

2.4.2.1.2 On February 4, 2021, draft Supervision of Financial Services (Provident Funds) (Withdrawal of Funds by Jobless Self-Employed Members) (Temporary Order) Regulations, 2021, were published. The draft regulations set out cumulative conditions whereby jobless self-employed members who satisfy these conditions may withdraw money from an annuity provident fund not by way of annuity or by capitalizing part of the annuity to a lump sum, and from provident funds for retirement benefits. Supplementary provisions were included in a draft Income Tax Order (Determining amounts paid from an annuity provident fund to a self-employed member who is out of work as income with respect to tax withholding at source), 2021 and in Circular 2021-3-1 concerning the rights and obligations of members in the articles of a new pension fund - temporary order.

2.4.2.1.3 On September 9, 2020, draft Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Amendment) Regulations, 2019 (“the Regulations”), were published. The draft regulations extend until February 28, 2021, the temporary order prescribed in Section 3A of the Regulations, which defines additional categories of direct expenses for performing transactions in provident fund assets, excludes from the scope other categories of expenses, and limit certain direct expenses to 0.25% of the total revalued amount of the institutional investor’s assets (“Temporary Order”. The Regulations include the addition of a disclosure obligation regarding direct expenses fees for members or insureds. On March 10, 2021, a letter was published for the directors of supervised entities stipulating that under the provisions of Section 38 of the Basic Law: the Knesset, the temporary provision will remain in force until three months have passed from the date of convening the 24th Knesset.

2.4.2.2 Draft circular

On January 19, 2021, the Commissioner published an update to the circular on a standard format for transferring money and information in the pension savings market, in which, among other things, an obligation was established to transfer money between provident funds through the pension clearing house.

2.4.3 Non-life insurance

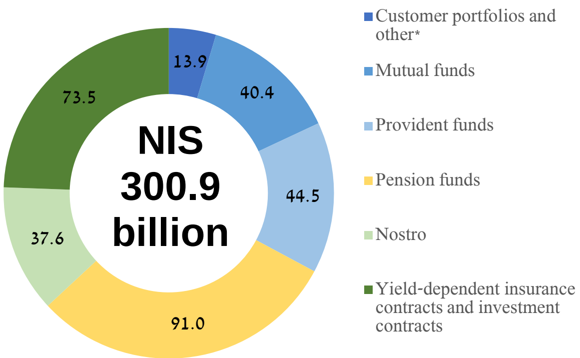
2.4.3.1 Provisions of law

2.4.3.1.1 On May 24, 2021, the Minister of Finance published a draft notice concerning the cost of services rendered under the Law for the Compensation of Road Accident Victims, 1975, and a draft Compensation for Road Accident Victims (Financing the Cost of Providing Services) Order, 2021. The notice and the Order propose determining that the cost of providing the services rendered to road accident victims which the insurance companies transfer to the HMOs (via the NII) will be NIS 655 million in accordance with the updated cost of the health services basket for 2020, and that every insurer will transfer to the HMOs 12.66% of the premiums collected by that insurer in the previous month, for all the policies it issued under the Motor Vehicle Insurance Ordinance, 1970, and this commencing January 1, 2022.

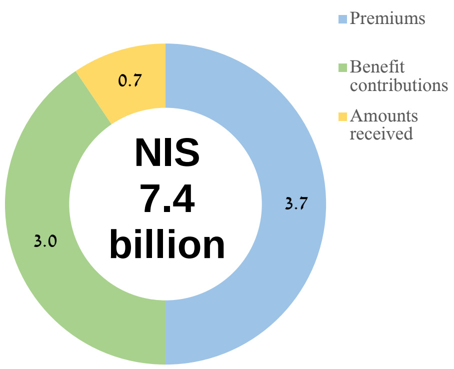
2.4.3.1.2 On March 14, 2021, Provisions for the Supervision of Financial Services (Insurance) (Conditions of a Compulsory Insurance Contract for a Motorized Vehicle) (Amendment), 2021, were published which determined provisions regarding compulsory motor insurance. Among other things, the provisions determined that policyholders will be given an option to receive a copy of the policy and a copy of the insurance certificate by digital methods; provisions concerning keeping a copy of the insurance certificate by the insurance company; elimination of the collection of expenses for issuing a new insurance certificate and in respect of a change in the certificate. Additionally, the wording of the compulsory motor insurance policy was amended and, among other things, it was determined that insurers will not be exempt of their obligation under the policy if the driver of the vehicle was in possession of a valid driving license for 120 months preceding the date of occurrence of the road accident, subject to a number of conditions; a mechanism was established to enable policyholders to cancel a policy; an option was added regarding the non-use of a vehicle for a period of 30 days or more; and a policy was added for insuring vehicles with a dealer's number plate which provides customized, designated cover for use of a vehicle bearing "test drive" license plates.

## 2.5 Condensed data from the consolidated financial statements of Harel Investments

The Group's AUM:




Data on earned premiums, gross, benefit contributions and amounts received for investment contracts:




The assets managed by the provident funds, pension funds, mutual funds and in customers' portfolios are not included in the Company's consolidated financial statements.

Amounts received in respect of investment contracts are not included within premiums but are recognized directly in liabilities for insurance contracts and investment contracts. In the Reporting Period, the amounts received for investment contracts recognized directly in investment contract reserves amounted to NIS 687 million, compared with NIS 804 million in the corresponding period last year.

2.5.1 Comprehensive income (loss) by segment (NIS million):

| | Notes | for the three months ended March 31 2021 | 2020 | change in % | For the year ended December 31 2020 |
|---|---|---|---|---|---|
| **Life assurance and long-term savings** | | | | | |
| Life assurance | A | 189 | (118) | - | 417 |
| Pension | B | 18 | 11 | 64 | 68 |
| Provident | B | 15 | 8 | 88 | 57 |
| **Total life assurance and long-term savings segment** | | **222** | **(99)** | - | **542** |
| **Non-life insurance** | | | | | |
| Compulsory motor | C | (18) | (30) | (40) | 88 |
| Motor property | D | 18 | 18 | - | 88 |
| Property and other branches | D | 21 | 14 | 50 | 93 |
| Other liabilities branches | C | 6 | (77) | - | 21 |
| Mortgage insurance | | 15 | (4) | - | 53 |
| **Total non-life insurance segment** | | **42** | **(79)** | - | **343** |
| **Health insurance** | E | (99) | (352) | (72) | 77 |
| **Insurance companies overseas** | | (5) | (8) | (38) | (3) |
| **Financial services** | F | 17 | 16 | 6 | 40 |
| **Not attributed to segments of operation** | | 165 | (332) | - | 209 |
| **Total before tax** | | **342** | **(854)** | - | **1,208** |
| Tax expenses (tax benefit) | | 87 | (299) | - | 374 |
| **Other comprehensive income (loss) after tax** | | **255** | **(555)** | - | **834** |
| **Return on Equity in annual terms** | | 13% | (33%) | | 11% |

Results in the Reporting Period were affected by investment profits, as against investment losses in the capital market in the corresponding period last year resulting from the impact of the COVID-19 pandemic, changes in the risk-free interest rate curve and changes in the difference between the fair value and book value of non-marketable assets.

For additional information in connection with special effects on comprehensive income, see Section 2.5.2.

A. Life assurance - the results were affected by capital market yields as described above. Results in the Reporting Period were affected by an increase in income from management fees in the amount of NIS 149 million.

Income from management fees amounted to NIS 258 million in the Reporting Period, compared with NIS 109 million in the corresponding period last year. The increase is attributable to the variable management fees which amounted to NIS 140 million in the Reporting Period, compared with the inability to collect variable management fees in the corresponding period last year on account of real negative yields on profit sharing policies that were sold between 1991 and 2003.

Additionally, results in the corresponding period last year were affected by an update of the interest rate applied in calculating the reserve for annuities in payment which in turn reduced the insurance liabilities. For additional information, see Section 2.5.2(A).

B. Pension and provident - the results were affected by capital market yields as described above. Results in the corresponding period last year were affected by an erosion of the management fee rate.

C. Compulsory motor and liabilities sectors - the results were affected by capital market yields as described above. Results in the Reporting Period were affected by a decrease of the risk-free interest rate curve, by changes in the difference between the fair value and book value of the non-marketable assets which led to an increase of the insurance liabilities. Results in the corresponding period last year were affected by an increase in the risk-free interest rate curve, which led to a reduction of the insurance liabilities. For additional information, see Section 2.5.2(F).

D. Motor property (CASCO), property and other sectors - the results were affected by capital market yields as described above. Additionally, the Reporting Period results in the motor property sector were also affected by an erosion of the premiums. Results in the corresponding period last year were affected by winter losses in January - February 2020.

E. Health insurance - the results were affected by capital market yields as described above.

   Personal lines long-term care - results in the Reporting Period were affected by a decrease of the risk-free interest rate curve, by changes in the difference between the fair value and book value of the non-marketable assets which led to an increase of the insurance liabilities. For additional information, see Section 2.5.2(C). Results in the corresponding period last year were affected by an increase of the risk-free interest rate curve and a decrease in the difference between the fair value and book value of the non-marketable assets which in turn increased the insurance liabilities.

   Additionally, the results in 2020 and in the Reporting Period were affected by an underwriting improvement due to changs in the structure of costs.

   Personal lines health - results in the Reporting Period were affected by an underwriting improvement in a product for accidental coverage due to a decrease in the number of claims paid.

F. Financial services segment - the results were affected by capital market yields as described above. Results in the corresponding period last year were affected by significant profit in market-making activity in the mutual funds, which was partially offset by recording a write-down for impairment which was recognized in the period in respect of portfolio management activity. For additional information, see Section 2.5.2(H).

2.5.2 Special effects on comprehensive income (loss) in the Reporting Period (NIS million):

| | Notes | for the period ended March 31 2021 | 2020 | Change | For the year ended December 31 2020 |
|---|---|---|---|---|---|
| Comprehensive income (loss) for the period as published in the financial statement | | 255 | (555) | 810 | 834 |
| **Life assurance and long-term savings** | | | | | |
| Effects of the interest rate | A | - | 92 | (92) | (61) |
| Revised TUR assumptions | B | - | - | - | 217 |
| **Health insurance** | | | | | |
| Review of LAT – personal lines LTC | C | (154) | (181) | 27 | (181)* |
| Revised assumptions for cancellations in personal lines health | D | - | - | - | (30) |
| Revised assumptions for cancellations in personal lines long-term care | E | - | - | - | (57)* |
| **Non-life insurance** | | | | | |
| Effects of the interest rate | F | (63) | 63 | (126) | 45 |
| Effect of the Supreme Court ruling regarding the discounting rate | G | - | - | - | 80 |
| **Financial services segment** | | | | | |
| Write-down of value of mutual fund activity | H | - | (5) | 5 | (10) |
| Total effects, before tax | | (217) | (31) | (186) | 3 |
| Effect of tax | | (74) | (11) | (63) | 1 |
| Total effects, after tax | | (143) | (20) | (123) | 2 |
| **Total comprehensive income (loss) after adjustment for special effects** | | 398 | (535) | 933 | 832 |

* Restated

A. In the corresponding period last year, the insurance liabilities decreased by NIS 92 million before tax due to an update of the interest rate applied in calculating the reserve for annuities in payment (a decrease of NIS 134 million before tax in the liabilities for policies that include a non-yield-dependent savings component from 2004, an increase of NIS 19 million before tax in the liabilities for policies that include a savings component until 1990, and an increase of NIS 23 million before tax in the insurance liabilities for policies that include a savings component until 2003).

In 2020, the insurance liabilities increased by NIS 61 million before tax due to an update of the interest rate applied in calculating the reserve for annuities in payment and to a revision of the interest rate applied in calculating the supplementary reserve for annuity (a decrease of NIS 134 million before tax in the liabilities for policies that include a non-yield-dependent savings component from 2004, an increase of NIS 145 million before tax in the liabilities for policies that include a savings component until 2003, and an increase of NIS 50 million before tax in the insurance liabilities for policies that include a savings component until 1990).

B. In 2020 the insurance liabilities decreased by NIS 217 million before tax as a result of completion of the study regarding the age of retirement and exercising of annuity integrated with the age-dependent model. For additional information, see Note 36E to the 2020 Financial Statements.

C. Health segment, personal lines long-term care - in the Reporting Period an increase of NIS 154 million was recorded in the insurance liabilities due to a decrease in the risk-free interest rate curve, to changes in the difference between the fair value and book value of the non-marketable assets and other changes.

In the corresponding period last year, an increase of NIS 181 million was recorded in the insurance liabilities in the personal lines long-term care sector, due to an increase in the risk-free interest rate curve, a decrease in the difference between the fair value and book value of non-marketable assets and other changes.

2020 was affected by changes in the risk-free interest rate curve, changes in the difference between the fair value and book value of the non-marketable assets, actuarial studies (see subsection E below) and other changes. The effect of the above changes was partially offset by the application of the circular on revised liquidity premium rates which are added to the risk-free interest rate curve (which in turn reduced the insurance liabilities by NIS 393 million before tax) and application of the provisions of the circular on the method of allocating assets not at their fair value when testing the adequacy of the reserve (LAT) (which in turn reduced the insurance liabilities by NIS 156 million). The overall effect of the foregoing is an increase of the insurance liabilities in the amount of NIS 181 million before tax. For additional information, see Note 3C(1)I to the 2020 annual financial statements.

D. In 2020, a study was conducted of the percentage of cancellations in the personal lines health insurance sector. Due to this study, an increase of NIS 30 million before tax was recorded in the insurance liabilities.

E. In 2020, a study was conducted of the percentage of cancellations in the personal lines long-term care sector. Due to this study, an increase of NIS 57 million before tax was recorded in the active life reserves and in contrast a reduction of NIS 76 million before tax was recorded in the LAT reserve (see also subsection C above). The overall effect of the foregoing is a reduction of the insurance liabilities by NIS 19 million before tax.

F. In the Reporting Period, the insurance liabilities increased by NIS 63 million before tax (NIS 33 million before tax in the compulsory motor sector and NIS 30 million before tax in the other liabilities sectors) as a result of the decrease of the risk-free interest rate curve and changes in the difference between the fair value and book value of the non-marketable assets.

In the corresponding period last year, the insurance liabilities decreased by NIS 63 million before tax (NIS 34 million before tax in the compulsory motor sector and NIS 29 million before tax in the liabilities and other sectors), due to an increase in the risk-free interest rate curve.

2020 was affected by changes in the risk-free interest rate curve, by changes in the difference between the fair value and book value of the non-marketable assets. The effect of the above changes was partially offset by the application of a circular on revised liquidity premium rates which are added to the risk-free interest rate curve (which in turn reduced the insurance liabilities by NIS 40 million before tax). The overall effect of the foregoing is a reduction of NIS 45 million before tax in the insurance liabilities (NIS 19 million before tax in the compulsory motor sector and NIS

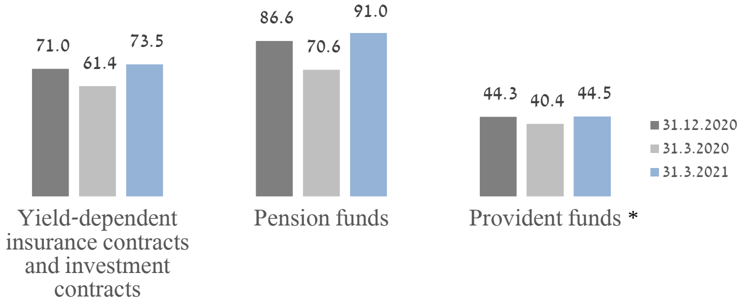
26 million before tax in the other liabilities sector). For additional information, see Note 3C(1)I to the 2020 annual financial statements.

G. 2020 was affected by the Supreme Court ruling regarding the discounting interest rate to apply to the National Insurance Institute in subrogation claims As a result of the court's decision, in the Reporting Period the insurance liabilities were reduced by NIS 80 million before tax (NIS 65 million before tax in the compulsory motor sector and NIS 15 million before tax in the other liabilities sector).

H. Results in the corresponding period last year and in 2020 were affected by a write-down of NIS 5 million before tax and NIS 10 million before tax, respectively in the value of portfolio management activity.

## 2.6 Other key information and effects by segment

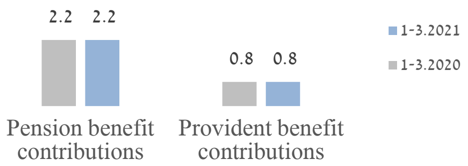
2.6.1 Assets managed for the Group's members and policyholders in the life assurance and long-term savings segment (NIS billion):




The assets managed by the provident funds and pension funds are not included in the Company's consolidated financial statements.

* Provident funds, education funds, central and personal severance pay funds, provident fund for sick pay, and a fund for non-contributory pension

2.6.2 Data on benefit contributions (NIS billion):

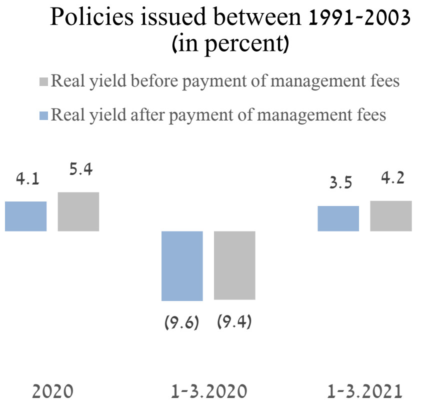


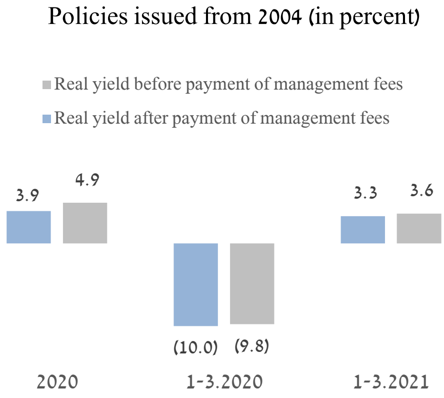

The benefit contributions in the provident funds and pension funds are not included in the Company's consolidated financial statements.

2.6.3 Life assurance:

Redemptions as a percentage of the average reserve in the Reporting Period amounted to 4.2%, compared with 3.7% in the corresponding period last year and 3.5% in 2020.

Yield-dependent policies:




Following is the estimated amount of investment profit (loss) and management fees included in the consolidated income statement, which were credited to or debited from insureds in yield-dependent policies, and are calculated according to the Commissioner's instructions, on the basis of the quarterly yield and balances of the average insurance reserves (NIS million):

| | **For the three months ended March 31** | | **For the year ended December 31** |
|---|---|---|---|
| | **2021** | **2020** | **2020** |
| Profit (loss) after management fees | 2,025 | (5,944) | 1,870 |
| Total management fees | 258 | 109 | 599 |

2.6.4 Pension funds:

The nominal yield attained by the new pension fund Harel Pension in the Reporting Period was a positive yield of 3.84%.

Total management fees collected from the pension funds managed by the Group amounted to NIS 84 million in the Reporting Period, compared with NIS 82 million in the corresponding period last year.

2.6.5 Provident funds:

The net accrual (excluding investment profit) in the provident funds in the Reporting Period was a negative NIS 1,037 million, as against positive accrual of NIS 616 million in the corresponding period last year.

Income from management fees collected from the pension funds managed by the Group amounted to NIS 62 million in the Reporting Period, similar to the corresponding period last year.

2.6.6 Health insurance:

Harel Insurance is the insurer in the group LTC policy for members of Clalit Health Services. In addition to the group LTC policy for members of Clalit Health Services, Harel provides long-term care insurance for several other groups.

In 2019 Harel Insurance announced that due to the conditions of the existing LTC policies, which in practice incorporate in their tariffs a guaranteed yield and which the Company is unable to commit to for long periods under present market conditions, and due to the fact that the reinsurers who were active in this sector have announced a discontinuation of their activity in this sector, it was decided to discontinue the sale of new personal lines LTC policies. Harel Insurance is in discussions with the Capital Market Authority to obtain approval to market new policies that are compatible with the current market situation.

2.6.7 Non-life insurance:

For information about additional financial data relating to the non-life insurance segment, by sector, see Note 4(B) to the Financial Statements.

Change in the quantity of policies in terms of exposure:

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | **2021** | **2020** | **2020** |
| **Compulsory motor** | 5% | 2% | 4% |
| **Motor property (CASCO)** | 11% | 9% | 10% |
| **Property and other branches** | 6% | (2%) | 2% |
| **Other liabilities branches** | (3%) | (3%) | (4%) |

Number of policies in terms of exposure - non-life insurance activity typically involves policies for a period of up to a year. In view of the nature of the policies, quantity is a multiple of the number of policies within the policy period during the year. In other words, if underwriting is carried out for a policy with a period of less than a year, it is multiplied by the relative part of the period so that a policy for six months is half a unit.

On September 30, 2020, Harel Insurance was informed that it had been awarded 35% of the tender published by the Accountant General for motor property insurance and compulsory motor insurance of state employees for 2021, similar to the period 2019-2020. The results of the tender are not expected to significantly affect the Company’s performance.

2.6.7.1 Compulsory motor

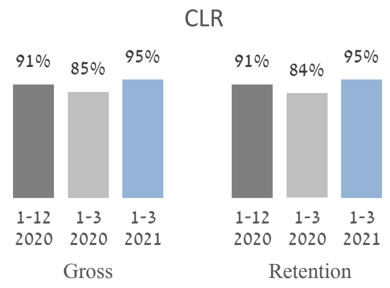
For additional information about the results for compulsory motor insurance, see Sections 2.5.1 and 2.5.2 above.

Given that car owners must insure their vehicles in accordance with the Motor Vehicle Insurance Ordinance, the owners of vehicles (usually motorcycles) who were rejected by the insurance companies may purchase insurance through the Pool (Israel pool for vehicle insurance), which operates as an insurance company to all intents and purposes. All the insurance companies which operate in the compulsory motor sector are partners in the Pool, and each company bears a share of the Pool's losses pro rata to its share of the compulsory motor insurance market for the previous year. A letter from the Pool’s CEO set the Company’s temporary share of Harel Insurance in the net premiums for 2021 at 10.7% (compared with 10.61% which was the Company’s final share for 2020).

2.6.7.2 Motor property

For information about results for the motor property sector, see Section 2.5.1 above.

Loss ratio (LR) and combined loss ratio (CLR) in motor property insurance:

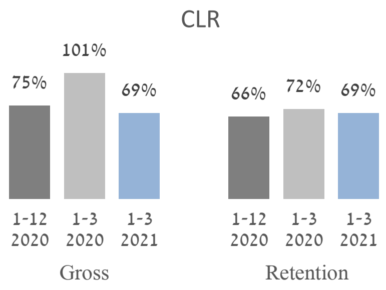


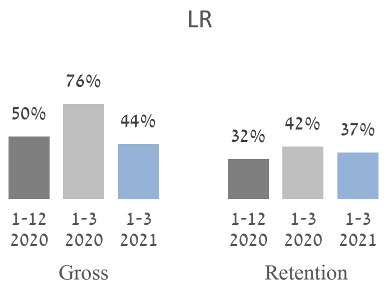


2.6.7.3 Property and other branches

For information about results for the motor property and other sector, see Section 2.5.1 above.

Loss Ratio and Combined Loss Ratio in property and other sectors:




2.6.7.4 Other liabilities branches

For information about the results for other liabilities sectors, see Sections 2.5.1 and 2.5.2 above.

2.6.7.5 Credit insurance for mortgages

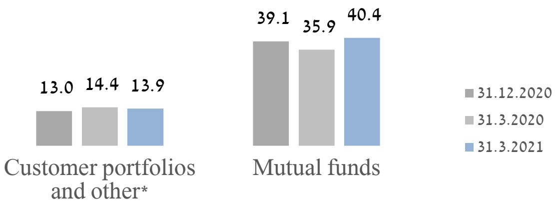
The premiums earned in credit insurance for residential mortgages are not for new sales, but in respect of sales made in the past and for which the premiums are recognized as earned premiums based on the period of coverage. EMI has no reinsurance agreements in this sector.

2.6.8 Insurance companies overseas

The Company is the controlling shareholder (with a 94% stake) in Interasco, an insurance company operating in Greece, and it also fully controls Turk Nippon - an insurance company which operates in Turkey (“insurance companies overseas”). The insurance companies overseas operate in the non-life insurance and health insurance sectors.

2.6.9 Capital market and financial services

Assets managed for the Group's members and policyholders (NIS billion):



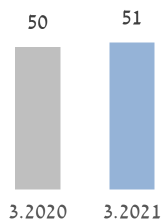

The assets managed in the customer portfolios include financial assets that were issued by the Group and are managed in the portfolios.

Revenues in the capital market and financial services segment amounted to NIS 58 million in the Reporting Period, as against

The assets managed in the mutual funds and in customer portfolios are not included in the Company's consolidated financial statements.

Mutual fund assets include mutual funds, ETFs and certificates of deposit (CDs)

Management fees in the financial services segment (NIS million):




## 2.7 Liquidity and sources of finance

2.7.1 Cash flows

Net cash flows used in operating activity were NIS 1,589 million in the Reporting Period. Net cash flows used in investment activity amounted to NIS 97 million. Net cash flows used in financing activity were NIS 115 million. The fluctuating exchange rates affected the cash balances by a positive NIS 109 million. The outcome of all the above activity is a decrease of NIS 1,692 million in the cash balances.

2.7.2 Liquidity of financing of operations

The Company and its subsidiaries generally finance their ongoing operations from their own sources.

While assessing the liquidity risk, it was found that the COVID-19 crisis did not significantly affect the Company’s liquidity, financial robustness and the sources of financing available to it.

## 2.8 Dividend

For information about a dividend in the amount of NIS 107 million, that was distributed in February 2021, and about a dividend in the amount of NISI 150 million that was distributed in April 2021, see Note 9 to the Financial Statements.

For information about approval of the dividend distribution policy, see Section 2.1.4 above.

# 3 Market risks - exposure and management

During the Reporting Period, there were no material changes in the Company's exposure to and management of market risks compared with the Periodic Report.

# 4 Corporate governance

## 4.1 Planned rotation of the CEO and Chairman of Harel Insurance

On a planned rotation of the CEO and Chairman of Harel Insurance, see Section 2.2.1 above.

## 4.2 External Directors

On January 7, 2021, Ms. Efrat Yavetz began to serve as an external director in the Company.

On January 18, 2021, Mr. Israel Gilad completed nine years of service as an external director in the Company.

# 5 Disclosure concerning the economic solvency ratio

On October 14, 2020, the Commissioner published Insurance Circular 2020-1-15 on "Amendment of the Consolidated Circular concerning Implementation of an Economic Solvency Regime for Insurance Companies Based on Solvency II" ("the New Solvency Circular"). The New Solvency Circular includes adjustments and updates made by the Capital Market, Insurance and Savings Authority ("the Authority") during the course of 2020 regarding Insurance Circular 2017-1-9 ("Solvency Circular"). The adjustments and updates in the New Solvency Circular were made further to relevant letters and drafts published during the course of 2020 and in view of the Authority's statement that it intends to work towards adapting the Economic Solvency Regime in Israel to the Solvency II directive and updates.

According to the New Solvency Circular, the transitional provisions were adapted to the format set out in the European Directive, with an option to gradually increase the reserves in respect of long-term insurance products that were sold in the past, through 2032. Based on the new transitional provisions, insurance companies may, after obtaining the Commissioner's approval, include in the calculation of the insurance reserves in the transitional period, a deduction from the insurance reserve ("the Deduction"). The Deduction is calculated in accordance with the instructions in the Deduction principles letter and it is gradually reduced from a rate of 100% on the calculation of the insurance reserves at December 31, 2019, to 0% on the calculation of the insurance reserves at December 31, 2032. This method of calculation for the transitional period replaces the previous method for the transitional period that was applied in prior periods, in which an insurance company's solvency capital requirement for the period commencing June 30, 2017 and ending December 31, 2024, will increase gradually by 5% each year, from 60% of the SCR until the full SCR is reached. The New Solvency Circular also includes updates based on changes that were made in Europe and are relevant to the Israeli market. The New Solvency Circular and the key changes therein were applied from the date of calculation of the economic solvency ratio as at December 31, 2019.

Based on the transitional provisions, the capital surplus of Harel Insurance at December 31, 2019, is NIS 6,309 million. In accordance with the directives, the economic solvency report as at December 31, 2019 was published on October 28, 2020.

The capital surplus of Harel Insurance as at December 31, 2019, before the transitional provisions (in terms of 100% SCR), is NIS 1,447 million.

Notably, the model in its current format is extremely sensitive to changes in market and other variables, such as changes in the interest rate, changes in investment profits, revised actuarial assumptions and changes relating to the activity of Harel Insurance.

Calculations of the present economic capital and required capital are based on forecasts and assumptions that rely principally on past experience, and they do not necessarily reflect future performance.

The Best Estimate was determined on the basis of forecasts, assessments and estimates of future events, the materialization of which is uncertain and that are beyond the Company's control, and they should be treated as "forward looking information", according to its definition in Section 32A of the Securities Law, 1968. It is possible that all or part of these forecasts, assessments and estimates will not materialize or they may materialize differently from the manner assumed in calculating the Solvency Report. Actual performance may therefore differ from the forecast.

Hereunder is information about the solvency ratio and minimum capital requirement (MCR) at December 31, 2019, based on the directives in the New Solvency circular. The economic solvency ratio is calculated in accordance with the transitional provisions which prescribe the transitional period. Under the New Solvency Circular, the transitional provisions were adapted to the format set out in the Directive, according to which the reserves in respect of long-term insurance products that were sold in the past, may be increased gradually. Accordingly, Harel Insurance adopted a new method correct for the calculation at December 31, 2019, which differs from the method of calculation applied in the calculation at December 31, 2018. The different items presented in the table above therefore cannot be compared (the different methods are detailed in Section 1.B.A of the Solvency Report:

**A. Economic solvency ratio**

| | As at December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | (Audited) | |
| Equity (own funds) required for the purpose of solvency (NIS million) | **15,370** | 11,551 |
| Solvency Capital Requirement (NIS million) | **9,061** | 6,663 |
| Surplus (NIS million) | **6,309** | 4,888 |
| Economic solvency ratio | **170%** | 173% |
| **Effect of material capital transactions that took place in the period between the date of the calculation and the publication date of the economic solvency ratio report:** | | |
| Raising of capital instruments (*) | **-** | 343 |
| Equity (own funds) required for the purpose of solvency (NIS million) | **15,370** | 11,894 |
| Surplus (NIS million) | **6,309** | 5,231 |
| Economic solvency ratio | **170%** | 179% |

(*) In May 2020, early redemption of Series 4 bonds was performed in the amount of NIS 217 million. This redemption does not affect the recognized tier-2 capital given that there is an unutilized tier-2 balance over and above the limit for tier-2 capital.

The Company's capital position is influenced by its ongoing business developments, changes in market variables, revised demographic assumptions and ongoing model updates as well as an update of the Solvency directives relating to the transitional period.

Due to the fact these assessments are preliminary, there is no certainty regarding the actual extent of the aforementioned changes. Additionally, the foregoing is not intended to be an estimate of the solvency ratio at the date of publication of the report, which depends on the developments that may occur up to this date, as well as a range of other factors which cannot be estimated at this stage, including the effect of the business activity of Harel Insurance after December 31, 2019, changes in the mix and size of the investments and insurance liabilities as well as regulatory changes that affect the business environment.

At this stage, the Company is unable to estimate the intensity of these effects on the solvency ratio, which might be significant. Nonetheless, at the date of publication, the Company believes that these effects are not expected to affect its compliance with the regulatory capital requirements, taking the transitional provisions into account.

For information about the solvency ratio without application of the transitional provisions to the transitional period and without adjustment for equity risk and regarding the capital surplus target and limitations that apply to the Company with respect to distribution of a dividend, see Section C below.

## B. Minimum Capital Requirement (MCR)

| | As at December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | **(Audited)** | |
| | **NIS million** | |
| MCR | **2,272** | 2,173 |
| Own funds for the purpose of MCR | **11,294** | 8,654 |

On October 28, 2020, in accordance with the Commissioner's instructions, Harel Insurance published on its website a report on its economic solvency ratio in respect of data at December 31, 2019: https://www.harel-group.co.il/about/harel-group/harel/investor-relations/Pages/repayment-ability.aspx .

In accordance with the Solvency Directives, insurance companies must publish their solvency results at December 31, 2020 up to two months from the end of the quarter following the date of the calculation or up to 3 business days from the date of signing the financial statements for the quarter following the date of the calculation, whichever is earlier. On March 14, 2021, the Commissioner sent a letter to the insurance company directors postponing the date of publication of the economic solvency report at December 31, 2020 as well as the attached reporting files to be submitted to the Commissioner, to June 30, 2021. The Company is preparing to perform the calculations and the reporting in accordance with the defined time schedule.

On May 13, 2021, a letter was published for insurance company executives (Capital Market 2021-532) concerning a second update to the questions and answers file on the application and disclosure of an economic solvency regime for insurance companies. According to the update, questions and answers for the application and disclosure of an economic solvency regime for insurance companies were revised as a result of questions received by the Capital Market, Insurance and Savings Authority regarding the method of applying Insurance Circular 2020-1-15 which concerns “Amendment of the Consolidated Circular regarding the provisions for implementing an economic solvency ratio for insurance companies based on Solvency II”, as well Capital Markets letter 2020-2261) concerning the principles for calculating a deduction for the transitional period in an economic solvency ratio regime based on Solvency II. Harel Insurance is studying the updates in the letter but at this stage it is unable to estimate the full impact of these effects on the solvency ratio. The Company will apply the updates based on the time frame in the letter.

The New Solvency Circular required a reassessment of the capital management policy of Harel Insurance, which is described in Section 8 of the Economic Solvency Report.

It is Harel Insurance’s policy to hold a robust capital base to guarantee its solvency and its ability to meet its commitments towards its insureds, to ensure that it is capable of continuing its business activity and so that it can provide a return for its shareholders. At this stage, for reasons of caution, taking note of the strong sensitivity of the new calculation model to regulatory changes and other variables, and in the absence of adequate experience regarding the future pattern of development of the required capital and risk margin, the Board of Directors of Harel Insurance resolved not to determine a target range for the economic solvency ratio. The Board of Directors of Harel Insurance will, in future, examine the need to determine capital targets and a target range which it hopes to remain within during and after the transitional period.

Nevertheless, on November 30, 2020, the Board of Directors of Harel Insurance approved a revised capital management plan and at this stage, threshold conditions were determined for a dividend distribution, which include a minimum economic solvency ratio of 135%, taking the transitional provisions into account, and a minimum solvency ratio without taking the transitional provisions into account, of 105%.

The threshold conditions are intended to allow Harel Insurance to cope with crises without significantly compromising its operations and its compliance with the applicable capital requirements. Nonetheless, the foregoing will not guarantee that Harel Insurance will be in compliance with the defined threshold conditions at all times.

**C. Without applying the transitional provisions to the transitional period and without adjustment for equity risk:**

| | As at December 31 | |
|---|---|---|
| | **2019** | **2018** |
| | (Audited) | |
| Equity (own funds) required for the purpose of solvency (NIS million) | **12,423** | 11,852 |
| Solvency capital requirement (SCR) | **10,976** | 9,940 |
| Surplus (NIS million) | **1,447** | 1,912 |
| Economic solvency ratio | **113%** | 119% |
| **Effect of material capital transactions that took place in the period between the date of the calculation and the publication date of the economic solvency ratio report:** | | |
| Raising of capital instruments | **-** | 343 |
| Equity (own funds) required for the purpose of solvency (NIS million) | **12,423** | 12,195 |
| Surplus (NIS million) | **1,447** | 2,256 |
| Economic solvency ratio | **113%** | 123% |
| **Capital status after capital transactions in relation to the Board of Directors target:** | | |
| Economic solvency ratio target of the Board of Directors (NIS million) (*) | **11,839** | 10,745 |
| Capital surplus in relation to the target (NIS million) | **584** | 1,450 |

(*) Including a capital buffer of NIS 863 million, over and above the solvency capital requirement (SCR)

**The Board of Directors wishes to express its thanks to the Group's employees and agents for its achievements**

| Yair Hamburger | Michel Siboni |
|---|---|
| Chairman of the Board of Directors | CEO |

May 30, 2021

# HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### As at March 31, 2021

## Condensed consolidated interim statements of financial position at

| | 31 March | | December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| **Assets** | | | |
| Intangible assets | **1,837** | 1,728 | 1,810 |
| Deferred tax assets | **9** | 16 | 9 |
| Deferred Acquisition Costs | **2,597** | 2,551 | 2,513 |
| Fixed assets | **1,368** | 1,401 | 1,380 |
| Investments in equity accounted investees | **1,314** | 1,438 | 1,245 |
| Investment property for yield-dependent contracts | **1,814** | 1,766 | 1,802 |
| Other investment property | **2,071** | 2,094 | 2,060 |
| Reinsurance assets | **4,453** | 4,275 | 4,340 |
| Current tax assets | **74** | 6 | 6 |
| Trade and other receivables | **1,387** | 1,411 | 1,246 |
| Premium due | **1,529** | 1,540 | 1,345 |
| Financial investments for yield-dependent contracts | **67,701** | 55,259 | 64,607 |
| **Other financial investments** | | | |
| Marketable debt assets | **11,625** | 10,667 | 11,067 |
| Non-marketable debt assets | **15,731** | 15,320 | 15,075 |
| Shares | **1,697** | 1,462 | 1,630 |
| Other | **3,091** | 2,567 | 3,238 |
| **Total other financial investments** | **32,144** | 30,016 | 31,010 |
| Cash and cash equivalents for yield-dependent contracts | **2,602** | 3,343 | 3,452 |
| Other cash and cash equivalents | **2,079** | 1,820 | 2,921 |
| **Total assets** | **122,979** | 108,664 | 119,746 |
| **Total assets for yield-dependent contracts** | **73,471** | 61,428 | 71,009 |

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

## Condensed consolidated interim statements of financial position at (Contd.)

| | 31 March | | December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital and share premium | **359** | 359 | 359 |
| Treasury stock | **(123)** | (123) | (123) |
| Capital reserves | **1,075** | 538 | 1,061 |
| Retained earnings | **6,421** | 5,573 | 6,438 |
| **Total equity attributed to shareholders of the Company** | **7,732** | 6,347 | 7,735 |
| Non-controlling interests | **31** | 18 | 19 |
| **Total equity** | **7,763** | 6,365 | 7,754 |
| **Liabilities** | | | |
| Liabilities for non-yield-dependent insurance contracts and investment contracts | **29,067** | 28,984 | 28,417 |
| Liabilities for yield-dependent insurance contracts and investment contracts | **72,773** | 60,570 | 70,302 |
| Deferred tax liabilities | **1,208** | 886 | 1,200 |
| Liabilities for employee benefits, net | **274** | 268 | 265 |
| Current tax liabilities | **15** | 51 | 99 |
| Trade and other payables | **3,694** | 3,347 | 3,915 |
| Financial liabilities | **8,185** | 8,193 | 7,794 |
| **Total liabilities** | **115,216** | 102,299 | 111,992 |
| **Total equity and liabilities** | **122,979** | 108,664 | 119,746 |

| Yair Hamburger | Michel Siboni | Arik Peretz |
|---|---|---|
| Chairman of the Board of Directors | CEO | CFO |

Date of approval of the financial statements: May 30, 2021

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

## Condensed Consolidated Interim Statements of Income

| | For the three months ended March 31 | | For the year ended |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Premiums earned, gross | **3,671** | 3,947 | 14,951 |
| Premiums earned by reinsurers | **432** | 413 | 1,675 |
| **Earned premiums in retention** | **3,239** | 3,534 | 13,276 |
| Profit (Loss) from investments, net, and financing income | **2,995** | (6,412) | 3,725 |
| Income from management fees | **457** | 304 | 1,384 |
| Income from commissions | **83** | 85 | 312 |
| **Total income (expenses)** | **6,774** | (2,489) | 18,697 |
| Payments and changes in liabilities for insurance contracts and investment contracts, gross | **5,784** | (3,010) | 14,916 |
| Reinsurers' share of payments and change in liabilities for insurance contracts | **356** | 314 | 1,312 |
| Payments and changes in liabilities for insurance contracts and investment contracts in retention | **5,428** | (3,324) | 13,604 |
| Commissions, marketing expenses and other acquisition costs | **652** | 686 | 2,685 |
| General and administrative expenses | **310** | 306 | 1,206 |
| Other expenses | **1** | 9 | 25 |
| Financing expenses, net | **70** | 54 | 169 |
| **Total expenses (income)** | **6,461** | (2,269) | 17,689 |
| Company's share of profits of equity accounted investees | **20** | 4 | 13 |
| **Profit (loss) before taxes on income** | **333** | (216) | 1,021 |
| Income tax (tax benefit) | **89** | (81) | 296 |
| **Profit (Loss) for period** | **244** | (135) | 725 |
| **Attributed to:** | | | |
| Shareholders of the Company | **243** | (135) | 724 |
| Non-controlling interests | **1** | -* | 1 |
| **Profit (loss) for the period** | **244** | (135) | 725 |
| **Basic and diluted earnings (loss) per share (in NIS)** | **1.13** | (0.63) | 3.38 |

* Less than NIS 1 million

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof

## Condensed Consolidated Interim Statements of Comprehensive Income

| | For the three months ended March 31 | | For the year ended |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| **Profit (loss) for the period** | **244** | (135) | 725 |
| **Other items of comprehensive income (loss) that after initial recognition as part of comprehensive income were or will be transferred to profit or loss** | | | |
| Net change in the fair value of financial assets classified as available-for-sale | **161** | (714) | 356 |
| Net change in fair value of financial assets classified as available-for-sale transferred to income statement | **(176)** | (41) | (297) |
| Loss from impairment of available-for-sale financial assets transferred to income statement | **8** | 88 | 148 |
| Foreign currency translation differences for foreign activity | **17** | 20 | (61) |
| Tax benefit (income tax) attributable to available-for-sale financial assets | **7** | 226 | (79) |
| Tax benefit for items of other comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss | **(6)** | (6) | 12 |
| **Total other comprehensive income (loss) for the period that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax** | **11** | (427) | 79 |
| **Other items of comprehensive income (loss) that will not be transferred to profit or loss** | | | |
| Revaluation reserve for fixed asset items | **4** | 10 | 34 |
| Re-measurement of a defined benefit plan | **(5)** | (1) | 7 |
| Tax benefit (income tax) for other items of comprehensive income that will not be transferred to profit or loss | **1** | (2) | (11) |
| **Other comprehensive income for the period that will not be transferred to profit or loss, net of tax** | **-** | 7 | 30 |
| **Total other comprehensive income (loss) for period** | **11** | (420) | 109 |
| **Total comprehensive income (loss) for period** | **255** | (555) | 834 |
| **Attributed to:** | | | |
| Shareholders of the Company | **254** | (555) | 833 |
| Non-controlling interests | **1** | -* | 1 |
| **Total comprehensive income (loss) for period** | **255** | (555) | 834 |

* Less than NIS 1 million

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

## Condensed consolidated interim statements of changes in equity

| | Attributed to shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Capital reserve for available-for-sale assets | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury stock | Capital reserve for transactions with non-controlling interests | Capital reserve for revaluation of fixed assets | Retained earnings | Total | Non-controlling interests | Total equity |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| **For the three months ended March 31, 2021 (Unaudited)** | | | | | | | | | | | |
| **Balance as at January 1, 2021** | 359 | 1,003 | (194) | 1 | (123) | (49) | 300 | 6,438 | 7,735 | 19 | 7,754 |
| **Comprehensive income (loss) for period** | | | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 243 | 243 | 1 | 244 |
| Other comprehensive income (loss) | - | - | 11 | - | - | - | 3 | (3) | 11 | -* | 11 |
| **Total comprehensive income for period** | - | - | 11 | - | - | - | 3 | 240 | 254 | 1 | 255 |
| **Transactions with shareholders recognized directly in equity** | | | | | | | | | | | |
| Dividend distributed | - | - | - | - | - | - | - | (257) | (257) | - | (257) |
| Non-controlling interests in a newly established consolidated subsidiary (see note 9(2)) | - | - | - | - | - | - | - | - | - | 11 | 11 |
| **Balance as at March 31, 2021** | 359 | 1,003 | (183) | 1 | (123) | (49) | 303 | 6,421 | 7,732 | 31 | 7,763 |

* Less than NIS 1 million

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

## Condensed consolidated interim statements of changes in equity (Contd.)

| | Attributed to shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Capital reserve for available-for-sale assets | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury stock | Capital reserve for transactions with non-controlling interests | Capital reserve for revaluation of fixed assets | Retained earnings | Total | Non-controlling interests | Total equity |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| **For the three months ended March 31, 2020 (Unaudited)** | | | | | | | | | | | |
| **Balance as at January 1, 2020** | 359 | 875 | (145) | 1 | (123) | (49) | 275 | 5,709 | 6,902 | 18 | 6,920 |
| **Comprehensive income (loss) for period** | | | | | | | | | | | |
| Loss for the period | - | - | - | - | - | - | - | (135) | (135) | -* | (135) |
| Other comprehensive income (loss) | - | (441) | 14 | - | - | - | 8 | (1) | (420) | -* | (420) |
| **Total comprehensive income (loss) for period** | - | (441) | 14 | - | - | - | 8 | (136) | (555) | -* | (555) |
| **Balance as at March 31, 2020** | 359 | 434 | (131) | 1 | (123) | (49) | 283 | 5,573 | 6,347 | 18 | 6,365 |

* Less than NIS 1 million

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

## Condensed consolidated interim statements of changes in equity (Contd.)

| | Attributed to shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital and premium | Capital reserve for available-for-sale assets | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury stock | Capital reserve for transactions with non-controlling interests | Capital reserve for revaluation of fixed assets | Retained earnings | Total | Non-controlling interests | Total equity |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| **For the year ended December 31, 2020 (Audited)** | | | | | | | | | | | |
| **Balance as at January 1, 2020** | 359 | 875 | (145) | 1 | (123) | (49) | 275 | 5,709 | 6,902 | 18 | 6,920 |
| **Comprehensive income (loss) for year** | | | | | | | | | | | |
| Profit for year | - | - | - | - | - | - | - | 724 | 724 | 1 | 725 |
| Other comprehensive income (loss) | - | 128 | (49) | - | - | - | 25 | 5 | 109 | -* | 109 |
| **Total comprehensive income (loss) for year** | - | 128 | (49) | - | - | - | 25 | 729 | 833 | 1 | 834 |
| **Balance as at December 31, 2020** | 359 | 1,003 | (194) | 1 | (123) | (49) | 300 | 6,438 | 7,735 | 19 | 7,754 |

* Less than NIS 1 million

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

## Condensed consolidated interim statements of cash flows

| | | For the three months ended March 31 | | For the year ended |
|---|---|---|---|---|
| | | 2021 | 2020 | 2020 |
| | | (Unaudited) | (Unaudited) | (Audited) |
| | Annex | NIS million | NIS million | NIS million |
| **Cash flows from operating activity** | | | | |
| Before taxes on income | A | (1,352) | 275 | 1,704 |
| Income tax received (paid) | | (237) | 10 | (291) |
| **Net cash provided by (used in) operating activities** | | (1,589) | 285 | 1,413 |
| **Cash flows from investment activity** | | | | |
| Investment in investees | | (30) | (5) | (28) |
| Proceeds from the sale of an investment in an equity accounted investee | | 11 | 25 | 69 |
| Investment in fixed assets | | (12) | (22) | (44) |
| Investment in intangible assets | | (70) | (79) | (303) |
| Dividend and interest from an investee | | 3 | 3 | 102 |
| Proceeds from sale of fixed assets and intangible assets | | 1 | - | 1 |
| **Net cash used for investment activity** | | (97) | (78) | (203) |
| **Cash flows from financing activity** | | | | |
| Proceeds of issuance of liability notes, net | | - | - | 395 |
| Repayment of liability notes | | - | - | (247) |
| Short-term credit from banks, net | | - | 1 | - |
| Repayment of loans from banks and others | | - | - | (77) |
| Repayment of lease liabilities | | (8) | (9) | (36) |
| Dividend paid to the Company's shareholders | | (107) | - | - |
| **Net cash provided by (used in) financing activity** | | (115) | (8) | 35 |
| **Effect of exchange rate fluctuations on cash balances and cash equivalents** | | 109 | 11 | 175 |
| **Increase in cash and cash equivalents** | | (1,692) | 210 | 1,420 |
| **Retained cash and cash equivalents at beginning of the period** | B | 6,373 | 4,953 | 4,953 |
| **Retained cash and cash equivalents at end of the period** | C | 4,681 | 5,163 | 6,373 |

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

## Condensed consolidated interim statements of cash flows (contd.)

| | For the three months ended March 31 | | For the year ended |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| **Annex A - Cash flows from operating activities** | | | |
| Profit (loss) for the period | **244** | (135) | 725 |
| **Items that do not involve cash flows:** | | | |
| Company's share of profits of equity accounted investees | **(20)** | (4) | (13) |
| Net losses (profits) from financial investments for yield-dependent insurance contracts and investment contracts | **(2,190)** | 6,504 | (2,115) |
| Net losses (profits) from other financial investments | | | |
| Marketable debt assets | **(82)** | 38 | (14) |
| Non-marketable debt assets | **(42)** | 35 | 107 |
| Shares | **(112)** | 75 | (119) |
| Other investments | **(49)** | 253 | (288) |
| Change in financial liabilities | **518** | 359 | (956) |
| Change in fair value of investment property for yield-dependent contracts | **(3)** | 6 | 14 |
| Change in fair value of other investment property | **(6)** | (35) | 14 |
| Depreciation and amortization | | | |
| Fixed assets | **29** | 23 | 111 |
| Intangible assets | **43** | 36* | 178* |
| Change in liabilities for non-yield-dependent insurance contracts and investment contracts | **686** | 403 | (70) |
| Change in liabilities for yield-dependent insurance contracts and investment contracts | **2,471** | (5,969) | 3,763 |
| Change in reinsurance assets | **(120)** | (3) | (85) |
| Change in DAC | **(86)** | (59) | (28) |
| Income tax expenses (income) | **89** | (81) | 296 |
| **Changes in other statement of financial position items:** | | | |
| Financial investments and investment property for yield-dependent insurance contracts and investment contracts | | | |
| Purchase of investment property | **(9)** | (3) | (47) |
| Net acquisitions of financial investments | **(1,113)** | (22) | (1,058) |
| Other financial investments and investment property | | | |
| Purchase of investment property | **(5)** | (1) | (16) |
| Net sales (acquisitions) of financial investments | **(1,004)** | (696) | 1,213 |
| Premiums due | **(190)** | (120) | 58 |
| Trade and other receivables | **-** | 56 | (212) |
| Trade and other payables | **(400)** | (370) | 255 |
| Liabilities for employee benefits, net | **(1)** | (15) | (9) |
| **Total adjustments required to present cash flows from operating activities** | **(1,596)** | 410 | 979 |
| **Total cash flows from (used for) operating activity** | **(1,352)** | 275 | 1,704 |

* Including write-down of goodwill and branding in respect of portfolio management activity in the amount of NIS 5 million and NIS 10 million in the three months ended March 31, 2020 and for year ended December 31, 2020, respectively

(1) Cash flows from operating activities include the purchase and sale, net, of financial investments and investment property, attributable to activity for insurance contracts and investment contracts

(2) As part of the operating activities, interest received in the amount of NIS 115 million was presented (for the three months ended March 31, 2020, an amount of NIS 216 million, and for 2020 as a whole, NIS 743 million) and interest paid in the amount of NIS 0.5 million (for the three months ended March 31, 2020, an amount of NIS 1 million and for 2020 as a whole, NIS 179 million)

(3) As part of the operating activities, a dividend received from other financial investments was presented in the amount of NIS 53 million (for the three months ended March 31, 2020 an amount of NIS 59 million and for 2020 as a whole, NIS 26 million)

The Notes accompanying the condensed consolidated interim financial statements are an integral part thereof

## Condensed consolidated interim statements of cash flows (contd.)

| | For the three months ended March 31 | | For the year ended |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| **Annex B - Cash and cash equivalents at beginning of period** | | | |
| Cash and cash equivalents for yield-dependent contracts | **3,452** | 2,897 | 2,897 |
| Other cash and cash equivalents | **2,921** | 2,056 | 2,056 |
| Retained cash and cash equivalents at beginning of the period | **6,373** | 4,953 | 4,953 |
| **Annex C - Cash and cash equivalents at end of period** | | | |
| Cash and cash equivalents for yield-dependent contracts | **2,602** | 3,343 | 3,452 |
| Other cash and cash equivalents | **2,079** | 1,820 | 2,921 |
| Retained cash and cash equivalents at end of the period | **4,681** | 5,163 | 6,373 |

The notes accompanying the condensed consolidated interim financial statements are an integral part thereof.

## Note 1 - General

### A. The reporting entity

Harel Insurance Investments and Financial Services Ltd. ("the Company") is an Israeli resident company, which was incorporated in Israel, and whose shares are traded on the Tel Aviv Stock Exchange. The Company's official address is 3 Abba Hillel Silver Street, Ramat Gan.

The Company is a holding company whose main holdings are in subsidiaries comprising insurance and finance companies. The condensed consolidated interim financial statements, as at March 31, 2021, include those of the Company and its consolidated subsidiaries ("the Group"), the Company's rights in jointly controlled entities and the Group's rights in affiliated companies.

The condensed consolidated interim financial statements mainly reflect the assets, liabilities and operations of the consolidated insurance companies and were therefore prepared in a format similar to the format used for preparing interim financial statements of insurance companies.

### B. Outbreak of the COVID-19 pandemic

As a result of the outbreak of COVID-19 at the beginning of 2020 (“the COVID-19 crisis”) which affected many countries, Israel included, the volume of economic activity dropped sharply and restrictions were imposed on movement and employment in many parts of the world and in Israel.

Notwithstanding the successful process of vaccinating the population and the return to almost normal routine, the Company believes that the COVID-19 crisis is an evolving event and there is no certainty regarding its conclusion and the extent of its impact on the Group’s assets and performance, particularly while additional outbreaks of the virus and its variants in the future cannot be ruled out.

# Note 2 - Basis of preparation

### A. Statement of compliance with International Financial Reporting Standards

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 - Financial Reporting for Interim Periods and in accordance with the requirements of the Pronouncements issued by the Commissioner of the Capital Market, Insurance and Savings ("the Commissioner") and in accordance with the Supervision of Financial Services (Insurance) Law, 1981 ("the Supervision Law"), and they do not include all the information required in full annual financial statements. They should be read them together with the financial statements as at and for the year ended December 31, 2020 ("the Annual Financial Statements"). Moreover, condensed consolidated interim financial statements were prepared in accordance with the provisions of Chapter D of the Securities (Periodic and Immediate Reports) Regulations, 1970, insofar as these regulations apply to a company that consolidates insurance companies.

The condensed consolidated interim financial statements were approved for publication by the Company's Board of Directors on May 30, 2021.

### B. Use of estimates and discretion

Preparation of the condensed consolidated interim financial statements in accordance with IAS 34 and in accordance with the Supervision Law and subsequent regulations requires the Group's management to use its discretion in evaluations, estimates and assumptions, including actuarial assumptions and estimates ("Estimates") which affect application of the accounting policy, the value of assets and liabilities, and amounts of revenues and expenses. It should be clarified that actual results are liable to be different from these estimates. The main estimates included in the financial statements are based on actuarial assessments and external evaluations.

When formulating the accounting estimates used in the preparation of the Group's financial statements, the Company's management is required to make assumptions regarding circumstances and events which involve considerable uncertainty. In applying its discretion in determining the estimates, the Company's management bases itself on past experience, various facts, external factors, and reasonable assumptions, including future expectations, to the extent that they can be assessed, based on the appropriate circumstances for each estimate.

The estimates and their underlying assumptions are reviewed on a current basis. Changes in accounting estimates are recognized during the period in which the estimates were amended and in every future affected period.

The assessments and discretion that management uses to apply the accounting policy in preparing the condensed consolidated interim financial statements are mainly consistent with those used in the preparation of the annual financial statements.

### C. Functional and presentation currency

The condensed interim consolidated financial statements are presented in New Israel Shekels (NIS), which is the Company’s functional currency. The financial information is presented in NIS million and rounded to the nearest million.

### D. Reclassification

In some sections of the financial statements and some of the Notes, insignificant reclassifications of comparative figures were made. These reclassifications did not have any effect on the Company’s equity and/or on profit or loss and/or comprehensive income.

## Note 3 - Significant accounting policies

The Group's accounting policies in these condensed consolidated interim financial statements are the policies applied in the annual financial statements.

**A. New standards not yet adopted**

Information about new accounting standards and amendments to accounting standards that have been published but have not yet been applied in the Company's financial reports appears in the annual reports. Since the publication of the annual reports, no new accounting standards or amendments to accounting standards have been published that are relevant to the Company's financial reports.

**B. Seasonality**

1. Life assurance, health insurance and financial services

   The revenues from life and health insurance premiums are not characterized by seasonality. Nevertheless, due to the fact that the deposits for life assurance enjoy tax benefits, a considerable part of new sales takes place mainly at the end of the year. The revenues from the finance services segment are not characterized by seasonality.

2. Non-life insurance

   The turnover of revenues from premiums gross in non-life insurance is characterized by seasonality, stemming mainly from motor insurance of various groups of employees and vehicle fleets of businesses, where the date of renewal is generally in January, and from various policies of businesses where the renewal dates are generally in January or in April. The effect of this seasonality on reported profit is neutralized through the provision for unearned premiums.

   The components of other expenses such as claims, and the components of other revenues such as revenues from investments do not have a distinct seasonality and there is therefore no distinct seasonality in profit.

## Note 4 - Operating segments

The note on Operating Segments includes several segments that constitute strategic business units of the Group. The strategic business units include different products and services and the allocation of resources and evaluation of performance are managed separately. The basic products in each segment are similar in principal with respect to their significance, the way they are distributed, the mix of customers, nature of the regulatory environment and also long-term demographic and economic features that are derived from exposure with features similar to insurance risks. Likewise, the results of the portfolio of investments held against insurance liabilities may significantly affect profitability.

Segment performance is measured based on the profits of the segments before taxes on income. The results of inter-company transactions are eliminated in the framework of the adjustments for preparation of the condensed consolidated interim financial statements. The Group operates in the following segments:

**1. Life assurance and long-term savings**

This segment includes the Group's insurance activities in the life assurance branches and the Group's operations in managing pension and provident funds.

**2. Health insurance**

This segment includes the Group’s insurance activities in the illness and hospitalization branches, personal accident, long-term care, foreign workers, travel insurance and dental insurance. The policies sold in the framework of these insurance branches cover the range of losses incurred by the insured as a result of illness and/or accidents, including long-term care and dental treatments. Health insurance policies are offered to individuals and to groups.

**3. Non-life insurance**

This segment comprises five sub-segments:

**Motor property (Casco):** includes the Group's activities in the sale of insurance policies in the motor vehicle insurance branch ("motor property"), which covers loss sustained by a vehicle owner due to an accident, and/or theft and/or liability of the vehicle owner or the driver for property damage caused to a third party in an accident.

**Compulsory motor:** includes the Group's activities in the insurance sector pursuant to the requirements of the Motorized Vehicle Insurance Ordinance (New Version) - 1970 ("compulsory motor"), which covers corporal damage resulting from the use of a motor vehicle under the Compensation for Road Accident Victims Law, 1975.

**Other liabilities branches:** includes the Group's activities in the sale of policies covering the insured’s liability to a third party (excluding cover for liabilities in the compulsory motor sector, as described above). This includes, inter alia, the following insurance branches: employers’ liability, third-party liability, professional liability, directors' and officers' liability (D&O), and insurance against liability for defective products.

**Property and other branches**: this sector includes the Group's insurance activities in all property branches excluding motor property (e.g. liabilities, homeowners, etc.).

**Mortgage insurance business**: this sector includes the Group's insurance activities in the residential mortgage credit branch (monoline branch). The purpose of this insurance is to provide indemnity for loss caused as a result of non-payment of loans (default) given against a first mortgage on a single real estate property for residential purposes only, and after disposing of the property that serves as collateral for the loans.

**4. Insurance companies overseas**

The overseas segment consists of the activity of Interasco and Turk Nippon, insurance companies abroad that are wholly owned by the Company.

# Note 4 - Operating segments (Contd.)

### 5. Financial services

The Group's activities in the capital and financial services market take place through Harel Finance. Harel Finance is engaged through companies controlled by it, in the following activities:

- Management of mutual funds.
- Management of securities for private customers, corporations, and institutional customers in the capital markets in Israel and abroad.

### 6. Not attributed to operating segments and other

Activities that are not attributed to operating segments include mainly activities of insurance agencies and of capital activities by the consolidated insurance companies.

# Note 4 - Operating segments (Contd.)

## A. Information about reportable segments

| | For the three months ended March 31, 2021 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life Assurance and Long-Term Savings | Health Insurance | Non-life insurance | Insurance companies overseas | Financial Services | Not attributed to operating segments and other | Adjustments and Offsets | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Premiums earned, gross | 1,446 | 1,282 | 826 | 118 | - | - | (1) | 3,671 |
| Premiums earned by reinsurers | 43 | 72 | 296 | 22 | - | - | (1) | 432 |
| Earned premiums - retention | 1,403 | 1,210 | 530 | 96 | - | - | - | 3,239 |
| Profit from investments, net, and financing income | 2,448 | 262 | 107 | 12 | 7 | *160 | (1) | 2,995 |
| Income from management fees | 404 | 1 | - | - | 51 | 1 | - | 457 |
| Income from commissions | 9 | 4 | 59 | 4 | - | **25 | (18) | 83 |
| **Total income** | 4,264 | 1,477 | 696 | 112 | 58 | 186 | (19) | 6,774 |
| Payments and changes in liabilities for insurance contracts and investment contracts, gross | 3,633 | 1,370 | 690 | 92 | - | - | (1) | 5,784 |
| Reinsurers' share in payments and changes in liabilities for insurance contracts | 32 | 109 | 201 | 15 | - | - | (1) | 356 |
| Payments and changes in liabilities for insurance contracts and investment contracts, in retention | 3,601 | 1,261 | 489 | 77 | - | - | - | 5,428 |
| Commission, marketing and other acquisition costs | 255 | 227 | 161 | 25 | - | ***1 | (17) | 652 |
| General and administrative expenses | 158 | 76 | 9 | 7 | 39 | ****22 | (1) | 310 |
| Other expenses | - | - | - | 1 | 1 | - | (1) | 1 |
| Financing expenses, net | 3 | 7 | 16 | - | 1 | 43 | - | 70 |
| **Total expenses** | 4,017 | 1,571 | 675 | 110 | 41 | 66 | (19) | 6,461 |
| Company's share of profits of equity accounted investees | 1 | 2 | 6 | - | - | 11 | - | 20 |
| **Profit (loss) before income tax** | 248 | (92) | 27 | 2 | 17 | 131 | - | 333 |
| Other comprehensive income (loss), before income tax | (26) | (7) | 15 | (7) | - | 34 | - | 9 |
| **Total comprehensive income (loss) before income tax** | 222 | (99) | 42 | (5) | 17 | *****165 | - | 342 |
| Liabilities in respect of non-yield dependent insurance contracts and investment contracts | 11,725 | 6,861 | 9,868 | 618 | - | - | (5) | 29,067 |
| Liabilities in respect of yield dependent insurance contracts and investment contracts | 66,840 | 5,933 | - | - | - | - | - | 72,773 |

* Total profit from investments is in respect of the assets held to cover the equity of the Group's financial institutions

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 16 million thereof are commissions paid to these agents from the Group's financial institutions

*** For the activity of the insurance agencies that are fully owned by the Group

**** Of the total general and administrative expenses, NIS 18 million is for expenses of the activity of the Group's insurance agencies

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was NIS 5 million

# Note 4 - Operating segments (Contd.)

A. Information about reportable segments (contd.)

| | For the three months ended March 31, 2020 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life Assurance and Long-Term Savings | Health Insurance | Non-life insurance | Insurance companies overseas | Financial Services | Not Allocated To Operating Segments and other | Adjustments and Offsets | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Premiums earned, gross | 1,714 | 1,247 | 853 | 134 | - | - | (1) | 3,947 |
| Premiums earned by reinsurers | 41 | 76 | 271 | 26 | - | - | (1) | 413 |
| Earned premiums - retention | 1,673 | 1,171 | 582 | 108 | - | - | - | 3,534 |
| Profits (losses) from investments, net, and financing income | (5,825) | (471) | (40) | 12 | 16 | *(104) | - | (6,412) |
| Income from management fees | 253 | - | - | - | 50 | 1 | - | 304 |
| Income from commissions | 13 | 4 | 55 | 5 | - | **55 | (47) | 85 |
| **Total income (expenses)** | (3,886) | 704 | 597 | 125 | 66 | (48) | (47) | (2,489) |
| Payments and changes in liabilities for insurance contracts and investment contracts, gross | (4,378) | 714 | 547 | 108 | - | - | (1) | (3,010) |
| Reinsurers' share in payments and changes in liabilities for insurance contracts | 18 | 82 | 194 | 21 | - | - | (1) | 314 |
| Payments and changes in liabilities for insurance contracts and investment contracts, in retention | (4,396) | 632 | 353 | 87 | - | - | - | (3,324) |
| Commissions, marketing expenses and other acquisition costs | 276 | 250 | 151 | 28 | - | ***28 | (47) | 686 |
| General and administrative expenses | 151 | 69 | 7 | 6 | 42 | ****31 | - | 306 |
| Other expenses | 2 | - | - | 1 | 6 | - | - | 9 |
| Financing expenses, net | - | 3 | 14 | - | 2 | 35 | - | 54 |
| **Total expenses (income)** | (3,967) | 954 | 525 | 122 | 50 | 94 | (47) | (2,269) |
| Company's share of profits (losses) of equity accounted investees | (4) | (2) | (2) | - | - | 12 | - | 4 |
| **Profit (loss) before income tax** | 77 | (252) | 70 | 3 | 16 | (130) | - | (216) |
| Other comprehensive income (loss), before income tax | (176) | (100) | (149) | (11) | - | (202) | - | (638) |
| **Total comprehensive income (loss) before income tax** | (99) | (352) | (79) | (8) | 16 | *****(332) | - | (854) |
| Liabilities in respect of non-yield dependent insurance contracts and investment contracts | 11,821 | 6,439 | 10,058 | 671 | - | - | (5) | 28,984 |
| Liabilities in respect of yield dependent insurance contracts and investment contracts | 55,572 | 4,998 | - | - | - | - | - | 60,570 |

* Total (loss) from investments is in respect of the assets held to cover the equity of the Group's financial institutions

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 47 million thereof are commissions paid to these agents from the Group's financial institutions

*** For the activity of the insurance agencies that are fully owned by the Group

**** Of the total general and administrative expenses, NIS 18 million is for expenses of the activity of the Group's insurance agencies

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was NIS 7 million

## Note 4 - Operating segments (Contd.)

### A. Information about reportable segments (Contd.)

| | For the year ended December 31, 2020 (Audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life Assurance and Long-Term Savings | Health Insurance | Non-life insurance | Insurance companies overseas | Financial Services | Not Allocated To Operating Segments and other | Adjustments and Offsets | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Premiums earned, gross | 6,116 | 4,953 | 3,391 | 495 | - | - | (4) | 14,951 |
| Premiums earned by reinsurers | 166 | 315 | 1,104 | 94 | - | - | (4) | 1,675 |
| Earned premiums - retention | 5,950 | 4,638 | 2,287 | 401 | - | - | - | 13,276 |
| Profit from investments, net, and financing income | 2,923 | 364 | 203 | 40 | 28 | 170* | (3) | 3,725 |
| Income from management fees | 1,179 | 2 | - | - | 192 | 11 | - | 1,384 |
| Income from commissions | 34 | 16 | 215 | 20 | - | 125** | (98) | 312 |
| **Total income** | 10,086 | 5,020 | 2,705 | 461 | 220 | 306 | (101) | 18,697 |
| Payments and changes in liabilities for insurance contracts and investment contracts, gross | 8,048 | 4,191 | 2,305 | 375 | - | - | (3) | 14,916 |
| Reinsurers' share in payments and changes in liabilities for insurance contracts | 107 | 434 | 712 | 62 | - | - | (3) | 1,312 |
| Payments and changes in liabilities for insurance contracts and investment contracts, in retention | 7,941 | 3,757 | 1,593 | 313 | - | - | - | 13,604 |
| Commissions, marketing expenses and other acquisition costs | 1,032 | 904 | 708 | 104 | - | 35*** | (98) | 2,685 |
| General and administrative expenses | 580 | 275 | 39 | 24 | 161 | 130**** | (3) | 1,206 |
| Other expenses | 7 | - | - | 3 | 14 | 1*** | - | 25 |
| Financing expenses (income), net | 6 | 14 | (23) | 1 | 5 | 166 | - | 169 |
| **Total expenses** | 9,566 | 4,950 | 2,317 | 445 | 180 | 332 | (101) | 17,689 |
| Company's share of profits (losses) of equity accounted investees | (3) | (7) | (22) | - | - | 45 | - | 13 |
| **Profit before income tax** | 517 | 63 | 366 | 16 | 40 | 19 | - | 1,021 |
| Other comprehensive income (loss) before income tax | 25 | 14 | (23) | (19) | - | 190 | - | 187 |
| **Total comprehensive income (loss) before income tax** | 542 | 77 | 343 | (3) | 40 | 209***** | - | 1,208 |
| Liabilities in respect of non-yield dependent insurance contracts and investment contracts | 11,738 | 6,600 | 9,453 | 631 | - | - | (5) | 28,417 |
| Liabilities in respect of yield dependent insurance contracts and investment contracts | 64,582 | 5,720 | - | - | - | - | - | 70,302 |

* Total profit from investments is in respect of the assets held to cover the equity of the Group's financial institutions

** Income from commissions includes commissions paid to insurance agencies owned by the Group. About NIS 96 million thereof are commissions paid to these agencies by the Group's financial institutions

*** For the activity of the insurance agencies that are fully owned by the Group

**** Of the total general and administrative expenses, NIS 69 million is for expenses of the activity of the Group's insurance agencies

***** Total comprehensive income before income tax for the activity of the Group's insurance agencies was approximately NIS 19 million

## Note 4 - Operating segments (Contd.)

### B. Additional information about the non-life insurance segment

| | For the three months ended March 31, 2021 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Compulsory Motor | Motor Property | Property and Other Segments* | Other Liability Segments** | Mortgage insurance | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Gross premiums | 202 | 339 | 313 | 410 | (1) | 1,263 |
| Reinsurance premiums | 2 | 5 | 241 | 123 | - | 371 |
| **Premiums in retention** | 200 | 334 | 72 | 287 | (1) | 892 |
| Change in outstanding unearned premium, in retention | 70 | 128 | 19 | 148 | (3) | 362 |
| Earned premiums - retention | 130 | 206 | 53 | 139 | 2 | 530 |
| Profits from investments, net, and financing income | 38 | 7 | 5 | 53 | 4 | 107 |
| Income from commissions | - | 1 | 47 | 11 | - | 59 |
| **Total income** | 168 | 214 | 105 | 203 | 6 | 696 |
| Payments and changes in liabilities for insurance contracts, gross | 165 | 153 | 113 | 269 | (10) | 690 |
| Reinsurers' share of payments and change in liabilities for insurance contracts | 2 | 2 | 93 | 104 | - | 201 |
| Payments and changes in liabilities for insurance contracts in retention | 163 | 151 | 20 | 165 | (10) | 489 |
| Commissions, marketing expenses and other acquisition costs | 23 | 44 | 61 | 33 | - | 161 |
| General and administrative expenses | 2 | 1 | 3 | 2 | 1 | 9 |
| Financing expenses, net | 6 | 1 | - | 9 | - | 16 |
| **Total expenses (income)** | 194 | 197 | 84 | 209 | (9) | 675 |
| Company's share of profits of equity accounted investees | 2 | - | - | 4 | - | 6 |
| **Profit (loss) before income tax** | (24) | 17 | 21 | (2) | 15 | 27 |
| Other comprehensive income before income tax | 6 | 1 | - | 8 | - | 15 |
| **Total comprehensive income (loss) before income tax** | (18) | 18 | 21 | 6 | 15 | 42 |
| **Liabilities for insurance contracts, gross, as at March 31, 2021** | 2,582 | 640 | 991 | 5,429 | 226 | 9,868 |
| **Liabilities for insurance contracts, retention, as at March 31, 2021** | 2,512 | 628 | 177 | 3,427 | 226 | 6,970 |

* Property and other branches consist mainly of results from the property loss insurance and comprehensive homeowners branches, where the activity from these branches accounts for 78% of all premiums in these lines of business

** Other liabilities branches consist mainly of third-party insurance and professional liability branches where the activity from these branches accounts for 81% of all premiums in these lines of business

# Note 4 - Operating segments (Contd.)

## B. Additional information about the non-life insurance segment (contd.)

| | For the three months ended March 31, 2020 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Compulsory Motor | Motor Property | Property and Other Segments* | Other Liability Segments** | Mortgage insurance | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Gross premiums | 289 | 342 | 291 | 371 | (1) | 1,292 |
| Reinsurance premiums | 2 | 5 | 221 | 111 | - | 339 |
| **Premiums in retention** | 287 | 337 | 70 | 260 | (1) | 953 |
| Change in outstanding unearned premiums, in retention | 131 | 131 | 15 | 97 | (3) | 371 |
| Earned premiums - retention | 156 | 206 | 55 | 163 | 2 | 582 |
| Profits (losses) from investments, net, and financing income | (16) | (3) | 2 | (19) | (4) | (40) |
| Income from commissions | - | 1 | 45 | 9 | - | 55 |
| **Total income (expenses)** | 140 | 204 | 102 | 153 | (2) | 597 |
| Payments and changes in liabilities for insurance contracts, gross | 86 | 138 | 181 | 151 | (9) | 547 |
| Reinsurers' share of payments and change in liabilities for insurance contracts | (4) | 4 | 158 | 36 | - | 194 |
| Payments and changes in liabilities for insurance contracts in retention | 90 | 134 | 23 | 115 | (9) | 353 |
| Commissions, marketing expenses and other acquisition costs | 18 | 39 | 59 | 35 | - | 151 |
| General and administrative expenses | 1 | 2 | 3 | 1 | - | 7 |
| Financing expenses, net | 5 | 1 | - | 8 | - | 14 |
| **Total expenses (income)** | 114 | 176 | 85 | 159 | (9) | 525 |
| Company's share of profits of equity accounted investees | (1) | - | - | (1) | - | (2) |
| **Profit (loss) before income tax** | 25 | 28 | 17 | (7) | 7 | 70 |
| Other comprehensive income before income tax | (55) | (10) | (3) | (70) | (11) | (149) |
| **Total comprehensive income (loss) before income tax** | (30) | 18 | 14 | (77) | (4) | (79) |
| **Liabilities for insurance contracts, gross, as at March 31, 2020** | 2,724 | 649 | 1,002 | 5,407 | 276 | 10,058 |
| **Liabilities for insurance contracts, retention, as at March 31, 2020** | 2,621 | 635 | 178 | 3,363 | 276 | 7,073 |

* Property and other branches consist mainly of results from the property loss insurance and comprehensive homeowners branches, where the activity from these branches accounts for 77% of all premiums in these lines of business

** Other liabilities branches consist mainly of third-party insurance and professional liability branches where the activity from these branches accounts for 80% of all premiums in these lines of business

# Note 4 - Operating segments (Contd.)

**B. Additional information about the non-life insurance segment (Contd.)**

| | For the year ended December 31, 2020 (Audited) | | | | | |
|---|---|---|---|---|---|---|
| | Compulsory Motor | Motor Property | Property and Other Segments* | Other Liability Segments** | Mortgage insurance | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Gross premiums | 562 | 871 | 1,026 | 870 | (3) | 3,326 |
| Reinsurance premiums | 7 | 13 | 803 | 343 | - | 1,166 |
| **Premiums in retention** | 555 | 858 | 223 | 527 | (3) | 2,160 |
| Change in outstanding unearned premiums, in retention | 3 | 10 | (1) | (128) | (11) | (127) |
| Earned premiums - retention | 552 | 848 | 224 | 655 | 8 | 2,287 |
| Profit from investments, net, and financing income | 72 | 13 | 17 | 93 | 8 | 203 |
| Income from commissions | - | 4 | 166 | 45 | - | 215 |
| **Total income** | 624 | 865 | 407 | 793 | 16 | 2,705 |
| Payments and changes in liabilities for insurance contracts, gross | 411 | 560 | 496 | 876 | (38) | 2,305 |
| Reinsurers' share of payments and change in liabilities for insurance contracts | (7) | 8 | 424 | 287 | - | 712 |
| Payments and changes in liabilities for insurance contracts and investment contracts, in retention | 418 | 552 | 72 | 589 | (38) | 1,593 |
| Commissions, marketing expenses and other acquisition costs | 100 | 214 | 232 | 162 | - | 708 |
| General and administrative expenses | 8 | 9 | 10 | 9 | 3 | 39 |
| Financing income, net | (9) | (2) | (1) | (11) | - | (23) |
| **Total expenses (income)** | 517 | 773 | 313 | 749 | (35) | 2,317 |
| Company's share of losses of equity accounted investees | (9) | (2) | (1) | (10) | - | (22) |
| **Profit before income tax** | 98 | 90 | 93 | 34 | 51 | 366 |
| Other comprehensive income (loss) before income tax | (10) | (2) | - | (13) | 2 | (23) |
| **Total comprehensive income before income tax** | 88 | 88 | 93 | 21 | 53 | 343 |
| **Liabilities for insurance contracts, gross, as at December 31, 2020** | 2,524 | 500 | 935 | 5,255 | 239 | 9,453 |
| **Liabilities for insurance contracts, in retention, as at December 31, 2020** | 2,447 | 490 | 155 | 3,275 | 239 | 6,606 |

* Property and other branches consist mainly of results of property loss insurance and comprehensive homeowners insurance, where the activity from these branches accounts for 78% of total premiums earned from these branches

** Other liabilities branches include mainly results from third-party insurance and professional liability which account for 73% of total premiums in these branches

## Note 4 - Operating segments (Contd.)

### C. Additional information about the life assurance and long-term savings segment

| | For the three months ended March 31, 2021 (Unaudited) | | | | For the three months ended March 31, 2020 (Unaudited) | | | |
|---|---|---|---|---|---|---|---|---|
| | Provident | Pension | Life assurance | Total | Provident | Pension | Life assurance | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Premiums earned, gross | - | - | 1,446 | 1,446 | - | - | 1,714 | 1,714 |
| Premiums earned by reinsurers | - | - | 43 | 43 | - | - | 41 | 41 |
| Earned premiums - retention | - | - | 1,403 | 1,403 | - | - | 1,673 | 1,673 |
| Profit (loss) from investments, net, and financing income | - | 1 | 2,447 | 2,448 | - | - | (5,825) | (5,825) |
| Income from management fees | 62 | 84 | 258 | 404 | 62 | 82 | 109 | 253 |
| Income from commissions | - | - | 9 | 9 | - | - | 13 | 13 |
| **Total income (expenses)** | 62 | 85 | 4,117 | 4,264 | 62 | 82 | (4,030) | (3,886) |
| Payments and changes in liabilities for insurance contracts and investment contracts, gross | 1 | 3 | 3,629 | 3,633 | 1 | 3 | (4,382) | (4,378) |
| Reinsurers' share of payments and change in liabilities for insurance contracts | - | - | 32 | 32 | - | - | 18 | 18 |
| Payments and changes in liabilities for insurance contracts and investment contracts in retention | 1 | 3 | 3,597 | 3,601 | 1 | 3 | (4,400) | (4,396) |
| Commissions, marketing expenses and other acquisition costs | 25 | 28 | 202 | 255 | 25 | 31 | 220 | 276 |
| General and administrative expenses | 21 | 36 | 101 | 158 | 24 | 33 | 94 | 151 |
| Other expenses | - | - | - | - | 2 | - | - | 2 |
| Financing expenses, net | - | - | 3 | 3 | - | - | - | - |
| **Total expenses (income)** | 47 | 67 | 3,903 | 4,017 | 52 | 67 | (4,086) | (3,967) |
| Company's share of profits (losses) of equity accounted investees | - | - | 1 | 1 | - | - | (4) | (4) |
| **Profit before income tax** | 15 | 18 | 215 | 248 | 10 | 15 | 52 | 77 |
| Other comprehensive loss before income tax | - | - | (26) | (26) | (2) | (4) | (170) | (176) |
| **Total comprehensive income (loss) before** income tax | 15 | 18 | 189 | 222 | 8 | 11 | (118) | (99) |

# Note 4 - Operating segments (Contd.)

## C. Additional information about the life assurance and long-term savings segment (Contd.)

| | For the year ended December 31, 2020 | | | |
|---|---|---|---|---|
| | Provident | Pension | Life assurance | Total |
| | NIS million | NIS million | NIS million | NIS million |
| Premiums earned, gross | - | - | 6,116 | 6,116 |
| Premiums earned by reinsurers | - | - | 166 | 166 |
| Earned premiums - retention | - | - | 5,950 | 5,950 |
| Profit from investments, net, and financing income | 1 | 2 | 2,920 | 2,923 |
| Income from management fees | 247 | 333 | 599 | 1,179 |
| Income from commissions | - | - | 34 | 34 |
| **Total income** | 248 | 335 | 9,503 | 10,086 |
| Payments and changes in liabilities for insurance contracts and investment contracts, gross | 2 | 13 | 8,033 | 8,048 |
| Reinsurers' share of payments and change in liabilities for insurance contracts | - | - | 107 | 107 |
| Payments and changes in liabilities for insurance contracts and investment contracts in retention | 2 | 13 | 7,926 | 7,941 |
| Commissions, marketing expenses and other acquisition costs | 96 | 122 | 814 | 1,032 |
| General and administrative expenses | 87 | 129 | 364 | 580 |
| Other expenses | 6 | 1 | - | 7 |
| Financing expenses, net | - | - | 6 | 6 |
| **Total expenses** | 191 | 265 | 9,110 | 9,566 |
| Company's share of losses of equity accounted investees | - | - | (3) | (3) |
| **Profit before income tax** | 57 | 70 | 390 | 517 |
| Other comprehensive income (loss) before income tax | - | (2) | 27 | 25 |
| **Total comprehensive income before income tax** | 57 | 68 | 417 | 542 |

# Note 4 - Operating segments (Contd.)

## C. Additional information about the life assurance and long-term savings segment (Contd.)

### Results by policy category

| | Policies which include a savings component (incl. riders) by date of policy issue | | | | Policies with no savings component | | |
|---|---|---|---|---|---|---|---|
| | | | from 2004 | | Risk (life) that was sold as a stand-alone policy | | |
| | Until 1990 (1) | Up to 2003 | Not yield-dependent | Yield dependent | Personal lines | Group | Total |
| **For the three months ended March 31, 2021 (Unaudited)** | NIS million | | | | | | |
| Gross premiums | 21 | 214 | - | 870 | 309 | 34 | 1,448 |
| Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees | | | | | | | (2) |
| Total | | | | | | | 1,446 |
| Amounts received for investment contracts recognized directly in insurance reserves | - | - | 14 | 673 | - | - | 687 |
| Financial margin including management fees - in terms of comprehensive income (2) | 14 | 170 | 9 | 88 | - | - | 281 |
| Payments and changes in liabilities for insurance contracts, gross | 121 | 1,235 | 6 | 1,619 | 149 | 38 | 3,168 |
| Payments and change in liabilities for investment contracts | - | - | 4 | 457 | - | - | 461 |
| Total comprehensive income (loss) from life assurance business | 9 | 143 | 5 | 13 | 26 | (7) | 189 |

(1) The products issued through 1990 (including increases in respect of these products) are mainly yield guaranteed and are partially backed by earmarked bonds

(2) The financial margin does not include the Company's other revenues which are collected as a percentage of the premium and it is calculated before deducting expenses for management of investments. The financial margin in policies with a guaranteed yield is based on actual revenues from investments in the reporting year, net of a factor of the guaranteed yield rate for the year, multiplied by the average reserve. On this matter, income from investments also includes the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent policies, the financial margin is the fixed and variable management fees which are calculated based on the yield and the average retained amount of the insurance reserves

# Note 4 - Operating segments (Contd.)

## C. Additional information about the life assurance and long-term savings segment (Contd.)

### Results by policy category (Contd.)

| | Policies which include a savings component (incl. riders) by date of policy issue | | | | Policies with no savings component | | |
|---|---|---|---|---|---|---|---|
| | | | from 2004 | | Risk that was sold as a stand-alone policy | | |
| | Until 1990 (1) | Up to 2003 | Not yield-dependent | Yield dependent | Personal lines | Group | Total |
| **For the three months ended March 31, 2020 (Unaudited)** | NIS million | | | | | | |
| Gross premiums | 23 | 227 | - | 1,130 | 295 | 41 | 1,716 |
| Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees | | | | | | | (2) |
| Total | | | | | | | 1,714 |
| Amounts received for investment contracts recognized directly in insurance reserves | - | - | - | 804 | - | - | 804 |
| Financial margin including management fees - in terms of comprehensive income (2) | (114) | 32 | (60)* | 77 | - | - | (65) |
| Payments and changes in liabilities for insurance contracts, gross | 76 | (2,053) | (137) | (966) | 114 | 22 | (2,944) |
| Payments and change in liabilities for investment contracts | - | - | (1) | (1,437) | - | - | (1,438) |
| Total comprehensive income (loss) from life assurance business | (144) | (22) | 77 | 6 | (40) | 5 | (118) |

* Restated

(1) The products issued through 1990 (including increases in respect of these products) are mainly yield guaranteed and are partially backed by earmarked bonds

(2) The financial margin does not include the Company's other revenues which are collected as a percentage of the premium and it is calculated before deducting expenses for management of investments. The financial margin in policies with a guaranteed yield is based on actual revenues from investments in the reporting year, net of a factor of the guaranteed yield rate for the year, multiplied by the average reserve. On this matter, income from investments also includes the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent policies, the financial margin is the fixed and variable management fees which are calculated based on the yield and the average retained amount of the insurance reserves

## Note 4 - Operating segments (Contd.)

### C. Additional information about the life assurance and long-term savings segment (Contd.)

### Results by policy category (Contd.)

| For the year ended December 31, 2020 (Audited) | Policies which include a savings component (incl. riders) by date of policy issue | | | | Policies with no savings component | | |
|---|---|---|---|---|---|---|---|
| | | | from 2004 | | Risk that was sold as a stand-alone policy | | |
| | Until 1990 (1) | Up to 2003 | Not yield-dependent | Yield dependent | Personal lines | Group | Total |
| | NIS million | | | | | | |
| Gross premiums | 86 | 877 | - | 3,818 | 1,192 | 150 | 6,123 |
| Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees | | | | | | | (7) |
| Total | | | | | | | 6,116 |
| Amounts received for investment contracts recognized directly in insurance reserves | - | - | 66 | 2,397 | - | - | 2,463 |
| Financial margin including management fees - in terms of comprehensive income (2) | 85 | 287 | 20 | 312 | - | - | 704 |
| Payments and changes in liabilities for insurance contracts, gross | 371 | 2,028 | (129) | 4,675 | 581 | 108 | 7,634 |
| Payments and change in liabilities for investment contracts | - | - | 12 | 387 | - | - | 399 |
| Total comprehensive income from life assurance business | 82 | 108 | 152 | 15 | 33 | 27 | 417 |

(1) The products issued through 1990 (including increases in respect of these products) are mainly yield guaranteed and are partially backed by earmarked bonds

(2) The financial margin does not include the Company's other revenues which are collected as a percentage of the premium and it is calculated before deducting expenses for management of investments. The financial margin in policies with a guaranteed yield is based on actual revenues from investments in the reporting year, net of a factor of the guaranteed yield rate for the year, multiplied by the average reserve. On this matter, income from investments also includes the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent policies, the financial margin is the fixed and variable management fees which are calculated based on the yield and the average retained amount of the insurance reserves

## Note 4 - Operating segments (Contd.)

### D. Additional information about the health insurance segment

**Results by policy category**

| | Long-term care (LTC) | | Other health* | | |
|---|---|---|---|---|---|
| | Personal lines | Group | long-term ** | short-term ** | Total |
| **For the three months ended March 31, 2021 (Unaudited)** | NIS million | | | | |
| Gross premiums | 189 | 380 | 641 | 66 | 1,276 |
| Payments and changes in liabilities for insurance contracts, gross | 343 | 583 | 385 | 59 | 1,370 |
| Total comprehensive income (loss) from health insurance business | (133) | (39) | 74 | (1) | (99) |

| | Long-term care (LTC) | | Other health* | | |
|---|---|---|---|---|---|
| | Personal lines | Group | long-term *** | short-term *** | Total |
| **For the three months ended March 31, 2020 (Unaudited)** | NIS million | | | | |
| Gross premiums | 191 | 359 | 602 | 82 | 1,234 |
| Payments and changes in liabilities for insurance contracts, gross | 294 | (36) | 375 | 81 | 714 |
| Total comprehensive loss from health insurance business | (268) | (28) | (48) | (8) | (352) |

* Of this, personal lines premiums in the amount of NIS 430 million are for the three months ended March 31, 2021 (personal lines premiums of NIS 425 million for the three months ended March 31, 2020) and group premiums in the amount of NIS 277 million, for the three months ended March 31, 2021 (group premiums of NIS 259 million for the three months ended March 31, 2020)

** The most significant cover included under other long-term health is medical expenses and under short-term is foreign workers

*** The most significant cover include under other long-term health is medical expenses and under short-term is travel insurance

## Note 4 - Operating segments (Contd.)

### D. Additional information about the health insurance segment (Contd.)

**Results by policy category (Contd.)**

| For the year ended December 31, 2020 (Audited) | Long-term care (LTC) | | Other health* | | |
|---|---|---|---|---|---|
| | Personal lines | Group | long-term ** | short-term ** | Total |
| | NIS million | | | | |
| Gross premiums | 757 | 1,463 | 2,415 | 298 | 4,933 |
| Payments and changes in liabilities for insurance contracts, gross | 774 | 1,680 | 1,455 | 282 | 4,191 |
| Total comprehensive income (loss) from health insurance business | 30 | (95) | 182 | (40) | 77 |

* Of this, personal lines premiums in the amount of NIS 1,675 million and group premiums in the amount of NIS 1,038 million

** The most significant cover included in other long-term health is medical expenses and in short-term is overseas travel

# Note 5 - Taxes on income

**Tax rates applicable to the income of the Group companies**

On December 29, 2016, the Economic Efficiency (Legislative Amendments for Implementation of the Economic Policy for Fiscal Years 2017 and 2018) Law, 2016, was published in the Official Gazette. Among other things, the law prescribes that corporate tax rate will be reduced from 25% to 23% in two stages: the first stage, to 24%, from January 2017 and the second stage to 23% from January 2018 and thereafter.

Current taxes for the reported period are calculated in accordance with the tax rates presented below.

The statutory tax rates applicable to financial institutions, including the Company's subsidiaries which are financial institutions, commencing 2018 and thereafter, are as follows: corporate tax at a rate of 23%, profit tax at a rate of 17% - namely, tax at a rated weight of 34.19%.

## Note 6 - Financial instruments

### A. Assets for Yield-dependent contracts

**1. Information about assets held against insurance contracts and investment contracts, presented at fair value through profit and loss:**

| | As at March 31 | | As at December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Investment property | **1,814** | 1,766 | 1,802 |
| **Financial investments** | | | |
| Marketable debt assets | **20,852** | 19,917 | 21,331 |
| Non-marketable debt assets (*) | **15,165** | 14,163 | 14,745 |
| Shares | **14,932** | 10,026 | 13,322 |
| Other financial investments | **16,752** | 11,153 | 15,209 |
| **Total financial investments** | **67,701** | 55,259 | 64,607 |
| Cash and cash equivalents | **2,602** | 3,343 | 3,452 |
| Other | **1,354** | 1,060 | 1,148 |
| **Total assets for yield-dependent contracts** ** | **73,471** | 61,428 | 71,009 |
| Payables | **507** | 440**** | 726 |
| Financial liabilities *** | **268** | 451 | 106 |
| **Financial liabilities for yield-dependent contracts** | **775** | 891 | 832 |
| | | | |
| (*) Of which, assets measured at adjusted cost | **449** | 495 | 451 |
| Fair value of debt assets measured at adjusted cost | **512** | 516 | 513 |

** Including net assets (assets net of financial liabilities) in the amount of NIS 4,831 million, NIS 4,174 million, and NIS 4,695 million as at March 31, 2021 and 2020, and December 31, 2020 respectively, for a liability attributable to a group long-term care portfolio in which most of the investment risks are not imposed on the insurer

*** Mainly derivatives and futures contracts

**** Reclassified

# Note 6 - Financial instruments (Contd.)

## A. Assets for Yield-dependent contracts (Contd.)

### 2. Fair value hierarchy of financial assets

The following table presents an analysis of the assets held against insurance contracts and investment contracts that are presented at fair value through profit or loss. The different levels are defined as follows:

Level 1 – fair value measured by use of quoted prices (not adjusted) on an active market for identical instruments.
Level 2 – fair value measured by using observed data, direct and indirect, which are not included in Level 1 above.
Level 3 – fair value measured by using data which are not based on observed market data.

| | As at March 31, 2021 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets | **17,823** | **3,029** | **-** | **20,852** |
| Non-marketable debt assets | **-** | **13,755** | **961** | **14,716** |
| Shares | **12,237** | **71** | **2,624** | **14,932** |
| Other | **11,126** | **75** | **5,551** | **16,752** |
| **Total** | **41,186** | **16,930** | **9,136** | **67,252** |

| | As at March 31, 2020 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets | 17,140 | 2,777 | - | 19,917 |
| Non-marketable debt assets | - | 12,557 | 1,111 | 13,668 |
| Shares | 7,507 | 6 | 2,513 | 10,026 |
| Other | 6,768 | 109 | 4,276 | 11,153 |
| **Total** | 31,415 | 15,449 | 7,900 | 54,764 |

| | As at December 31, 2020 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets | 18,409 | 2,922 | - | 21,331 |
| Non-marketable debt assets | - | 13,247 | 1,047 | 14,294 |
| Shares | 10,872 | 8 | 2,442 | 13,322 |
| Other | 9,931 | 285 | 4,993 | 15,209 |
| **Total** | 39,212 | 16,462 | 8,482 | 64,156 |

# Note 6 - Financial instruments (Contd.)

## A. Assets for Yield-dependent contracts (Contd.)

### 3. Financial assets measured at level-3 fair value hierarchy

**For three-months ended March 31, 2021 (Unaudited)**

| | Fair-value measurement on report date | | | |
|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | | | |
| | Non-marketable debt assets | Shares | Other | Total |
| | NIS million | NIS million | NIS million | NIS million |
| **Balance as at January 1, 2021** | 1,047 | 2,442 | 4,993 | 8,482 |
| Total profits (losses) that were recognized: | | | | |
| In profit and loss (*) | 42 | 216 | 415 | 673 |
| Interest and dividend receipts | (15) | (7) | (81) | (103) |
| Purchases | 156 | 88 | 396 | 640 |
| Sales | - | (115) | (163) | (278) |
| Redemptions | (255) | - | (9) | (264) |
| Transfers from Level 3 * | (14) | - | - | (14) |
| **Balance as at March 31, 2021** | 961 | 2,624 | 5,551 | 9,136 |
| **(*) Of which total unrealized profits for the period in respect of financial assets held correct to March 31, 2021** | 37 | 183 | 400 | 620 |

**For three-months ended March 31, 2020 (Unaudited)**

| | Fair-value measurement on report date | | | |
|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | | | |
| | Non-marketable debt assets | Shares | Other | Total |
| | NIS million | NIS million | NIS million | NIS million |
| **Balance as at January 1, 2020** | 1,014 | 2,508 | 4,058 | 7,580 |
| Total profits (losses) that were recognized: | | | | |
| In profit and loss (*) | 1 | 76 | 73 | 150 |
| Interest and dividend receipts | (15) | (12) | (66) | (93) |
| Purchases | 163 | 94 | 304 | 561 |
| Sales | - | (153) | (79) | (232) |
| Redemptions | (51) | - | (14) | (65) |
| Transfers from Level 3 * | (1) | - | - | (1) |
| **Balance as at March 31, 2020** | 1,111 | 2,513 | 4,276 | 7,900 |
| **(*) Of which total unrealized profits (losses) for the period in respect of financial assets held correct to March 31, 2020** | (8) | 76 | 72 | 140 |

* For securities whose rating changed

# Note 6 - Financial instruments (Contd.)

## A. Assets for Yield-dependent contracts (Contd.)

### 3. Financial assets measured at level-3 fair value hierarchy (Contd.)

**For the year ended December 31, 2020 (Audited)**

| | Fair-value measurement on report date | | | |
|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | | | |
| | Non-marketable debt assets | Shares | Other | Total |
| | NIS million | NIS million | NIS million | NIS million |
| **Balance as at January 1, 2020** | 1,014 | 2,508 | 4,058 | 7,580 |
| Total profits (losses) that were recognized: | | | | |
| In profit and loss (*) | 22 | 7 | 101 | 130 |
| Interest and dividend receipts | (49) | (53) | (227) | (329) |
| Purchases | 678 | 191 | 1,426 | 2,295 |
| Sales | - | (211) | (306) | (517) |
| Redemptions | (704) | - | (59) | (763) |
| Transfers to Level 3 | 87 | - | - | 87 |
| Transfers from Level 3 * | (1) | - | - | (1) |
| **Balance as at December 31, 2020** | 1,047 | 2,442 | 4,993 | 8,482 |
| **(*) Of which total unrealized profits (losses) for the period in respect of financial assets held correct at December 31, 2020** | 14 | (6) | 83 | 91 |

* Mainly for securities whose rating changed

# Note 6 - Financial instruments (Contd.)

## B. Other financial investments

### 1. Non-marketable debt assets and held-to-maturity investments – book value against fair value

| | As at March 31 (Unaudited) | | December 31 (Audited) | As at March 31 (Unaudited) | | December 31 (Audited) |
|---|---|---|---|---|---|---|
| | Book Value | | | Fair Value | | |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| **Loans and receivables:** | | | | | | |
| Earmarked bonds | **5,215** | 5,257 | 5,147 | **7,244** | 7,047 | 7,197 |
| Non-marketable, non-convertible debt assets, excluding bank deposits (*) | **7,540** | 7,548 | 7,281 | **8,555** | 8,119 | 8,288 |
| Bank deposits | **2,976** | 2,515 | 2,647 | **3,475** | 2,622 | 2,698 |
| **Total non-marketable debt assets** | **15,731** | 15,320 | 15,075 | **19,274** | 17,788 | 18,183 |
| **Investments held to maturity:** | | | | | | |
| Marketable non-convertible debt assets | **27** | 67 | 39 | **29** | 68 | 40 |
| **Total investments held to maturity** | **27** | 67 | 39 | **29** | 68 | 40 |
| **Total** | **15,758** | 15,387 | 15,114 | **19,303** | 17,856 | 18,223 |
| **Impairments recognized in profit and loss (in aggregate)** | **55** | 47 | 55 | | | |
| (*) Of which debt assets measured at fair value | **2,378** | 2,018 | 2,178 | | | |

# Note 6 - Financial instruments (Contd.)

## B. Other financial investments (Contd.)

### 2. Fair value hierarchy of financial assets

The following table presents an analysis of financial instruments measured at fair value on a timely basis, using a valuation method based on the fair value hierarchy. See Note 6A(2) for a definition of the different levels.

| | As at March 31, 2021 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets | 10,828 | 770 | - | 11,598 |
| Non-marketable debt assets | - | 2,378 | - | 2,378 |
| Shares | 1,202 | 162 | 333 | 1,697 |
| Other | 1,089 | 69 | 1,933 | 3,091 |
| **Total** | 13,119 | 3,379 | 2,266 | 18,764 |

| | As at March 31, 2020 (Unaudited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets | 9,450 | 1,150 | - | 10,600 |
| Non-marketable debt assets | - | 2,018 | - | 2,018 |
| Shares | 1,005 | - | 457 | 1,462 |
| Other | 1,000 | 55 | 1,512 | 2,567 |
| **Total** | 11,455 | 3,223 | 1,969 | 16,647 |

| | As at December 31, 2020 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets | 10,162 | 866 | - | 11,028 |
| Non-marketable debt assets | - | 2,178 | - | 2,178 |
| Shares | 1,338 | - | 292 | 1,630 |
| Other | 1,260 | 199 | 1,779 | 3,238 |
| **Total** | 12,760 | 3,243 | 2,071 | 18,074 |

# Note 6 - Financial instruments (Contd.)

## B. Other financial investments (Contd.)

### 3. Financial assets measured at level-3 fair value hierarchy

**For three-months ended March 31, 2021 (Unaudited)**

| | Fair-value measurement on reporting date<br>Financial assets at fair value through profit or loss and available-for-sale assets | | |
|---|---|---|---|
| | Shares | Other | Total |
| | NIS million | NIS million | NIS million |
| **Balance as at January 1,2021** | 292 | 1,779 | 2,071 |
| Total profits (losses) that were recognized: | | | |
| In profit and loss (*) | 51 | 85 | 136 |
| In other comprehensive income | 32 | 60 | 92 |
| Interest and dividend receipts | (49) | (23) | (72) |
| Purchases | 24 | 118 | 142 |
| Sales | (17) | (81) | (98) |
| Redemptions | - | (5) | (5) |
| **Balance as at March 31, 2021** | 333 | 1,933 | 2,266 |
| **(*) Of which total unrealized profit for the period in respect of financial assets held at March 31, 2021** | 46 | 56 | 102 |

**For the three-months ended March 31, 2020 (Unaudited)**

| | Fair-value measurement on reporting date<br>Financial assets at fair value through profit or loss and available-for-sale assets | | |
|---|---|---|---|
| | Shares | Other | Total |
| | NIS million | NIS million | NIS million |
| **Balance as at January 1,2020** | 375 | 1,613 | 1,988 |
| Total profits (losses) that were recognized: | | | |
| In profit and loss (*) | (16) | 8 | (8) |
| In other comprehensive income | 33 | (5) | 28 |
| Interest and dividend receipts | - | (22) | (22) |
| Purchases | 65 | 71 | 136 |
| Sales | - | (138) | (138) |
| Redemptions | - | (15) | (15) |
| **Balance as at March 31, 2020** | 457 | 1,512 | 1,969 |
| **(*) Of which total unrealized profit (loss) for the period in respect of financial assets held at March 31, 2020** | (16) | 5 | (11) |

# Note 6 - Financial instruments (Contd.)

## B. Other financial investments (Contd.)

### 3. Financial assets measured at level-3 fair value hierarchy (Contd.)

**For the year ended December 31, 2020 (Audited)**

| | Fair-value measurement on reporting date<br>Financial assets at fair value through profit or loss and available-for-sale assets | | |
|---|---|---|---|
| | Shares | Other | Total |
| | NIS million | NIS million | NIS million |
| **Balance as at January 1,2020** | 375 | 1,613 | 1,988 |
| Total profits (losses) that were recognized: | | | |
| In profit and loss (*) | 8 | 55 | 63 |
| In other comprehensive income | (25) | (23) | (48) |
| Interest and dividend receipts | (6) | (71) | (77) |
| Purchases | 108 | 455 | 563 |
| Sales | (168) | (222) | (390) |
| Redemptions | - | (28) | (28) |
| **Balance as at December 31, 2020** | 292 | 1,779 | 2,071 |
| **(*) Of which total unrealized profits for the period for financial assets held at December 31, 2020** | 7 | 33 | 40 |

## C. Financial liabilities

### 1. Financial liabilities presented at amortized cost – book value against fair value

| | As at March 31 | | As at December 31 | As at March 31 | | As at December 31 |
|---|---|---|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) | (Unaudited) | (Unaudited) | (Audited) |
| | Book Value | | | Fair Value | | |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Loans from banks * | **453** | 530 | 453 | **472** | 541 | 474 |
| Loans from related parties | **-** | 12 | - | **-** | 12 | - |
| Short-term credit from banks and others | **12** | 1 | 1 | **12** | 1 | 1 |
| Bonds * | **5,730** | 6,317 | 5,506 | **6,211** | 6,552 | 6,027 |
| **Total financial liabilities presented at amortized cost** | **6,195** | 6,860 | 5,960 | **6,695** | 7,106 | 6,502 |
| Subordinated liability notes issued for compliance with the capital requirements | **4,881** | 4,731 | 4,878 | | | |

* Including subordinated liability notes

# Note 6 - Financial instruments (Contd.)

## C. Financial liabilities (Contd.)

### 2. Interest rates used to determine the fair value

| | As at March 31 | | As at December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| Loans | **1.76%** | 2.93% | 1.90% |
| Bonds | **0.64%** | 2.52% | 1.13% |

# Note 6 - Financial instruments (Contd.)

## C. Financial liabilities (Contd.)

### 3. Financial liabilities measured at fair value hierarchy

The following table presents an analysis of financial liabilities presented at fair value. For a definition of the levels, see Note 6A(2).

| | As at March 31, 2021 (Unaudited) | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | NIS million | NIS million | NIS million |
| Derivatives (1) | 40 | 410 | 450 |
| Short sales (2) | 1,347 | 193 | 1,540 |
| Total financial liabilities | 1,387 | 603 | 1,990 |

| | As at March 31, 2020 (Unaudited) | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | NIS million | NIS million | NIS million |
| Derivatives (1) | 162 | 781 | 943 |
| Short sales (2) | 390 | - | 390 |
| Total financial liabilities | 552 | 781 | 1,333 |

| | As at December 31, 2020 (Audited) | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| | NIS million | NIS million | NIS million |
| Derivatives (1) | 4 | 284 | 288 |
| Short sales (2) | 1,466 | 80 | 1,546 |
| Total financial liabilities | 1,470 | 364 | 1,834 |

(1) Derivative financial instruments held to cover the insurance liabilities as part of the Group's policy for asset and liability management ("ALM"). Of the above, NIS 182 million, NIS 493 million, and NIS 181 million as at March 31, 2021 and 2020, and December 31, 2020, respectively, are included in the non-yield-dependent liabilities, and the balance is included in the Group's yield-dependent liabilities. Most of the amount is attributable to management of exposure by means of derivatives to foreign currency and the CPI. To cover these liabilities, the financial institutions deposited collaterals in accordance with the conditions prescribed in the contract. The Group's financial institutions have approved credit facilities for their derivative activity. Accordingly, the Group's financial institutions deposited NIS 644 million, NIS 777 million, and NIS 469 million as at March 31, 2021 and 2020 and December 31, 2020, respectively, as collateral to cover their liabilities attributable to this activity (these collaterals are presented under receivables)

(2) Harel Finance, a subsidiary of the Company, operates through subsidiaries involved in the short sale of government bonds (Israeli and foreign) and places the proceeds of the sales in deposit until the bond maturity date. In the Reporting Period, these companies posted short sales of NIS 100 million within the context of this activity. The balance of the backing amounts as at March 31, 2021, is NIS 1,296 million. After the date of the report a short sale of NIS 30 million, net, was performed

# Note 6 - Financial instruments (Contd.)

## C. Financial liabilities (Contd.)

### 4. Additional information

1. Maalot rating

On March 1, 2021, Maalot announced that the capital assessment and rating ('ilAA+/stable') for the subsidiary Harel Insurance remained unchanged after the announcement by Harel Insurance of a restructuring and dividend distribution policy, as specified in Note 9(5) and Note 9(4), respectively.

2. Midroog rating

On February 24, 2021, Midroog announced an Issuer's Rating of Aa2.il for Harel Investments with a stable rating outlook.

On February 24, 2021, Midroog announced a financial strength rating for Harel Insurance of 'Aa1.il', rating outlook stable, and ratings of 'Aa2.il(hyb)' for liability notes that form subordinate tier-2 capital (Series 1) and subordinate liability notes (hybrid tier-3 capital), Series 6-8 bonds issued by Hare Financing & Issuing, a wholly owned subsidiary of Harel Insurance, and ratings of 'Aa3.il(hyb)' for subordinate liability notes (tier-2 capital) what were issued by Hare Financing & Issuing as part of Series 5, 9 and 17 bonds, rating outlook stable

3. Financial covenants

For information relating to the financial covenants in respect of significant loans that the Company took from banks and non-bank companies, see Note 24 to the annual financial statements. As at March 31, 2021, the Company is in compliance with the financial covenants that were determined.

4. Full early redemption of bonds (Series 4) of Harel Financing & Issuing

After the Reporting Period, on May 11, 2021, the board of directors of Harel Financing & Issuing, a wholly owned subsidiary of Harel Insurance, resolved to make full, early redemption at the initiative of Harel Financing & Issuing of the Series 5 bonds that it issued, which will take place on May 31, 2021.

5. Bonds issued by a second-tier subsidiary of Harel Finance

On February 7, 2021, Harel Exchange Traded Deposit Ltd. (a second-tier subsidiary fully owned by Harel Finance), issued NIS 219 million par value Series 1 bonds to the public, by means of a shelf offering in accordance with a prospectus dated July 31, 2019. The proceeds of the bond issuance were NIS 221 million.

## D. Information about level 2 and level 3 fair-value measurement

**The interest rates used to determine the fair value of non-marketable debt assets**

The fair value of non-marketable debt assets measured at fair value by way of profit or loss and of non-marketable debt assets, where information about the fair value is given for disclosure purposes only, is determined by discounting the estimated cash flows they are expected to produce. The discounting rates are based on an allocation of the negotiable market into deciles consistent with the yield to maturity of the debt asset, and determining the position of the non-marketable asset on those deciles, and this in accordance with the risk premium stemming from the prices of transactions/issues on the non-negotiable market. The price quotes and interest rates used for the discounting are determined by Mirvah Hogen, a company that provides price quotes and interest rates for financial institutions for the revaluation of non-marketable debt assets.

## Note 7 - Contingent liabilities and commitments

### A. Contingent Liabilities

There is a general exposure which cannot be evaluated and/or quantified resulting, *inter alia*, from the complexity of the services provided by the Group to its insured and its customers. Among other things, the complexity of these arrangements incorporates the potential for interpretive and other arguments, in part due to information gaps between the Group's companies and other parties to the insurance contacts and the Group's other products, pertaining to a long series of commercial and regulatory conditions, including arguments regarding the way in which the moneys of insureds and members are invested. It is impossible to anticipate in advance the types of arguments that might be raised in this area, and the exposure resulting from these and other allegations in connection with the Group's products which are raised as part of the various legal proceedings, *inter alia*, through a mechanism of hearings set forth in the Class Actions Law.

New interpretations of the information in insurance policies and long-term term pension products may, in some instances, affect the Group's future profits in respect of the existing portfolio, in addition to the exposure inherent in requirements to compensate customers for past activity. Likewise, there is an element of exposure due to regulatory changes and instructions issued by the Commissioner, in circulars that are in force and in draft circulars that are still under discussion, as well as in the Commissioner’s Position Papers and Decisions in Principle on various topics, some of which have far-reaching legal and operational ramifications. This exposure is particularly strong in pension savings and long-term insurance, including health insurance. In these sectors, agreements with the policyholders, members and customers are over a period of many years during which there may be policy changes, regulatory changes and changes in the law, including in case law. These rights are managed through complex automated systems, and in view of these changes they must be constantly adjusted. All these create considerable operational and mechanization exposure in these areas of activity. The Group’s financial institutions have an enforcement plan according to which they review compliance with the regulatory provisions and take action to correct any deficiencies found.

Among these regulatory changes, in 2011, the Commissioner published a circular concerning data optimization of the rights of members of financial institutions. The circular details the activity framework that a financial institution must carry out to ensure that members' rights are reliably, and fully recorded in the information systems, and that they are available and retrievable. The circular prescribes stages for implementation of the optimization project, which is scheduled for completion on June 30, 2016. At this date, the Company has completed the optimization activity for most of the issues that were included in the work plan. Nevertheless, several issues remain that will continue to be dealt with even after the date scheduled for completion of the project. Furthermore, in accordance with the requirements of the circular, the Company also performs ongoing optimization and preserves the optimization activity conducted as part of the project.

Additionally, there is a general exposure due to complaints submitted from time to time to the Capital Markets, Insurance and Savings Authority against the Group’s financial institutions, regarding the rights of insureds relating to the insurance policies and/or the law. These complaints are handled on a current basis by the public complaints division within the Company. The decisions of the Capital Market, Insurance and Savings Authority on these complaints, if and to the extent that any decision is made, might be given across the board and apply to large groups of insureds. Additionally, sometimes, the complaining entities even threaten to take action regarding their complaints in the form of class actions. At this time, it is impossible to estimate whether there is any exposure for such complaints and it is not possible to estimate whether the Capital Market, Insurance and Savings Authority will issue an across-the-board decision on these complaints and/or if class actions will be filed as a result of such processes, and it is impossible to estimate the potential exposure to such complaints. Therefore, no provision for this exposure has been included. Furthermore, as part of the policy applied by the Capital Market, Insurance and Savings Authority to enhance the controls and audits of financial institutions, from time to time the Authority conducts in-depth audits of a variety of activities of the Group's financial institutions. As a result of these audits, the Ministry of Finance may impose fines and/or financial penalties and it may also order that changes should be made with respect to various operations, both in the past and in the future. Regarding instructions with respect to past activity, the Capital Market, Insurance and Savings Authority might request the restitution of money or a change in conditions vis-à-vis policyholders and/or fund members which may impose financial liabilities on the Company's subsidiaries and/or increase the exposure of the subsidiaries that are insurers to a broader range of insurance events to be covered on account of these instructions, in policies that were issued.

## Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

As part of the audits conducted by the Capital Market, Insurance and Savings Authority, during the Reporting Period several in-depth audits were and are being conducted of the pension and provident sectors, health and personal accident insurance, long-term care insurance, non-life insurance, customer service, claims settlement, actuarial practice and public complaints.

Within the context of investments made by the Group companies in debt assets, the investing companies are signed on indemnity notes of unlimited amounts vis-a-vis the trustees of the debt assets. In these indemnity notes, the Group companies (as well as the other investors in those debt assets), undertook towards the trustees to indemnify the trustees for any expense that may be imposed on them during the handling of the debt arrangements, insofar as they handle such arrangements and insofar as the said expense is not paid by the company which owns the assets. The Group companies hold several debt assets that are in an arrangement process. The exposure relating to the indemnity notes that were given in respect of these debt assets is insignificant.

In connection with a merger of the insurance activity of Dikla into Harel Insurance, and based on a request by Clalit Health Services which is Dikla’s main customer and where, as part of the agreement with Clalit Dikla provides operating and management services for the Supplementary Health Services Plan and the Long-term Care plan for Clalit’s members, Harel Insurance signed an indemnity note in which it undertook to indemnify Clalit Health Services for losses sustained by Clalit if and insofar as any losses are sustained, as a result of a spin-off of operations, under the conditions set out in the indemnity note.

Following is information about the exposure to class actions and motions to recognize claims as class actions filed against the Company and/or companies in the Group.

For motions to approve legal actions as class actions as detailed below, which are, in management’s opinion based inter alia on legal opinions that it received, where it is more likely than not that the defense arguments of the Company (or subsidiary) and certification of the action as a class action will be accepted, or where there is a 50% or more chance that in the final outcome the Company’s (or subsidiaries) arguments will be accepted, where it is reasonable that a proposed compromise settlement, that does not include a significant undertaking for monetary payment will be accepted, no provision has been included in the financial statements. Regarding applications to approve a legal action, fully or partly, as class action with respect to a claim, where it is more reasonable than not that the Company’s defense arguments are likely to be rejected, the financial statements include provision to cover the exposure estimated by the Company's management and/or the managements of subsidiaries. In the opinion of the Company's management, based, inter alia, on legal opinions it received, the financial statements include adequate provision, where such provision is necessary, to cover the estimated exposure by the Company and/or subsidiaries.

Regarding motions to approve an action as a class action under Sections 53, 54, 55, 56, 57, 58, 59, 60, 61 and 62 below, it is not possible at this early stage to estimate the chances that the applications will be approved as a class action and therefore no provision was included in the financial statements for these claims.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

1. In January 2008, an action was filed in the Tel Aviv District Court against the subsidiary Harel Insurance and against four additional insurance companies (hereinafter together: “the Defendants”) together with an application for its certification as a class action. The subject of the action is a claim that the respondents unlawfully collected "sub-annual factor payments" (a fee that insurance companies are allowed to collect when the amount of the annual premium is paid in several installments). The plaintiffs claim damages in the amount of NIS 1,683.54 for each year of insurance. The plaintiffs estimate that the total claim for the entire class that they wish to represent against all defendants is about NSI 2.3 billion, of which about NIS 307 million is against Harel Insurance. On February 1, 2010, the court approved a request for a procedural arrangement between the parties, whereby the plaintiff will strike out from the motion and the action the claim that Harel Insurance collected a sub-annual factor fee exceeding the rate permitted in policies that were issued before 1992 as well. As instructed by the court, the plaintiff submitted an amended claim and request for its certification as a class action. On December 29, 2013 the Commissioner submitted a position that supports the position of the Defendants that there is no impediment to collecting sub-annual policy factors, on the savings component of life insurance combined savings and other term policies, including long-term care, work disability and accidental disability. On July 19, 2016, the Tel Aviv District Court approved the claim as a class action in connection with the collection of a sub-annual factor on the premium component which is known as the policy factor and on the savings component in combined savings and life assurance policies, and in connection with the collection of a sub-annual policy factor in health, disability, critical illness, work disability and long-term care policies. In December 2016, an application was filed for permission to appeal the decision of Tel Aviv District Court. Following a decision of the Supreme Court from January 2017, the respondents responded to the motion for permission to appeal the decision to certify the action as a class action and it was heard by a panel of judges. In April 2017, the Supreme Court accepted the request for a stay of implementation that was filed by the Defendants and it determined that the hearing would be stayed until a decision has been made on the application for permission to appeal and on the appeal. On May 31, 2018, the Supreme Court accepted the motion for permission to appeal, heard it as an appeal and accepted it, reversing the ruling of the District Court and dismissing the motion for certification of the action as a class action. On June 26, 2018, a motion was served to Harel Insurance to hold a further hearing on the judgment, that the plaintiffs filed in the Supreme Court. In its decision from July 2, 2019, the Supreme Court instructed that another hearing on the judgment should take place before a panel of seven judges. In November 2019, the Attorney General announced that he would appear at the proceeding in person and in February 2020 he submitted his position supporting the judgment and the trend it reflects for strengthening the weight that should be given to the regulator’s professional position in the interpretation of his instructions and that in his view, there is no room to intervene in the decision made in the judgment which is the subject of the proceeding with respect to adopting the interpretive position of the Capital Market Authority. In July 2020, a further hearing on the ruling was head in the presence of a panel of seven judges.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

2. In April 2010, an action and application for its certification as a class action was filed in the Petach Tikva Central Region District Court against the subsidiary Harel Insurance and against four additional insurance companies (hereinafter together: “the Defendants”). The subject of the legal action is the allegation that in the event of a discontinuation of insurance in any month, after the insurance premium for that month was collected by the Defendants in advance, the defendants allegedly did not reimburse the insured the proportionate, surplus share of the premiums for that month, or alternatively they allegedly repaid the insurance premium in nominal values only. In the opinion of the applicants, the total damages to all members of the group, cumulatively claimed against all defendants, amount to NIS 225 million for a ten-year period (the plaintiffs did not attribute any specific amount to each of the Defendants separately). The amount of the plaintiffs’ personal claim against Harel Insurance is NIS 80. In December 2011, the court instructed that the plaintiffs' allegations should be struck out in connection with Section 28.A of the Contracts (Insurance) Law and in connection with a policy of policyholders that has partially or temporarily expired. In November 2014, the Commissioner’s opinion was submitted to the court, that the provisions of the policy are binding with respect to the manner of collecting the premium after the death of the insured or in the period following cancellation of the policy, and that the actuarial opinion submitted to the court by the Defendants is insufficient to confirm that the Defendants priced the policy in such a way as provides evidence that they took into account the fact that the premiums would not be returned to the insureds for the period after the death of the insured or after the policy cancellation. On June 23, 2015, the Lod-Center District Court partially certified litigation of the claim as a class action. The court certified the claim against Harel Insurance as a class action, but only with respect to the inclusion of interest and linkage differences at the time of restitution of premiums that were collected in the months after the month in which the insurance contract was cancelled or after the occurrence of the insured event. In September 2016, a compromise settlement was submitted for the court’s approval.

   Accordingly, it was agreed, *inter alia*, that Harel Insurance will donate 60% of its total refund in relation to the first cause, as defined in the compromise settlement and as per report of the reviewer to be appointed to review the compromise settlement, and 80% of the total refund amount in respect of the second cause, as defined in the compromise settlement and as per the report of the reviewer to be appointed, as noted. Furthermore, the compromise settlement prescribes provisions with respect to future conduct in cases of the cancellation of policies which are the subject of the claim. Validity of the compromise settlement is contingent on the court’s approval. In March 2017, the Attorney General submitted his position on the compromise settlement to the government. The opinion includes various comments including, among others, that a reviewer should be appointed to review the compromise settlement before it is approved and he asked to submit a supplementary position after the professional opinion of the reviewer has been received and examined. In June 2017, the court appointed a reviewer for the compromise settlement. In December 2019, the reviewer’s opinion was submitted to the court in relation to Harel Insurance according to which the compromise settlement is appropriate, fair and reasonable, when taking into account the affairs of the class members. In December 2020, the Attorney General submitted a preliminary position on the reviewer’s report which includes several comments, including, among others, comments on the individual compensation mechanism and the issue of locating insureds, as well as a request to submit his final position after the reviewer’s reports have been received in relation to all the respondents in the proceeding.

## Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

3. In May 2011, an action was filed in the Central Region District Court against the subsidiary Harel Insurance and three other insurance companies (hereinafter together: “the Defendants”), together with an application for certification as a class action. The subject of the action is an allegation that the Defendants allegedly unlawfully collect a payment called a "policy factor" and/or "other management fees" at a considerable rate of the premium paid without their consent or knowledge and without compliance with a condition that enables such collection in the policy instructions. The plaintiffs argue that according to instructions issued by the Commissioner, companies may charge a policy factor under certain conditions; however they also claim that in addition to the Commissioner's authorization, the Defendants must stipulate collection of the policy factor in a contractual agreement with the policyholder. According to the plaintiffs, the total loss claimed for all members of the group against all the Defendants is NIS 2,325 million, and against Harel Insurance, based on its share of the market, is NIS 386 million. On June 10, 2015, the parties filed an application in the court to approve a compromise settlement. The court appointed a reviewer for the compromise settlement. Under the proposed compromise settlement, the Defendants undertook to reimburse the class members with a total amount of one hundred million shekels for the collection of a policy factor in the past. Harel Insurance’s share of this amount is NIS 14 million. Additionally, each of the Defendants undertook to reduce the future collection for the policy factor from these class members at a rate of 25% relative to the amount actually collected. The Defendants also agreed to bear the compensation to the class plaintiff and cover the cost of his lawyer’s fees, by an amount to be decided upon by the court. In its decision from November 21, 2016, the court dismissed the compromise settlement and approved litigation of part of the claim as a class action on the grounds of a breach of the insurance policy on account of collection of the policy factor fee with no legal basis, in a manner that compromises the insured’s accrued savings, starting from seven years prior to the date of filing the claim. The relief to be claimed as part of the class action will be to remedy the breach by way of revising the insured’s accrued savings by the additional amount of savings that would have been accrued if the policy factor had not been collected or by compensating the insured by the aforesaid amount. In addition, from now on, the policy factor will no longer be collected. The class in whose name the class action is litigated comprises insureds of the Defendants who have combined life assurance and savings policies that were drawn up between 1992-2003, where the savings accrued by the insured were compromised due to the collection of the policy factor. In May 2017, the Defendants filed a motion in the Supreme Court for permission to appeal this decision, in which context the compromise settlement was dismissed and the motion to certify the claim as a class action was partially approved. In September 2018, the Attorney General’s response was filed to the motion for permission to appeal, according to which his position is that the Central District Court was correct in its decision not to approve the compromise settlement and to partially approve the motion to certify the action as a class action. In February 2019, the motion for permission to appeal was struck out, after the Defendants accepted the Supreme Court’s recommendation to withdraw the motion for permission to appeal, while maintaining all their arguments and rights. The parties are conducting a mediation process.

# Note 7 - Contingent liabilities and commitments (Contd.)

**A. Contingent Liabilities (Contd.)**

4. In July 2012, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with an application for its certification as a class action against the subsidiary Harel Insurance and against the IDF Disabled Veterans Organization (hereinafter together: “the Defendants”). The subject of the class action claim is that in a group life insurance policy issued to members of the IDF Disabled Veterans Organization a certain insurance coverage ostensibly exists which was intended for cases where the insurance event takes place in the year between the age of 75 and 76 in the life of the insured, while Harel Insurance only provides insurance coverage for insurance events occurring up to the age of 75. The plaintiff estimates the amount of the claim for all group members he wishes to represent at NIS 46 million. On June 5, 2014, the Tel Aviv District Court certified hearing of the claim as a class action. The group which was approved is all the beneficiaries of the IDF Disabled Veterans Organization who died between 2006 and 2012, when the insureds were aged between 75 and 76, and who suffered an insured event during that year and did not receive insurance benefits from Harel Insurance. On July 6, 2014, the Defendants filed an application for permission to appeal this decision in the Supreme Court. In November 2014, the Supreme Court ordered a stay of proceedings in the Tel Aviv District Court until another decision is made. As recommended by the court, the Defendants withdrew their application for appeal in December 2015. Consequently, the stay of proceedings in the District Court was suspended. In its decision from March 20, 2016, the Tel Aviv District Court instructed that the group should be enlarged to include the beneficiaries of IDF veterans who died between 2013 and 2016 as well. The court instructed that the Commissioner’s position on the dispute which is the subject of the action should be accepted. In September 2018, the Commissioner’s position was accepted, whereby given that the dispute relates to the interpretation of the policy documents, the Capital Market Authority does not see fit to express its opinion on the matter. In its judgment dated December 13, 2020, the Tel Aviv District Court ordered the claim to be dismissed (“the Judgment”). In January 2021, the plaintiff in the motion for certification filed an appeal on the Judgment in the Supreme Court.
5. In December 2012, a claim was filed against the subsidiary Harel Insurance in the Aviv District Court, together with an application for certification as a class action. The subject of the claim is that Harel Insurance ostensibly pays the monthly LTC insurance benefit to customers insured under a group policy of the Israel Teachers Union ("the Policy") according to the CPI known at the beginning of the month, rather than the CPI known at the date of payment. In addition, it is claimed that Harel ostensibly pays the LTC benefit without linking it to the base CPI given in the Policy, but rather to a CPI that was published two months later, and this, ostensibly, in breach of the provisions of the Policy. The plaintiff does not mention the total sum that it claims for all members of the group. In December 2018, the parties filed a motion in the court to approve a compromise settlement in which it was agreed that insureds in the policy would receive index differences for long-term care benefits that were calculated not in accordance with the base index defined in the policy, and that index differences will be paid in respect of long-term care benefits that were calculated not in accordance with the known index on the date of payment in policies that stipulated that the payment will be linked to the known index on the date of payment. Furthermore, provisions were prescribed concerning the way in which payments to the class members will be made in the future. The validity of the compromise settlement is contingent on the court’s approval. In July 2019, the Attorney General submitted his position on the compromise settlement. The opinion includes various comments including, among others, that a reviewer should be appointed to review the compromise settlement before it is approved and comments relating to the way in which the refund will be made to the class members, and he also requested submittal of an additional opinion after the professional opinion of the reviewer has been received and examined. In August 2020, an amended compromise agreement was submitted for the court’s approval, in accordance with the court’s comments. In October 2020, the Attorney General’s position was submitted to the court in which he has no comments on the amended compromise agreement and he leaves the decision to the discretion of the court.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

6. In May 2013, an action was filed in the Tel Aviv District Court together with an application for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly refrains from paying insurance benefits to its policyholders together with linkage differences and interest, from the date of occurrence of the insured event up to the payment date of the insurance benefits. The total loss claimed for all members of the group amounts to sums varying from NIS 168 million to NIS 807 million. The mediation process conducted by the parties was unsuccessful and litigation of the action was returned to the court. On August 30, 2015, the Tel Aviv District Court partially accepted the motion for certification, such that conducting of the claim as a class action was approved with respect to the argument concerning non-payment of interest as required under Section 28(A) of the Insurance Contract Law ("the Law"), and the motion was dismissed insofar as it relates to the argument that Harel Insurance does not link the insurance benefits in accordance with the provisions of Section 28(A) of the Law. The plaintiffs estimate that the overall loss claimed for all members of the group in relation to the Company according to the amended statement of claim amounts to NIS 120 million. In October 2015, an application was filed for permission to appeal the decision to certify the application as a class action. In accordance with the court's recommendation, in August 2016 the Defendants withdrew the application for permission to appeal. On February 28, 2021, a partial ruling was given on the action (the "Partial Ruling") adopting the ruling in the certification decision according to which the class action was accepted. According to the Partial Ruling, the group is defined as any eligible person (insured, beneficiary or third party) who in the period commencing three years prior to filing the action and its termination on the day of giving the Partial Ruling, received from Harel Insurance, not in accordance with a ruling on his affairs, insurance compensation without the inclusion of interest by law. Furthermore, the court stipulated that for the purpose of exercising the ruling, an expert will be appointed to determine the method of refunding the group members and calculating the amount of the refund, and it also determined that expenses will be paid to the representative plaintiffs and legal costs to their attorneys. In May 2021, Harel Insurance filed an appeal on the partial ruling in the Supreme Court.

7. In April 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. ("Dikla")). The subject of the action is the allegation that Dikla ostensibly pays insurance benefits to insureds in the group health insurance policy "Mushlam for Pensioners" run for pensioners of Clalit Health Services and their families ("the Policy") based on the index known at the beginning of the month, and not according to the index known on the date of payment, in contravention of the provisions of the law ("primary cause"), and that Dikla has allegedly increased the premiums for insureds in the policy without any foundation and ostensibly in contravention of the provisions of the Policy and the law ("secondary cause"). The total loss claimed for all members of the group amounts to NIS 21.5 million (NIS 19 million for the primary cause and NIS 2.5 million for the secondary cause). In May 2021, the parties filed a motion in the court to approve a compromise settlement in which it was agreed that members of the class, as they are defined in the compromise settlement, will be paid index differences for health insurance benefits that were calculated in the relevant period based on the known index at the beginning of the month and not according to the known index on the date of payment. Validity of the compromise settlement is contingent on the court's approval. To the extent that the compromise settlement is approved, a benefit will be paid to the class plaintiff and legal fees to its attorney, of insignificant amounts.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

8. In April 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance pays the holders of Hiyunit profit-sharing policies for work disability and long-term care insurance (“the Policy”) monthly compensation (which consists of monthly compensation and the outstanding bonus), which is ostensibly calculated in contravention of the Policy provisions, and that Harel Insurance, allegedly, does not pay the policyholders the bonus they have accrued up to the date of payment of the first monthly compensation according to the Policy. The total loss claimed for all members of the Group that the plaintiff wishes to represent amounts to NIS 381 million. In March 2019, the Tel Aviv District Court certified litigation of the claim as a class action ("the Decision"). The class in whose name the class action is to be litigated is all insureds in profit-sharing life-assurance policies managed by Harel Insurance, in which the insurance benefits are paid based on an Rm formula. On July 17, 2019, Harel Insurance filed an application in the Supreme Court for permission to appeal the decision. On July 22, 2019, Harel Insurance was served with an appeal in the Supreme Court which was filed by the plaintiff in the motion for certification, on that part of the decision in which the District Court ruled not to certify litigation of the claim as a class action on the grounds of deception and that the definition of the class in the class action did not also include past insureds, including beneficiaries and heirs of insureds in the insurance policies in respect of which the claim had been certified as a class action. In October 2019, the Supreme Court ordered a stay of the proceedings before the District Court until further notice.
9. In June 2014, an action was filed in the Tel Aviv District Court, together with an application for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. (“Dikla”)) The subject of the action is the argument that under the provisions of the group long-term care insurance policy for members of Clalit Health Services Supplementary Long-term Care Plus (“the Policy”), Dikla fails to pay insureds who require long-term care insurance benefits for the days in which they were hospitalized in a general or rehabilitation hospital, and that these days are not included in the number of days for calculating the waiting period determined in the policy, and this ostensibly in contravention of the Commissioner’ instructions and the provisions of the law. The plaintiff estimates the total loss claimed for all members of the Group that it wishes to represent at NIS 35 million. The court passed the motion to accept the Commissioner’s position regarding the disputes that are the subject of the motion for certification of the action as a class action. In January 2016, the Commissioner’s position was submitted which stated that the policy definition of the insured event does not violate the instructions of the Capital Market, Insurance and Savings Authority and that the policy which is the subject of the claim was approved separately by the Capital Market, Insurance and Savings Authority. In December 2018, the court dismissed the motion to certify the claim as a class action on the grounds that non-payment of the insurance benefits in respect of the hospitalization period is contrary to the Commissioner’s instructions, but it approved the conducting of the action as a class action on the grounds of a breach of an insurance circular on the subject of fair disclosure to insureds when they are enrolled in a health insurance policy. The class in whose name the class action is to be conducted is all Dikla policyholders who purchased long-term care insurance after October 1, 2001, who were entitled to claim insurance benefits in the period between May 29, 2011 and May 29, 2014, and where the proper disclosure form attached to the purchased policy does not mention or refer to the section that states that the date of occurrence of the insured event is the date on which the insured first becomes eligible, or the date on which the insured was discharged from a general or rehabilitation hospital, whichever is later. In May 2019, Dikla filed a motion in the Supreme Court for permission to appeal the decision. In June 2019, the plaintiff in the motion for certification filed an appeal in the Supreme Court against the District Court’s ruling not to certify litigation of the claim as a class action according to which non-payment of the insurance benefits for the hospitalization period contravenes the Commissioner’s instructions and also that, as argued by the plaintiff, the court did not rule on the additional argument of breach of contract. At the hearing, which took place in the Supreme Court on May 10, 2021, the motion for permission to appeal and the appeal were dismissed, after the parties accepted the Supreme Court’s recommendation to withdraw them, while preserving all their arguments.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

10. In July 2014, a motion for certification of a claim as a class action was filed in the Lod-Center District Court against the subsidiary Harel Pension & Provident and against four other pension fund management companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants raise the management fees paid by pension fund members from the cumulative savings (accrued balance) to the maximum rate permitted by law on the date on which the members become pensioners, receive their old-age pension and they are no longer able to move their pension savings. In this way, the Defendants ostensibly apply the contractual right to which they are entitled under the provisions of the pension fund articles, in an unacceptable manner, in bad faith and contrary to the provisions of the law. According to the plaintiffs, the total loss claimed for all members of the group that the plaintiffs wish to represent, amounts to NIS 48 million against all the Defendants. The court passed the application to the Commissioner for his opinion on the questions arising from the motion for certification. In September 2017, the Commissioner's position was submitted supporting the Defendants' position whereby the rate of the management fees collected from members during the savings period is not equal to the rate of the management fees collected from post-retirement annuity recipients, given that they relate to two different periods and have different characteristics. The post-retirement management fees are reset at the time of retirement and unrelated to the rate prior to retirement. This is therefore not considered an increase in the management fees but rather setting the rate of the management fees for the period of retirement. The "Management Fees Circular" which relates to the management companies' obligation to notify their members does not apply to the setting of management fees for pensioners; and the obligation to give notice of a change in the management fees by virtue of the circular does not apply to the management companies with respect to annuity recipients. The mediation process conducted by the parties was unsuccessful and the hearing on the action was returned to the court.
11. In November 2014, a motion for certification of a claim as a class action was filed against the subsidiary Harel Insurance and Standard Insurance Ltd. and against other insurance companies and insurance agencies (together: "the Defendants") in the Lod-Center District Court. The subject of the action is the allegation that when the holders of Isracard and CAL credit cards call the sales call centers run by the Defendants in order to activate an overseas travel insurance policy that they are entitled to receive free of charge ("the Basic Policy"), the Defendants ostensibly then sell these customers riders or extensions to the Basic Policy, in practice selling them complete, standard policies that provide cover from the first shekel and include coverages that overlap the cover included in the Basic Policy. This, at full cost and without deducting the value of the Basic Policy. The plaintiffs argue that the Respondents are therefore misleading the insureds, in breach of the disclosure obligations, operating in contravention of the law and practicing unjust enrichment. According to the action, the total loss claimed for all members of the Group that the plaintiffs wish to represent is estimated at NIS 270 million. In August 2018, the parties filed a motion in the court to certify a compromise settlement in which it was agreed that Harel Insurance will make available to the eligible class members, as they are defined in the compromise settlement, a defined quantity of days of travel insurance free of charge, that can be utilized in accordance with the provisions of the compromise settlement. The validity of the compromise settlement is contingent on the court's approval. In November 2019, the Attorney General submitted his position regarding the compromise settlement, whereby the compromise settlement should not be approved in its present format and that it must be amended in conformity with his comments. In April 2020, the court gave its decision on the motion to approve the compromise settlement whereby, at this time, in view of the current uncertainty and travel ban between most countries in the world, it is impossible to say that this would be a fair ruling on the dispute, at this stage, from the perspective of the class members. This, without negating the arrangement itself as being worthy, fair and reasonable from the perspective of the class members.

# Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

12. In August 2015, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. (“Dikla”)). The subject of the action is the claim that when settling claims in long-term care, Dikla ostensibly separates the activities of daily living for different parts of the body for the purpose of investigating whether the insured event has occurred, by performing a literal, quantitative review of the insured’s ability to perform each of the ADLs. This in a manner that renders the content of the Commissioner’s meaningless, whereby their assessment is purely quantitative and contrary to the Commissioner’s position on this matter from January 2015. The personal loss claimed by the plaintiff is estimated at NIS 59,000 and the overall loss claimed for all members of the class that the plaintiff wishes to represent amounts, in the plaintiff’s opinion, to NIS 75.6 million. In its ruling dated January 21, 2021, the Tel Aviv District Court ordered the motion for certification as a class action to be struck out. In March 2021, an appeal on the ruling was served to Dikla, which was filed in the Supreme Court by the plaintiff in the motion for certification.
13. In September 2015, an action was filed in the Lod-Center District Court together with a motion for its certification as a class action against the subsidiaries Harel Insurance and Dikla Insurance Agency Ltd. (in its previous name Dikla Insurance Company Ltd. (“Dikla”)) and against three other insurance companies (henceforth together: “the Defendants”). The subject of the action is the allegation that the Defendants allegedly adopted an interpretive approach whereby in order to recognize an insured in the investigation of a claim for long-term care as one who suffers from incontinence, this condition must be the outcome of a urological or gastroenterological illness or ailment only. This, ostensibly, in contravention of the provisions of the insurance policy. The plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, but they estimate it to be hundreds of millions of shekels. The mediation proves conducted by the parties was unsuccessful and the hearing on the action was returned for litigation in the court. In April 2020, the Central District Court approved litigation of the claim as a class action against Harel Insurance, Dikla and against two other insurance companies, on the grounds of breach of the long-term care insurance contract that led to non-payment or underpayment of the long-term care benefits, due to non-recognition of the insureds as being eligible to points for incontinence ("control of bowel and bladder functions"). The group in whose name the class action is being conducted is anyone who had long-term care insurance that was sold by one of the Defendants against whom conducting the action as a class action was approved, and who suffered from the loss of ability to independently control bowel or bladder functions as a result of a combination of impaired control of these functions that has not developed to organic loss of control with deteriorated functional condition, and nevertheless did not receive from the Defendants against whom conducting the claim as a class action was approved (as applicable) points for incontinence in the framework of the assessment of his claim to receive long-term care benefits, in a manner that led to an infringement of his rights to insurance compensation in the period between September 8, 2012 and the date of approval of the action as a class action. The parties are conducting a mediation process.
14. In September 2015, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Pension & Provident and against four other companies (“hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants were ostensibly in breach of their fiduciary duties towards the members of the provident funds they manage by paying commissions to the insurance agents at a rate derived from the management fees they collect from the members, thereby compensating the agents by an amount that increases in line with the increase in the management fees. Their argument is that the Defendants ostensibly practiced unjust enrichment by creating a mechanism aimed at increasing the management fees in favor of the agents and management companies. The plaintiffs estimate the loss for all members of the group they wish to represent in the amount of NIS 300 million per annum since 2008 and in total by approximately NIS 2 billion.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

15. In February 2016, an action and application for its certification as a class action was filed in the Lod-Center District Court against the subsidiary Harel Pension & Provident and against four other management companies (“hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants begin to collect management fees at the maximum rate permitted by law from the recipients of disability and survivors allowances when they begin to receive the allowances so that they are no longer able to move their money to another pension fund, without giving them advance notice. This ostensibly in breach of the applicable voluntary disclosure obligation, in breach of statutory duties and duties of trust, agency and caution, taking unfair advantage through mala fides in a contractual right, practicing unjust enrichment and behavior as a cartel. The plaintiff has not quantified the total loss claimed for all members of the group that it wishes to represent, although her initial estimate is about a billion shekels against all the Defendants. In January 2018, the court ordered the transfer of the hearing to the Regional Labor Court.
16. In February 2016, an action was filed in the Lod-Center District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that the position of Harel Insurance is that comprehensive insurance for vehicles such as taxis does not cover impairment, including impairment caused as a result of an insured event, this ostensibly in contravention of the policy provisions and that Harel Insurance is therefore in breach of the agreement between itself and its policyholders, it practices unjust enrichment and is in breach of the enhanced obligations that apply to it as an insurance company, including that it misleads its customers. The plaintiff estimates the amount of the loss caused to all members of the group it seeks to represent in the amount of NIS 10 million. In March 2017, the court approved the plaintiff’s application to amend the definition of the group so as to include insureds who had purchased a policy for a heavy-goods or commercial vehicle weighing more than 3.5 tons (including taxis) and not only insureds who had purchased policies for taxis. The parties are conducting a mediation process. In May2020, a motion was filed in the Lod-Center District Court to certify a compromise settlement in the application and action. As part of the compromise settlement, it was agree, inter alia, that Harel Insurance will pay the insureds who are eligible for payment, according to their definition in the compromise settlement, compensation calculated according to the mechanism set out in the compromise settlement. Validity of the compromise settlement is contingent upon the court’s approval. In April 2021, the Attorney General’s position was submitted to the court according to which he did not see fit to express an opinion in relation to the compromise settlement. Nevertheless, he made it clear that in his opinion, a “technical impairment” should not be construed as an independent cause in its own right and that in practice, the distinction between a technical and a commercial impairment is artificial (impossible). The commercial impairment incorporates all the circumstances surrounding the actual impairment and the different components cannot be separated.
17. In March 2016, an action was filed in the Lod-Center District Court, together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance allegedly pays money to the beneficiaries of life assurance policyholders by virtue of the life assurance policies, where the money is linked to the CPI from the date on which the Company becomes aware of the insured’s death and the money is not linked to the relevant investment index for the investment track chosen by the insured. The plaintiff argues that Harel Insurance is therefore in breach of the agreement between the Company and its policyholders, practices unjust enrichment, is in breach of a statutory obligation and in breach of the obligation to provide disclosure. The personal loss claimed by the plaintiff is estimated at NIS 33,729 thousand. The plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent, although she estimates it to be tens of millions of shekels. In February 2017, the court passed the motion to accept the Commissioner’ position on the questions arising from the motion for certification. In May 2017, the Commissioner submitted his position whereby monies in pension savings that are payable to beneficiaries as a result of death during the work period are not insurance benefits and are not covered by Section 28 of the Insurance Contracts Law, and that from now on Harel Insurance must also link the savings to the investment index in the period after the insured’s death and until the money is transferred to the beneficiaries. The Commissioner also noted that in his opinion, in this case, unjust enrichment does not apply. In November 2019, the parties filed a motion in the court to certify a compromise settlement in which it was agreed, *inter alia*, that Harel Insurance will pay

# Note 7 - Contingent liabilities and commitments (Contd.)

**A. Contingent Liabilities (Contd.)**

(par. 17 contd.)

compensation to the class members who were defined in the compromise settlement at a rate prescribed in the compromise settlement for alleged loss with respect to the difference between the total amount of savings had they been linked to the investment index to which the money was linked prior to the death of the insured, net of management fees, and the amount that was actually paid, and that from the date specified in the compromise settlement, Harel Insurance will manage the savings in the policies of the class members defined in the compromise settlement even after the insured's death, in the investment track in which they were managed before his death. Validity of the compromise settlement is contingent on the court's approval. In January 2021, the Attorney General submitted his position on the compromise settlement, according to which he does not oppose the compromise settlement, but he made comments on several matters, including, among others, that in his opinion a reviewer should be appointed to examine the compromise settlement prior to its approval.

18. In August 2016, an action was filed in the Lod-Center District Court, together with a motion for its certification as a class action, against the subsidiary Harel Pension & Provident. The subject of the action is the allegation that in addition to management fees, Harel Pension & Provident ostensibly collects payment from its members for a component relating to investment management expenses (a component of direct expenses for performing transactions), which is permissible by law, although in this case Harel neglected to include provision in the contract allowing it do so. The plaintiff argues that Harel Pension is therefore in breach of the provisions of the pension fund articles and the onerous fiduciary obligations and duty of disclosure that apply to it, it negotiates in bad faith and gives its customers a misleading description. The plaintiff estimates the total loss claimed for all members of the group that it wishes to represent amounts to approximately NIS 132 million. In April 2017, the court ordered the transfer of the hearing of the motion to the Tel Aviv District Labor Court. In February 2018, the court instructed the Commissioner to submit his position in relation to the proceeding. In June 2018, the position of the Capital Market Authority was submitted supporting the position of Harel Pension & Provident. In September 2020, the court instructed a stay of proceedings in the case until a ruling is given on the motion for permission to appeal in the matter of direct expenses in Migvan Personal Investments savings policies, in which context the district court approved litigation of the action as a class action against Harel Insurance.

19. In September 2016, an action was filed in the Lod-Center District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly collects payment from the holders of the Harel savings policy "Harel Migvan Personal Investments" for a component relating to investment management expenses which may be collected by law, but without contractual agreement in the policy conditions allowing it to collect this component. According to the plaintiff, Harel Insurance is therefore fundamentally in breach of the policy provisions, in breach of the fiduciary obligation applicable to it and misleads its policyholders. The plaintiff estimates the overall loss caused to all members of the group it seeks to represent in the amount of NIS 27.8 million. In May 2019, the Tel Aviv District Court approved litigation of the claim as a class action on the grounds of a breach of the insurance policy due to the unlawful collection of investment management expenses. The class in whose name the class action is to be litigated is all holders of the Migvan Personal Investment policy of Harel Insurance at the present time and in the seven years preceding the date of filing the motion. In September 2019, Harel Insurance filed a motion for permission to appeal the decision in the Supreme Court. In November 2019, the Supreme Court ruled that a response must be submitted to the motion for permission to appeal and it instructed the Attorney General to submit his position on the motion in writing. In August 2020, the Attorney General announced that he would appear at the motion for permission to appeal and he submitted his position on the motion for permission to appeal to the effect that the plaintiffs should be granted permission to appeal, the motion for permission to appeal and the actual appeal should be accepted, the decision approving litigation of the claim as a class action should be nullified and the motion for certification should be dismissed.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

20. In September 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly collect high premiums from the insureds for health insurance policies that include cover that the insureds ostensibly do not need as they have supplementary health insurance from the HMOs to which they belong. The plaintiffs also argue that the Defendants do not disclose to the insureds that this cover is in fact superfluous and/or they make one type of service conditional on another as they do not allow the insureds to purchase a limited version of the policy which includes only coverage that is not included in the HMO supplementary health insurance, thus creating a situation of double insurance. The plaintiffs argue that the Defendants are therefore in breach of the duty of utmost good faith which applies to them, are in breach of a statutory obligation, in breach of the provisions of the law, in breach of an agreement, mislead their policyholders and practice unjust enrichment. The plaintiffs estimate that the total loss claimed for all members of the class that they wish to represent against Harel Insurance amounts to NIS 2.2 billion, and to NIS 4.45 billion against all the Defendants. In October 2020, the Tel Aviv District Court denied the application for certification of the action as a class action. In November 2020, Harel Insurance was served with an appeal on the judgment which the plaintiffs in the motion for certification filed in the Supreme Court. In December 2020, a counter appeal was filed by Harel Insurance regarding the failure to rule expenses in its favor in the judgment given by the District Court.
21. In October 2016, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that until the annual report for 2015, Harel Insurance ostensibly neglected to disclose to its policyholders, who purchased long-term care insurance with a variable premium, what premium they will be charged from the age of 65, despite the fact that, according to the plaintiff, the premium on this policy increases by hundreds of percent at the age of 65. The plaintiff argues that Harel Insurance is therefore in breach of a statutory obligation and in breach of the obligation to provide disclosure, in breach of agreement, acts in bad faith, practices unjust enrichment and acts negligently. The plaintiff further argues that charging insureds for future premiums based on tariffs that are unknown to them is a discriminatory condition in a standard contract. The plaintiff has not quantified the total loss claimed for all members of the group that she wishes to represent against Harel Insurance, although she estimates it to be millions of shekels. In July 2017, the court approved the plaintiff’s application to amend the motion for certification so that it also addresses the claim whereby Harel Insurance ostensibly neglected to present to its policyholders before the date of enrolment in the policy, the premium they would pay from the age of 65, despite the fact that it is obligated to do so according to the Commissioner’s circular. In August 2017, an amended motion was filed for certification of the action as a class action. The subject of the amended motion is the allegation that Harel Insurance ostensibly neglected to present to its policyholders who have long-term care insurance with a variable premium, in the enrolment form and/or in the general conditions of the policy, the premium they would pay from the age of 65 onwards, before they enrolled in the insurance. In March 2019, the court ordered the transfer of the application for obtaining the Commissioner’s position with respect to the dispute which is the object of the motion for certification. In November 2019, the Commissioner’s position was received according to which the provisions of Circular 2001/9 “Fair Disclosure for Insureds Enrolling in Health Insurance Policies” (“the Circular”) issued by the Authority as well as the statutory provisions, obligate insurers to inform candidates for insurance at the time of purchasing the insurance of the way in which premiums may change, but the text of the Circular does not address the question of how this obligation must be fulfilled prior to enrollment and whether the obligation must be fulfilled in writing. In December 2020, the parties informed the court of their agreement to open a mediation process.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

22. In October 2016, an action was filed in the Jerusalem District Labor Court together with a motion for its certification as a class action against the second-tier subsidiary Tzva Hakeva. The subject of the action is the allegation that Tzva Hakeva ostensibly collects investment management expenses from fund members which is permissible by law, but without contractual agreement in the policy conditions allowing it to collect these expenses. The plaintiff argues that Tzva Hakeva therefore acts in contravention of the provisions of law and the special fiduciary obligation that applies to it. The plaintiff estimates the overall loss claimed for all members of the group it wishes to represent at NIS 30.1 million. In January 2018, it was decided to consolidate the hearing together with additional motions to certify pending class actions on the subject of direct expenses in provident funds and education funds. In February 2018, the court ruled that the Commissioner’s opinion on the proceeding should be obtained. In May 2018, the Commissioner’s opinion was submitted supporting the position of the Defendants in which financial institutions are permitted to collect direct expenses from the members or insureds, even if this is not explicitly mentioned in the institution’s articles, and provided that this is done in accordance with the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) Regulations, 2008 (“the Regulations”). In his position, the Commissioner noted that it is also relevant, with the necessary changes, for insurance companies that manage yield-dependent insurance.
23. In January 2017, an action was filed in the Lod-Center District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance does not disclose (itself or through its insurance agents) to its motor insurance insureds, who are on the verge of crossing an age or driving seniority bracket in the policy period that they are able to update the driver’s age or driving seniority and receive a premium refund, and that as a result these insureds overpay the premium due to not having updated the premium in the policy period as a result of changing the age or seniority bracket. The plaintiffs estimate the loss caused to members of the class they wish to represent in the amount of at least NIS 12.25 million.
24. In March 2017, an action was filed in the Jerusalem District Labor Court, together with a motion for its certification as a class action, against the subsidiary Harel Pension & Provident. The subject of the action is the allegation that until the end of 2015, Harel Pension & Provident ostensibly collected from the members of Harel Otzma Taoz Provident Fund investment management expenses, which is permissible by law, but without contractual agreement in the provident fund articles allowing such expenses to be collected. The plaintiff estimates the loss caused to all members of the group it wishes to represent at NIS 127.1 million. In January 2018, it was decided to consolidate the hearing with additional motions to certify pending class actions on the subject of direct expenses in provident funds and education funds. In February 2018, the court ruled that the Commissioner’s opinion on the proceeding should be obtained. In May 2018, the Commissioner’s opinion was submitted supporting the position of the Defendants in which financial institutions are permitted to collect direct expenses from the members or insureds, even if this is not explicitly mentioned in the institution’s articles, and provided that this is done in accordance with the Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) Regulations, 2008 (“the Regulations”). In his position, the Commissioner noted that it is also relevant, with the necessary changes, for insurance companies that manage yield-dependent insurance.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

25. In September 2017, an action was filed in the Jerusalem District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against 12 other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that in cases where the Defendants pay amounts ruled against them by judicial authorities after the date set for their settlement, the Defendants allegedly do not add linkage differences, interest and linked interest as required, under the provisions of Section 5(b) to the Adjudication of Interest and Linkage Law, 1961. The plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, however they estimate it to be tens of millions of shekels. The parties are conducting a mediation process. In March 2021, the parties filed a motion in the court to certify a compromise settlement in which it was agreed, *inter alia*, that the Defendants will amend the wording of the settlement notes which they use, insofar as is necessary, so that date of payment will be 30 days from the date on which the payment conditions are satisfied, and they will accept settlement notes in accordance with a mechanism for serving a settlement note as defined in the compromise settlement. Validity of the compromise settlement is contingent on the court’s approval. To the extent that the compromise settlement is approved, Harel Insurance will pay a benefit to the class plaintiff and legal fees to its attorney of insignificant amounts.
26. In December 2017, an action was filed in the Jerusalem District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance, against two other insurance companies, against Clalit Health Services (“Clalit”) and against Maccabi Healthcare Services (“Maccabi”) (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly refuse to provide long-term care insurance for people on the autism spectrum or they set out unreasonable conditions for accepting them to the insurance, without their decisions being based on any statistical actuarial or medical data that is relevant to the insured risk and without providing a reason for their decision, as required by law. The plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, however they estimate it to be tens or hundreds of millions of shekels. In June 2019, the court ordered the application to be submitted for obtaining the position of the Attorney General on questions arising from the motion for certification. In January 2020, the Attorney General announced that his position was the same as the position he had submitted in a parallel case and which supports the arguments of Harel Insurance.
27. In January 2018, an action was filed in the Lod-Center District Court against the subsidiary Harel Insurance and against five other insurance companies (hereinafter together: “the Defendants”), together with an application for its certification as a class action. The subject of the action is the allegation that the Defendants ostensibly unlawfully refrain unlawfully from paying insurance benefits to insureds, to third parties and beneficiaries for the VAT component that applies to the cost of damages in those instances where the damage was not actually repaired. The plaintiff estimates the overall loss argued for all members of the class that she wishes to represent against Harel Insurance in the amount of NIS 19 million for each year and the period for which it wishes to claim is from June 4, 2001, and alternatively from 7 years before the previous claim was filed and/or 7 years before the date of filing this motion. The grounds of the action and motion for certification are the same as those for which a previous action and motion for its certification were filed against the Defendants. On January 3, 2018 the Supreme Court dismissed an appeal on a ruling of the Lod-Center District Court dated February 20, 2017, in which the motion was struck out.

## Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

28. In March 2018, an action was filed in the Tel Aviv District Labor Court, together with a motion for its certification as a class action, against the subsidiary Harel Pension & Provident and against five other management companies (hereinafter together: “the Defendants”).[1] The subject of the action is the allegation that the Defendants do not make it clear to members who join the pension funds that they manage, who have no survivors, that they do not need insurance cover for death and there is therefore no reason for them to enroll in the insurance track that includes insurance cover for death; furthermore, they do not clearly inform these new members that two years after the enrolment date they will automatically be transferred to a track that includes cover for death and that if their family status does not change, they must inform the fund that they have no interest in this insurance. The plaintiffs mention that they are unable to estimate the total loss claimed for all members of the class they wish to represent. In October 2020, the court accepted the request of the Israel Consumer Council to be included in the proceeding as an *amicus curiae* (friend of the court).
29. In April 2018, an action was filed in the Lod-Center District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly pays insureds who have policies for surgery that do not provide compensation at a rate of half the expenses saved if the surgery is performed by the HMOs, but they receive an undertaking for payment of this compensation for amounts that are actually less than half of the expenses subsequently saved by the company, and it is therefore ostensibly in breach of its undertaking towards them. The plaintiff estimates the total loss claimed by all members of the class it wishes to represent to be more than NIS 7 million.
30. In June 2018, a claim was filed in the Jerusalem District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance and against another insurance company (hereinafter together: “the Defendants’). The subject of the action is the allegation that the Defendants refuse to recognize surgery performed for which there is a medical need as an insured event under the conditions of their health insurance policies, on the grounds that it is preventive surgery. The plaintiff has not estimated the total loss claimed by all members of the class that he wishes to represent. In September 2020, the court instructed that the Commissioner’s position on the issues arising from the motion for certification should be accepted. In February 2021, the Commissioner’s position was accepted that based on the proper and appropriate interpretation of the definition of the term “surgery” according to Insurance Circular 2004/20 concerning the definition of medical procedures in health insurance (“the Surgery Circular”), which was issued by the Commissioner of Insurance, a private health insurance policy provides the insured with a safety net against the illnesses listed in the policy, which also includes cover for surgery which will prevent these illnesses from developing or occurring.
31. In December 2018, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the subsidiary Harel Insurance, against two other insurance companies (hereinafter together “the Defendant Insurance Companies”) and against four banks (hereinafter together “the Defendant Banks”). The subject of the action is the allegation that the Defendant Insurance Companies ostensibly issue structural insurance policies to the owners of buildings that are pledged for the purpose of a mortgage guarantee, despite the fact that when the policies are issued a policy guaranteeing the same building with respect to the same period already exists, whether through the same insurance company or through another insurance company. This, ostensibly, in breach of the explicit statutory provisions while misleading the insureds. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent to be a nominal amount of NIS 280 million.

## Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

32. In February 2019, an action was filed in the Lod-Center District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance asked insureds in a group policy for the employees of Israel Electric, who received insurance benefits from which tax was not withheld at source, to return the amounts it had paid for these tax payments. The plaintiff does not quantify the total loss caused to all members of the class it seeks to represent but it estimates the loss at more than NIS 3 million. In July 2020, Harel Insurance filed a motion for summary abandonment of the motion for certification of the claim as a class action. In September 2020, the court accepted the motion filed by Harel Insurance for summary abandonment of the motion for certification of the action as a class action, and it instructed that the motion for certification should be summarily dismissed. On November 8, 2020, Harel Insurance was served with an appeal on the judgment which the plaintiff filed in the Supreme Court.
33. In June 2019, an action was filed in the Tel Aviv Labor Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly collects payment from insureds in life assurance policies that include insurance in the event of death and a savings component (managers insurance), for a component relating to “investment management expenses”, the collection of which is permissible by law, but without contractual agreement in the policy conditions allowing it to collect this component. The plaintiff estimates the overall loss caused to all members of the class it seeks to represent in the amount of NIS 365.3 million.

## Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

34. In June 2019, an action was filed in the Tel Aviv-Jaffa District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against three other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly refrain from paying interest on insurance benefits to their insureds, from 30 days after the claim is filed. This action and motion address the same grounds as those in a previous action and motion for certification as a class action (“the First Claim”) which was partially certified as a class action on August 30, 2015 (“the Certification Decision”) by the Tel Aviv District Court and is currently being heard in its own right (see Section (A) (6) above), but they refer to a different period from the one for which the First Claim was certified and it was filed by the plaintiffs for reasons of caution and in parallel with their request to broaden the group represented in the First Claim also to the period from the issuing of the Certification Decision until the judgment is actually given. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance at about NIS 90 million, and against all the Defendants in the amount of NIS 264.4 million. In July 2020, the Tel Aviv District Court ordered a stay of proceedings until a verdict is issued on the first claim.
35. In July 2019, an action was filed in the Jerusalem District Labor Court, together with an application for its certification as a class action, against the subsidiary Harel Pension & Provident. The subject of the action is the allegation that in addition to management fees, Harel Pension & Provident ostensibly collects payment from the members of Harel Education Fund for a component relating to investment management expenses, which is permissible by law, but is not supported in the agreement in the education fund articles. The plaintiff estimates the overall loss caused to all members of the class it seeks to represent in the amount of NIS 56.8 million.
36. In August 2019, an action was filed in the Lod-Center District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against two other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that in property insurance policies for mechanical engineering equipment (“the Equipment”), the Defendants ostensibly determine the value of the Equipment for the purpose of calculating the insurance premium without considering the age of the Equipment, whereas in cases of total loss they ostensibly determine the amount of the insurance compensation according to the real value of the Equipment on the date of occurrence of the insured event, taking into account the age of the Equipment. The applicants do not quantify the overall loss claimed for all members of the class they wish to represent, but they estimate it to be millions of shekels.
37. In October 2019, an action was filed in the Jerusalem Magistrates Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly rejects travel insurance claims relating to the cancellation or curtailing of overseas travel due to the death or hospitalization of a close relative, based on exclusions in the policy that allegedly do not comply with the provisions of the Contracts (Insurance) Law, 1981 and are not included in the policy schedule that Harel Insurance sends to insureds. The applicant estimates the overall loss caused to all members of the class it wishes to represent at about a million and a half shekels.
38. In December 2019, an action was filed in the Tel Aviv District Court together with a motion for its certification as a class action against the consolidated subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly only disclosed to its policyholders who purchased Magen 1 life assurance policies with a variable premium and/or Harel LeAtid work disability policies, at the time of the purchase, the premium to be paid for a few years and not for the entire policy period. The plaintiff does not quantify the total loss caused to all members of the class it wishes to represent but he estimates the loss at hundreds of millions of shekels. In October 2020, the parties informed the court of their agreement to enter into a mediation process. The mediation process conducted by the parties was unsuccessful and the hearing of the action was returned to the court.

## Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

39. In January 2020, an action was filed in the Beersheba District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against Kranot Hashotrim Be'Israel Ltd. (Israel Police funds). The subject of the action is the allegation that Harel Insurance ostensibly failed to provide a cop y of the insurance policy for its insureds who hold group life assurance and that it ostensibly neglected to disclose to them changes that were made in the policy regarding renewal of the policy. The plaintiffs did not quantify the financial loss alleged for all members of the classes they wish to represent, but they estimate the overall non-financial loss for all the class members at NIS 400 million. In December 2020, the motion for certification with respect to Israel Police Funds was dismissed outright and the action and the motion are now being litigated exclusively against Harel Insurance.
40. In January 2020, an action was filed in the Central District Court, together with application motion for its certification as a class action, against the subsidiary Harel Insurance and against two other insurance companies and a roadside assistance / breakdown service company (hereinafter together: "the Defendants"). The action alleges that the Defendants ostensibly provide their customers with substitute windshields that are not original and are not standard certified, and this ostensibly in contravention of their undertakings towards their customers in the agreements with them. The plaintiffs do not quantify the overall loss claimed for all members of the classes they wish to represent, but they estimate that it is substantially more than NIS 2.5 million.
41. In April 2020, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly refuses to indemnify insureds in health insurance policies that entitle the insureds to indemnity for expenses for tests during pregnancy more than once in each pregnancy. This, ostensibly, in contravention of the provisions of the insurance policy. The plaintiff estimates the total loss claimed for all members of the group she wishes to represent to be at least NIS 5.75 million.
42. In April 2020, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against twelve other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants must refund to holders of their motor insurance and homeowners insurance policies part of the premiums which they ostensibly overpaid, in view of the alleged significant reduction of the risk that the Defendants undertook when they determined the premiums in these policies. This following the outbreak of the COVID-19 pandemic and the restrictions on movement and activity that were imposed as a result of the virus and which allegedly led to a much lower volume of traffic and travel and subsequently a significant decrease in bodily injury and damage to property. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 95 million, and against all the Defendants in the amount of NIS 886 million. In February 2021, the court ordered dismissal of the motion concerning the motor insurance with respect to Harel Insurance and the other respondents (except for one insurance company) and that the motion will continue to be heard on the homeowners insurance policies. The court instructed that the plaintiffs should consider their next steps regarding the method of litigating the motion for certification, in view of the decision.

## Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

43. In April 2020, an action was filed in the Haifa District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against eleven other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants do not refund the holders of their compulsory motor, comprehensive and third-party insurance policies for premiums that were ostensibly overpaid by the policyholders in view of the seeming substantial reduction of the risk level to which the Defendants are exposed from March 2020 in view of the contraction of economic activity due to the outbreak of the COVID-19 pandemic and subsequent reduced volume of traffic. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 130 million, and against all the Defendants in the amount of NIS 1.2 billion. In June 2020, the court instructed that the hearing should be transferred to the Tel Aviv District Court.
44. In April 2020, an action was filed in the Central District Court, together with a motion for its certification as a class action against the subsidiary Harel Insurance, against six other insurance companies and against the company that manages the pool for compulsory motor insurance ("the Pool) (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants do not refund the holders of their compulsory motor, comprehensive and third-party insurance policies for premiums that were ostensibly overpaid by the policyholders in view of the seeming drastic reduction of the risk level to which the Defendants are exposed in view of the dramatic decrease in the number of claims submitted to the Defendants due to the contraction of economic activity as a result of the outbreak of the COVID-19 pandemic and alleged subsequent reduction in the volume of traffic on the roads and percentage of road accidents in Israel. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 110 million, and against all the Defendants in the amount of NIS 720 million. In June 2020, the court instructed that the hearing should be transferred to the Tel Aviv District Court.
45. In April 2020, an action was filed in the Haifa District Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against six other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants do not refund the holders of their business insurance policies premiums for employers liability and third-party insurance that were ostensibly overpaid by the policyholders in view of the alleged substantial reduction of the risk level to which the Defendants are exposed from March 2020 in light of the significant contraction of economic activity by the businesses due to the outbreak of the COVID-19 pandemic and subsequent restrictions on economic activity. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 19 million, and against all the Defendants in the amount of NIS 81 million.
46. In April 2020, an action was filed in the Tel Aviv District Labor Court, together with a motion for its certification as a class action, against the subsidiary Harel Insurance and against an additional insurance company (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants ostensibly refuse to extend the validity of the insurance cover for insureds in work disability insurance (P.H.I.) that was purchased before 2017 and in which the policy period terminates at age 65, and to pay them insurance benefits up to the age of retirement which, in 2004, rose to 67 for salaried employees and 70 for the self-employed. The plaintiff estimates the overall loss caused to all members of the class it wishes to represent against the Defendants at about a NIS 540 million.
47. In May 2020, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the subsidiary Harel Pension & Provident and against thirteen other management companies ("the Defendants"). The subject of the action is the allegation that the Defendants ostensibly classify part of the provisions for their customers to the education funds that they manage as taxable provisions, despite the fact that they are not considered as such. The plaintiffs have not quantified the loss claimed for all members of the class they wish to represent, but they estimate it, on the low side, in the amount of hundreds of millions of shekels.

# Note 7 - Contingent liabilities and commitments (Contd.)

**A. Contingent Liabilities (Contd.)**

48. In June 2020, an action was filed in the Central Region District Court together with a motion for its certification as a class action against the subsidiaries Harel Insurance and Harel Pension & Provident (hereinafter together “the Defendants”). The subject of the action is the allegation that as part of loan agreements between the Defendants and their customers, in loans that are linked to the Consumer Price Index (“the CPI”), it was allegedly determined that if the CPI decreases, principal and interest payments will not fall below their value as specified in the loan repayment schedule. This, ostensibly, in contravention of the law and which constitutes, as argued by the plaintiff, a discriminatory condition in a standard contract. The plaintiff does not quantify the total loss caused to all members of the class it seeks to represent but it estimates the loss at more than NIS 3 million.
49. In July 2020, an action was filed in the Lod-Center District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against four other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly do not reduce the insurance premiums for insureds determined with exclusions on account of a pre-existing medical condition despite the fact that the exclusions allegedly reduce the insurance risk relative to the risk in policies for insureds for whom similar exclusions were not determined. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against Harel Insurance in the amount of NIS 760 million, and against all the Defendants in the amount of NIS 1.9 billion.
50. In August 2020, an action was filed in the Lod-Center District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly conditions the investigation of claims for disability in personal accident policies on the submittal of a medical opinion for the insureds and that it refuses to reimburse the insureds for the cost of the professional opinion and this, ostensibly in contravention of the policy provisions and also the allegation that Harel Insurance assesses each of the claim components separately, in contravention of the statutory provisions. The plaintiffs have not quantified the loss claimed for all members of the group they wish to represent, but they estimate that it is more than NIS 3 million.
51. In August 2020, an action was filed in the Lod-Center District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance allegedly does not pay insureds and/or beneficiaries with *Mashlim LeGimlai* group supplementary long-term care insurance the maximum sums insured specified in the policy for a long-term care condition to pensioners who belong to the Israel Pensioners Association. The plaintiff has not estimated the total loss claimed by all members of the class that it wishes to represent. In May 2021, the plaintiff informed the court that she wishes to strike out the motion for certification and the claim. Striking out of the motion for certification and the claim is subject to the court’s approval.
52. In September 2020, an action was filed in the Lod-Center District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance allegedly does not disclose to the holders of its personal accident insurance the exact scope of the insurance cover for surgery due to accidental orthopedic injury to the shoulder, ankle and knee and that it does not indemnify policyholders whose claims were approved only after intervention by a lawyer, for legal expenses that were incurred as a result of such intervention. The plaintiff has not quantified the total loss claimed by all members of the class that it wishes to represent.
53. In September 2020, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with a motion for its certification as a class action. The subject of the action is the allegation that Harel Insurance allegedly does not disclose to its travel insurance policyholders that the limitation relating to baggage insurance with respect to the maximum amount of compensation for loss or theft of an item also applies to the loss or theft of a valuable item. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent in the amount of NIS 447 million.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

54. In November 2020, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly does not allow service notes in a policy to be cancelled separately from the other components of the insurance plan, and that ostensibly it does not provide proper disclosure prior to the agreement concerning the cancellation of service notes. The plaintiff estimates the total loss claimed by all members of the class that it wishes to represent in the amount of NIS 3 million.
55. In December 2020, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly links the premiums and insurance benefits for insureds in the group long-term care policy for members of Clalit Health Services - Supplementary Plus LTC, to an erroneous index and this, ostensibly, in contravention of the Supervision of Financial Services (Insurance) (Group Long-term care insurance for HMO members) Law, 2015. The plaintiffs estimate the overall loss claimed for all members of the group they wish to represent in the amount of NIS 21.2 million.
56. In December 2020, an action was filed in the Tel Aviv Jaffa District Court, together with a motion for its certification as a class action, against the subsidiary Harel Pension & Provident. The subject of the action is the allegation that Harel Pension & Provident does not, ostensibly, comply with the statutory provisions relating to the location of members with whom contact has been lost and relating to the location and notification of beneficiaries and heirs of deceased members. It is further alleged that Harel Pension & Provident ostensibly collected excess management fees in a manner contrary to the statutory provisions. The plaintiffs have not quantified the loss claimed for all members of the class they wish to represent, but they estimate it to be tens and even hundreds of millions of shekels.

**Actions filed during the Reporting Period**

57. In March 2021, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly unlawfully rejects claims by insureds in personal accident policies for payment of compensation for hospitalization days in a medical center which is not a general hospital, on the grounds that the policy defines a "hospital" as a general hospital only, and that the policy is ostensibly worded in a misleading manner and in contravention of the law, while violating Circular 2001/9 of the Commissioner of Insurance on the subject of "proper disclosure for insureds when enrolling in a health insurance policy". The plaintiff does not quantify the total loss caused to all members of the class it seeks to represent but it estimates the loss at more than NIS 2.5 million.
58. In March 2021, an action was filed against the subsidiary Harel Insurance in the Tel Aviv District Court, together with a motion for its certification as a class action. The subject of the action is the allegation that Harel Insurance ostensibly unlawfully rejects claims for insurance benefits in respect of cover for a medical device by insureds in a group health insurance policy for members of the Israel Teachers Union, arguing that the maximum cover in the policy has been utilized and this, ostensibly, based on a clause in the policy which the plaintiff argues did not exist in the original policy and was applied retroactively. The plaintiff does not quantify the total loss caused to all members of the class it seeks to represent but it estimates the loss at more than NIS 2.5 million.
59. In March 2021, an action was filed in the Tel Aviv District Labor Court, together with a motion for its certification as a class action, against the subsidiary Harel Pension & Provident. The subject of the action is the allegation that Harel Pension & Provident ostensibly does not pay linked interest on insurance benefits which are paid more than 30 days after the date of filing the action. The plaintiff estimates the total loss claimed for all members of the group it wishes to represent to be NIS 1.8 million.

## Note 7 - Contingent liabilities and commitments (Contd.)

### A. Contingent Liabilities (Contd.)

### Actions filed during the Reporting Period (Contd.)

60. In March 2021, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the subsidiary Harel Insurance and against two other insurance companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that the Defendants ostensibly reject claims by health insurance policyholders, which include cover for medications that are not included in the health services basket, in respect of the costs of medical cannabis, despite the fact that it is argued that medical cannabis ostensibly meets the definition of “medication” in the policies. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against all the Defendants in the amount of NIS 79 million.

### Actions filed after the Reporting Period

61. In April 2021, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action, against the Company and against 14 different financial institutions - banks, insurance companies, investment houses, credit companies and credit card companies (hereinafter together: “the Defendants”). The subject of the action is the allegation that personal information about the Defendants’ customers who utilize the digital services on the Defendants websites and apps is ostensibly passed on to third parties, particularly to Google and its advertising services, without the customers’ explicit consent. The plaintiffs have not quantified the loss claimed for all members of the class they wish to represent, but they estimate it to be millions of shekels.
62. In April 2021, an action was filed in the Central District Court together with a motion for its certification as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly marketed personal accident policies in an unacceptable and misleading manner and in contravention of the provisions of circulars issued by the Commissioner of the Capital Market, which regulate the process of enrolling insureds in the insurance. The plaintiff has not quantified the total loss claimed for all members of the class that it wishes to represent but it estimates the amount at millions of shekels.

# Note 7 - Contingent liabilities and commitments (Contd.)

## A. Contingent Liabilities (Contd.)

**Summary table:**

The following table summarizes the amounts claimed as part of the contingent applications for the approval of class actions, actions that were approved as a class action, and other significant claims against the Company and/or subsidiaries, as specified by the claimants in the suits they filed. It should be clarified that the amount claimed does not necessarily constitute the amount of exposure estimated by the Company, given that these are the claimants' estimates and they will be investigated during the litigation process.

| Type | Number of claims | Amount claimed NIS million |
|---|---|---|
| **Actions certified a class action:** | | |
| Amount pertaining to the Company and/ or subsidiaries is specified | 5 | 950 |
| Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries | 1 | 225 |
| Claim amount is not specified | 1 | |
| **Pending requests for certification of actions as class actions:** | | |
| Amount pertaining to the Company and/ or subsidiaries is specified | 27 | 5,785 |
| Claim relates to several companies and no specific amount was attributed to the Company and/ or subsidiaries | 7 | 4,217 |
| Claim amount is not specified | 21 | |

The total provision for claims filed against the Company as noted above as at March 31, 2021, March 31, 2020, and December 31, 2020, is NIS 92 million, NIS 133 million and NIS 137 million, respectively.

## B. Claims that were settled after the Reporting Period

1. In May 2020, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action against the subsidiary Harel Pension & Provident and against nine other management companies (“the Defendants”). The subject of the action is the allegation that the Enforcement and Collection Authority collects excess payments from attachment applicants and transfers them to the Defendants, ostensibly unlawfully, in respect of online requests for attachments which are submitted with respect to several provident funds managed by one management company. In October 2020, Harel Pension & Provident filed a motion for summary abandonment of the motion for certification of the claim as a class action. In the Tel Aviv District Court’s ruling from April 7, 2021, which was issued at a hearing before the court, the court accepted the plaintiff’s request to strike out the motion for certification, and it instructed that the motion should be struck out.

## Note 8 - Capital requirements and management

1. Solvency II based economic solvency regime

On October 14, 2020, the Commissioner published Insurance Circular 2020-1-15 on "Amendment of the Consolidated Circular concerning Implementation of an Economic Solvency Regime for Insurance Companies Based on Solvency II" ("the New Solvency Circular"). The New Solvency Circular includes adjustments and updates made by the Capital Market, Insurance and Savings Authority ("the Authority") during the course of 2020 regarding Insurance Circular 2017-1-9 ("Solvency Circular"). The adjustments and updates in the New Solvency Circular were made further to relevant letters and drafts published during the course of 2020 and in view of the Authority's statement that it intends to work towards adapting the Economic Solvency Regime in Israel to the Solvency II directive and updates. Based on the New Solvency Circular, with the Commissioner's approval, companies may adopt a new method of calculation during the transitional period. According to the New Solvency Circular, the transitional provisions were adapted to the format set out in the European Directive, with an option to gradually increase the reserves in respect of long-term insurance products that were sold in the past, until 2032. Based on the new transitional provisions, insurance companies may, after obtaining the Commissioner's approval, include a deduction from the insurance reserve in the calculation of the insurance reserves in the transitional period ("the Deduction"). The Deduction is calculated in accordance with the instructions in the letter concerning the Deduction principles and it is reduced from a rate of 100% when calculating the insurance reserves at December 31, 2019, to 0% when calculating the insurance reserves at December 31, 2032. This method of calculation for the transitional period replaces the previous method for the transitional period that was applied in prior periods, in which the capital required to maintain an insurance company's solvency in the period commencing June 30, 2017 and ending December 31, 2024, will increase gradually by 5% each year, starting with 60% of the SCR until the full SCR is achieved. At December 31, 2019, this ratio is 75%. The New Solvency Circular also includes updates based on changes that were made in Europe and are relevant to the Israeli market. The Circular and the key changes therein were applied from the date of calculation of economic solvency as at December 31, 2019.

On October 14, 2020, the Commissioner published a circular updating the disclosure format required in the periodic reports and on the websites of the insurance companies relating to the Solvency II based economic solvency regime ("the New Disclosure Circular"). The New Disclosure Circular includes adjustments and updates made by the Authority in the required disclosure format regarding a Solvency II based economic solvency regime in Chapter 1, Part 4, Section 5 of the Consolidated Circular ("the Disclosure Circular"). The New Disclosure Circular broadens the scope of the disclosure in the solvency report with respect to aspects of changes in the capital surplus, sensitivity tests, capital management and restrictions on the distribution of dividends. This circular becomes applicable from the economic solvency report as at December 31, 2019, except for the additions regarding changes in the capital surplus and sensitivity tests, which will become applicable from the economic solvency reports as at December 31, 2020 and December 31, 2021.

On October 28, 2020, in accordance with the Commissioner's instructions, Harel Insurance published a report on the economic solvency ratio ("the Solvency Report") in respect of data at December 31, 2019, on its website: https://www.harel-group.co.il/about/harel-group/harel/investor-relations/Pages/repayment-ability.aspx. According to the report, Harel Insurance has a capital surplus even without taking the transitional provisions into account.

The calculation prepared by the Harel Insurance for data at December 31, 2019, was reviewed in accordance with ISAE 3400 - Review of Future Financial Information. This standard is relevant for audits of the solvency calculation and it is not part of the auditing standards applicable to financial reports. A special report prepared by the external auditors emphasized that the forecasts and assumptions are based, in principle, on past experience, as it emerges from actuarial studies conducted from time to time. In view of the reforms in the capital market, insurance and savings, and changes in the economic environment, past data do not necessarily reflect future performance. In some cases, the information is based on assumptions about future events and management activity that do not necessarily materialize or that may materialize differently from the assumptions that formed the basis for the information. Moreover, actual performance could differ significantly from the information, given that the combination of scenarios of events could materialize in a significantly different manner from the assumptions in the information.

# Note 8 - Capital requirements and management (contd.)

1. Solvency II based economic solvency regime (contd.)

A special report prepared by the external auditors noted that they did not examine the reasonability of the Deduction amount in the transitional period as at December 31, 2019, other than to check that the Deduction does not exceed the projected discounted amount of the risk margin and the solvency capital requirement in respect of life and health risks for existing business in the transitional period, based on the pattern of future development of the required capital that affects calculation of the expected release of equity, as well as the release of the projected risk margin, as specified in the provisions concerning calculation of the risk margin. Furthermore, attention is drawn to the information in the Solvency Report concerning the uncertainty arising from regulatory changes and exposure to contingencies, the effect of which on the solvency ratio cannot be estimated.

Notably, the model in its current format is extremely sensitive to changes in market and other variables, such as changes in the interest rate, changes in investment profits, revised actuarial assumptions and changes relating to the activity of Harel Insurance.

In accordance with the Solvency directives, insurance companies must publish their solvency results at December 31, 2020 up to two months from the end of the quarter following the date of the calculation or up to 3 business days from the date of signing the financial statements for the quarter following the date of the calculation, whichever is earlier. On March 14, 2021, the Commissioner sent a letter to the insurance company directors postponing the date of publication of the economic solvency report at December 31, 2020 as well as the attached reporting files to the Commissioner, to June 30, 2021. The Company is preparing to perform the calculations and the reporting based on the defined time schedule.

On May 13, 2021, a letter was published for insurance company executives (Capital Market 532-2021) concerning a second update to the questions and answers file on the application and disclosure of an economic solvency regime for insurance companies. According to the update, questions and answers for the application and disclosure of an economic solvency regime for insurance companies were revised as a result of questions received by the Capital Market, Insurance and Savings Authority regarding the method of applying Insurance Circular 2020-1-15 which concerns "Amendment of the Consolidated Circular regarding the provisions for implementing an economic solvency ratio for insurance companies based on Solvency II", as well Capital Markets letter 2020-2261) concerning the principles for calculating a deduction for the transitional period in an economic solvency ratio regime based on Solvency II. Harel Insurance is studying the updates in the letter but at this stage it is unable to estimate the intensity of these effects on the solvency ratio. Harel Insurance will apply the updates based on the time frame in the letter.

2. Capital management policy of Harel Insurance

The New Solvency Circular requires a reassessment of the capital management policy of Harel Insurance, which is described in Section 8 of the Economic Solvency Report.

It is Harel Insurance's policy to hold a robust capital base to guarantee its solvency and its ability to meet its commitments towards its insureds, to ensure that it is capable of continuing its business activity and so that it can provide a return for its shareholders. At this stage, for reasons of caution, taking note of the strong sensitivity of the new calculation model to regulatory changes and other variables, and in the absence of adequate experience regarding the future pattern of development of the required capital and risk margin, the Board of Directors of Harel Insurance resolved not to determine a target range for the economic solvency ratio. The Board of Directors of Harel Insurance will, in future, examine the need to determine capital targets and a target range which it hopes to remain within during and after the transitional period.

Nevertheless, on November 30, 2020, the Board of Directors of Harel Insurance approved a revised capital management plan and at this stage, threshold conditions were determined for a dividend distribution, which include a minimum economic solvency ratio of 135%, taking the transitional provisions into account, and a minimum solvency ratio without taking the transitional provisions into account, of 105%.

The threshold conditions are intended to allow Harel Insurance to cope with crises without significantly compromising its operations and its compliance with the applicable capital requirements. Nonetheless, the foregoing will not guarantee that Harel Insurance will be in compliance with the defined threshold conditions at all times.

## Note 8 - Capital requirements and management (contd.)

3. In accordance with a permit to control and hold the means of control in insurers and management companies, the Company undertook, at all times, to supplement the equity of the insurance companies that are included among the financial institutions it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly. Additionally, the Company undertook to inject NIS 120 million into Harel Insurance should the latter fail to satisfy the regulatory capital requirements applicable to it in accordance with the Solvency model (SCR including transitional provisions). This undertaking is irrevocable and will remain in force until March 2022.

4. Subsidiaries that manage mutual funds and investment portfolios are obligated to hold minimum equity in accordance with the directives of the Israel Securities Authority. The companies work continuously to comply with this requirement. At March 31, 2021, the subsidiaries are in compliance with these requirements.

## Note 9 - Material events in the Reporting Period

1. Revision of the discounting interest rates used to calculated the insurance liabilities

Life Assurance

In the corresponding period last year, due to a revision of the interest rate applied in calculating the reserve for annuities in payment, the insurance liabilities in the life assurance and long-term savings segment were reduced by NIS 92 million before tax (a decrease of NIS 134 million before tax in the liabilities for policies which include a non-yield-dependent savings component from 2004, an increase of NIS 19 million before tax in the liabilities for policies which include a savings component until 1990, and an increase of NIS 23 million before tax in the insurance liabilities for policies which include a savings component until 2003)..

Health

In the Reporting Period, due to a decrease in the risk-free interest rate curve and changes in the difference between the fair value and book value of the non-marketable assets, an increase of NIS 86 million before tax was recorded for the insurance liabilities in the health insurance segment in the personal lines long-term care sector.

In the corresponding period last year, due to an increase in the risk-free interest rate curve and a decrease in the difference between the fair value and book value of the non-marketable assets, an increase of NIS 114 million before tax was recorded for the insurance liabilities in the health insurance segment in the personal lines long-term care sector.

Non-life insurance

In the Reporting Period, due to a decrease of the risk-free interest rate curve and changes in the difference between the fair value and book value of the non-marketable assets, the insurance liabilities in the non-life segment increased by NIS 63 million before tax (NIS 33 million before tax in the compulsory motor sector and NIS 30 million before tax in the other liabilities sectors).

In the corresponding period last year, due to an increase in the risk-free interest rate curve the insurance liabilities in the non-life segment decreased by NIS 63 million before tax (NIS 34 million before tax in the compulsory motor sector and NIS 29 million before tax in the liabilities and other sectors)..

# Note 9 - Material events in the Reporting Period (contd.)

1. Revision of the discounting interest rates applied in calculating the insurance liabilities (contd.)

Effects of changes in the interest rate and changes in the difference between the fair value and book value of the non-marketable assets on the financial results:

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Life assurance | - | 92 | (61) |
| Health insurance - personal lines LTC** | **(86)** | (114)*** | (349)* |
| Non-life insurance - compulsory motor and liabilities | **(63)** | 63 | 45* |
| **Total effects of the interest rate on profit and comprehensive income before tax** | **(149)** | 41 | (365) |
| **Total effects of the interest rate on profit and comprehensive income after tax** | **(98)** | 27 | (240) |

* Including the application of a circular on revised liquidity premium rates which are added to the risk-free interest rate curve and application of the provisions of a circular on the method of allocating the assets not at their fair value when calculating the LAT - see also Note 3C(1)(I) to the annual financial statements.

** Only includes the effect of changes in the risk-free interest rate curve and changes in the difference between the fair value and book value of the non-marketable assets on the LAT reserve.

*** Restated

2. Investment and agreement with the CEO of the Company in Hamazpen - Shutaphim Laderech Ltd. ("Hamazpen")

In February 2021, the Board of Directors of Hamazpen, a subsidiary of the Company, resolved to increase the equity of Hamazpen by NIS 36 million in order to satisfy the capital adequacy requirements in view of the anticipated credit portfolio of Hamazpen up to the end of 2021. Consequently, and based on the provisions of the Hamazpen Founders Agreement, the Company injected into Hamazpen its share of this amount which is NIS 25.2 million. Additionally, and under the provisions of the Founders Agreement, the Company provided the other shareholders of Hamazpen - Alon Partnership and Mr. Michel Siboni - with their relative share of the required amount for increasing the capital, as non-recourse loans in the amount of NIS 7.2 million and NIS 3.6 million, respectively. This, in accordance with the conditions set out in the Founders Agreement regarding these loans. According to an external expert economic opinion received by the Company, the non-recourse loan received by Michel Siboni is considered a benefit compared with an ordinary loan under similar conditions without a non-recourse component. The value of the benefit to Michel Siboni is in the range of between NIS 42,301 and NIS 129,969. The Company estimated the value of the benefit at NIS 85,000. Mr. Siboni bears the cost of this benefit such that its entire cost was subtracted from the overall cost of Michel Siboni's salary. It is stipulated that the loan to Mr. Michel Siboni, who is CEO of the Company and CEO of Harel Insurance, was approved by the Compensation Committee, Audit Committee and boards of directors of the Company and Harel Insurance.

Pursuant to the information in Note 37F(2) in the annual financial statements concerning an agreement under which Harel Insurance will provide credit to Hamazpen, at March 31, 2021, the balance of the credit provided by Harel Insurance to Hamazpen was fully utilized and amounted to NIS 250 million. After the Reporting Period, in April 2021, Hamazpen repaid loans in the amount of NIS 76 million.

## Note 9 - Material events in the Reporting Period (contd.)

3. Dividend distributions

   A. On January 27, 2021, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's results as at September 30, 2020. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on February 11, 2021.

   B. On March 21, 2021, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 150 million (NIS 0.7 per share). The Board of Directors made its decision after taking into account the Company's financial results as at December 31, 2020. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on April 20, 2021.

4. Dividend distribution policy

   On February 28, 2021, the Company’s Board of Directors approved a dividend distribution policy whereby the Company will distribute a dividend of at least 30% of the comprehensive income according to its annual consolidated financial statements.

   On February 28, 2021, the board of directors of the subsidiary Harel Insurance approved a dividend distribution policy in which the Company will distribute a dividend of at least 35% of the comprehensive income according to the annual consolidated financial statements of Harel Insurance, and this as long as Harel Insurance is in compliance with the minimum targets for solvency based on Solvency II (minimum solvency was set at 135% taking into account the transitional provisions, and 105% excluding the transitional provisions in the transitional period).

   Distribution of the dividend by the Company could be affected, *inter alia*, by the ability of Harel Insurance to actually distribute a dividend.

   It is stipulated that this policy should not be construed as an undertaking by the Company to distribute a dividend and that any dividend distribution in practice will be subject to specific approval by the Board of Directors at its exclusive discretion. In practice, the Board of Directors may decide to distribute different (higher or lower) rates of dividend or not to distribute any dividend at all. Furthermore, any actual dividend distribution will be subject to compliance with the statutory provisions applicable to dividend distributions, including the Companies Law, 1999, and to the financial covenants undertaken and/or that the Company may undertake in the future, to satisfying adequate amounts of distributable profits on the relevant dates and to the extent to which the Company requires cash to finance its operations, including future investments, as they may be from time to time, and/or its anticipated and/or planned future activity.

   The Board of Directors may review its dividend distribution policy from time to time and may, at any time, based on business considerations and the provisions of law and regulations applicable to the Company, resolve to make changes in the dividend distribution policy, including the share of the dividend to be distributed.

## Note 9 - Material events in the Reporting Period (contd.)

5. Restructuring in the Group – EMI

   On February 28, 2021, the Company's Board of Directors (after receiving the approval of the board of directors of the subsidiary Harel Insurance) approved the transfer of all the holdings of Harel Insurance in Mortgage Holdings Israel Ltd. ("EMI Holdings"), which holds all the share capital of the insurance company EMI, to the Company ("the Restructuring"). The transfer of these holdings in EMI Holdings from Harel Insurance to the Company as part of the Restructuring will be accounted for as a dividend in kind from Harel Insurance to the Company, from distributable profits. The Restructuring will take place in accordance with the provisions of Section 104C of the Income Tax Ordinance, based on the approval of the Tax Authority which was received in May 2021. It is stipulated that as a result of the Restructuring, there will be no change in the Company's accounting equity on a consolidated basis. See also Note 39D to the annual financial statements.

## Note 10 – Material Events after the Reporting Period

1. Planned rotation of the CEO and Chairman of Harel Insurance.

   On April 18, 2021, the Board of Directors of Harel Insurance approved the following, after a request by Mr. Michel Siboni, CEO of the Company and CEO of Harel Insurance, to restructure his position in the Group:

   A. Mr. Michel Siboni, who has been CEO of Harel Insurance for 12 years and CEO of the Company for most of this period, will conclude his term of office as CEO of Harel Insurance on July 1, 2021.

   B Michel Siboni will continue to hold the position of Company CEO and the company will work towards appointing him as a director in Harel Insurance, with the intention of appointing him as Chairman of the Board of Harel Insurance instead of Mr. Yair Hamburger who is Chairman of the Company's Board of Directors and Chairman of the Board of Harel Insurance. Yair Hamburger will continue to hold the position of Chairman of the Company's Board of Directors and as a director in Harel Insurance after the appointment of Michel Siboni as Chairman of the Board of Harel Insurance.

   C. Mr. Nir Cohen, who is currently the Deputy CEO of Harel Insurance and heads the HQ Division, will be appointed to replace Michel Siboni as CEO of Harel Insurance, effective from July 1 2021.

   The appointments are subject to the approval of the Commissioner of the Capital Market, Insurance and Savings in the Finance Ministry and also receiving the approvals of the relevant organs in the relevant Group companies.

2. Agreement in a Memorandum of Understanding (MOU) to acquire the activity of Shirbit Insurance Company Ltd. ("Shirbit")

   On May 4, 2021, the subsidiary Harel Insurance entered into agreement with Shirbit, in a Memorandum of Understanding. Accordingly, subject to satisfying suspensive conditions, Harel Insurance will acquire the insurance activity of Shirbit so that from the date of completion of the transaction, all the customers of Shirbit will become customers of Harel Insurance.

   Completion of the transaction is subject to satisfying certain suspensive conditions, including: completion of a due diligence to the satisfaction of Harel Insurance; court approval under Section 350 of the Companies Law, 1999 and obtaining the approval of the Competition Authority and the Capital Market, Insurance and Savings Authority.

3. Restructuring of Harel Insurance

   On May 19, 2021, Harel Insurance a restructuring in which the life assurance department will be transferred to the Health Division, which will become the Health and Life Division, headed by Mr. Alon Eliraz. In this context, the life assurance department headed by Mr. Ofir Rothschild will become part of the Health and Life Insurance Division of Harel Insurance.

   The Long-term Savings Division will continue to be part of pension and provident activity and it will also hold the business responsibility for managers insurance and personal lines savings, while their operating system will be transferred to the Health and Life Insurance Division of Harel Insurance.

   This restructuring will enable better cooperation between these strategic sectors from the operating perspective and will allow Harel Insurance to better plan for upcoming challenges.

   Mr. Dudi Leidner, who is currently CEO of the Group's management companies, will be appointed to head the Long-term Savings Division in the new structure, replacing Mr. Doron Ginat who is stepping down from his position in Harel Insurance.

## Note 10 – Material Events after the Reporting Period (contd.)

4. Approval of the terms of office of Mr. Michel Siboni

   On May 23, 2021 and on May 26, 2021, the Compensation Committee and Board of Directors of the Company, respectively, approved the terms of office of Mr. Michel Siboni who is currently CEO of the Company and CEO of Harel Insurance, for the period commencing July 1, 2021, in which he will serve as CEO of the Company and Chairman of the Board of Harel Insurance. The terms of office were approved without any change compared with his present conditions. Approval of the terms of office is also subject to the approval of the Company's General Meeting, as specified in Section 5 below.

5. Convening of an Annual and Special General Meeting

   On May 26, 2021, the Company's Board of Directors resolved to convene an annual and special general meeting of the Company, with the following items on the agenda: (1) discussion of the Periodic Report for 2020; (2) appointment of external auditors for 2021 and authorizing the Company's Board of Directors to determine their fee; (3) reappointment of directors serving the Company, who are not external directors, for a further term of office (Yair Hamburger, Gideon Hamburger, Ben Hamburger, Yoav Manor, Doron Cohen, Josef Ciechanover and Eli Defes); (4) approval of the terms of office of Mr. Michel Siboni who is CEO of the Company and CEO of Harel Insurance, for the period commencing July 1, 2021, in which he will serve as CEO of the Company and Chairman of the Board of Harel Insurance (with no change compared with the present conditions). The General Meeting is convened for June 30, 2021.

6. Bonus for 2020 for senior executives

   In April 2021, the compensation committees and boards of directors of the Company and the subsidiaries which are financial institutions approved bonuses for officers in the Company and its subsidiaries who are included in the compensation plan. The bonuses included in this report were calculated on the basis of actual data and based on estimates relating mainly to comparison figures for the results of the operations of other insurance companies included in the comparison group.

7. Full early redemption of bonds (Series 5) of Harel Financing & Issuing

   On a decision concerning the early redemption of Series 5 bonds that were issued by Harel Financing & Issuing, see Note 6.

For your peace of mind | HAREL Insurance & Finance

# HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD

## ANNEXES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

# Annex A - Information about assets for other financial investments in the Group

## A. Information about other financial investments

| | As at March 31, 2021 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Presented at fair value through profit or loss | Available for sale | Held to maturity | Loans and Receivables | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets (a1) | **120** | **11,478** | **27** | **-** | **11,625** |
| Non-marketable debt assets (*) | **2,378** | **-** | **-** | **13,353** | **15,731** |
| Shares (a2) | **105** | **1,592** | **-** | **-** | **1,697** |
| Other (a3) | **193** | **2,898** | **-** | **-** | **3,091** |
| **Total other financial investments** | **2,796** | **15,968** | **27** | **13,353** | **32,144** |

| | As at March 31, 2020 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Presented at fair value through profit or loss | Available for sale | Held to maturity | Loans and Receivables | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets (a1) | 175 | 10,425 | 67 | - | 10,667 |
| Non-marketable debt assets (*) | 2,018 | - | - | 13,302 | 15,320 |
| Shares (a2) | 3 | 1,459 | - | - | 1,462 |
| Other (a3) | 167 | 2,400 | - | - | 2,567 |
| **Total other financial investments** | 2,363 | 14,284 | 67 | 13,302 | 30,016 |

| | As at December 31, 2020 (Audited) | | | | |
|---|---|---|---|---|---|
| | Presented at fair value through profit or loss | Available for sale | Held to maturity | Loans and Receivables | Total |
| | NIS million | NIS million | NIS million | NIS million | NIS million |
| Marketable debt assets (a1) | 121 | 10,907 | 39 | - | 11,067 |
| Non-marketable debt assets (*) | 2,178 | - | - | 12,897 | 15,075 |
| Shares (a2) | 57 | 1,573 | - | - | 1,630 |
| Other (a3) | 312 | 2,926 | - | - | 3,238 |
| **Total other financial investments** | 2,668 | 15,406 | 39 | 12,897 | 31,010 |

(*) For information about the composition of non-marketable debt assets at the level of the consolidated financial statements of Harel Investments, see Note 6B – Financial Instruments.

## Annex A - Information about assets for other financial investments in the Group (Contd.)

### A1. Marketable debt assets

| | Book value | | | Amortized cost | | |
|---|---|---|---|---|---|---|
| | As at March 31 | | As at December 31 | As at March 31 | | As at December 31 |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Government bonds | **6,777** | 5,246 | 6,190 | **6,457** | 5,060 | 5,812 |
| **Other debt assets:** | | | | | | |
| Other non-convertible debt assets | **4,848** | 5,421 | 4,877 | **4,561** | 5,473 | 4,597 |
| **Total marketable debt assets** | **11,625** | 10,667 | 11,067 | **11,018** | 10,533 | 10,409 |
| **Impairments recognized in profit and loss (in aggregate)** | **3** | 25 | 1 | | | |

### A2. Shares

| | Book value | | | Amortized cost | | |
|---|---|---|---|---|---|---|
| | As at March 31 | | As at December 31 | As at March 31 | | As at December 31 |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Marketable shares | **1,364** | 1,005 | 1,338 | **965** | 909 | 881 |
| Non-marketable shares | **333** | 457 | 292 | **223** | 335 | 215 |
| **Total shares** | **1,697** | 1,462 | 1,630 | **1,188** | 1,244 | 1,096 |
| **Impairments recognized in profit and loss (in aggregate)** | **58** | 122 | 67 | | | |

### A3. Other financial investments

| | Book value | | | Amortized cost | | |
|---|---|---|---|---|---|---|
| | As at March 31 | | As at December 31 | As at March 31 | | As at December 31 |
| | 2021 | 2020 | 2020 | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| Marketable financial investments | **1,089** | 1,000 | 1,259 | **1,051** | 998 | 1,229 |
| Non-marketable financial investments | **2,002** | 1,567 | 1,979 | **1,545** | 1,158 | 1,452 |
| **Total other financial investments** | **3,091** | 2,567 | 3,238 | **2,596** | 2,156 | 2,681 |
| **Impairments recognized in profit and loss (in aggregate)** | **111** | 153 | 143 | | | |
| **Derivative financial instruments presented in financial liabilities** | **182** | 493 | 181 | | | |

Other financial investments include mainly investments in ETFs, mutual fund participation notes, investment funds, financial derivatives, forward contracts, options and structured products.

# HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

## SEPARATE FINANCIAL INFORMATION FROM THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**As at March 31, 2021**

## Condensed Separate Interim Information on Financial Position as at

| | March 31 | | December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| **Assets** | | | |
| Fixed assets | **25** | 27 | 25 |
| Investments in equity accounted investees | **6,919** | 5,426* | 6,638 |
| Loans to investee companies | **725** | 750* | 730 |
| Investment property | **26** | 25 | 25 |
| Trade and other receivables | **57** | 31 | 31 |
| Assets for employee benefits | **23** | 19* | 22 |
| **Other financial investments** | | | |
| Marketable debt assets | **231** | - | 88 |
| Shares | **60** | - | - |
| Other | **291** | 605 | 484 |
| Total other financial investments | **582** | 605 | 572 |
| Cash and cash equivalents | **63** | 83 | 225 |
| **Total assets** | **8,420** | 6,966 | 8,268 |
| **Capital** | | | |
| Share capital and premium on shares | **359** | 359 | 359 |
| Treasury stock | **(123)** | (123) | (123) |
| Capital reserves | **1,075** | 538 | 1,061 |
| Retained earnings | **6,421** | 5,573 | 6,438 |
| **Total equity** | **7,732** | 6,347 | 7,735 |
| **Liabilities** | | | |
| Deferred tax liabilities | **4** | - | 2 |
| Liabilities for employee benefits | **38** | 37* | 36 |
| Trade and other payables | **189** | 43 | 37 |
| Current tax liabilities | **4** | 7 | 4 |
| Financial liabilities | **453** | 532 | 454 |
| **Total liabilities** | **688** | 619 | 533 |
| **Total liabilities and equity** | **8,420** | 6,966 | 8,268 |

* Reclassified – see Note 1D

| Yair Hamburger | Michel Siboni | Arik Peretz |
|---|---|---|
| Chairman of the Board of Directors | CEO | CFO |

Date of approval of the financial statements: May 30, 2021

The additional information accompanying the separate interim financial statements is an integral part thereof.

## Condensed Separate Interim Information on Profit and Loss

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| Profits from investments, net, and financing revenues | 4 | 5 | 18 |
| Income from management fees | 32 | 30 | 119 |
| **Total income** | 36 | 35 | 137 |
| General and administrative expenses | 4 | 3 | 15 |
| Financing expenses, net | 4 | 5 | 18 |
| **Total expenses** | 8 | 8 | 33 |
| Company's shares in profits (losses) of investee companies | 222 | (155) | 644 |
| **Profit (loss) before taxes on income** | 250 | (128) | 748 |
| Taxes on income | 7 | 7 | 24 |
| **Profit (loss) for period ended attributed to the Company's shareholders** | 243 | (135) | 724 |

The additional information accompanying the separate interim financial statements is an integral part thereof.

## Condensed Separate Interim Information on Comprehensive Income

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| **Profit (loss) for the period** | **243** | (135) | 724 |
| **Other items of comprehensive income (loss) which after initial recognition under comprehensive income were or will be transferred to profit or loss** | | | |
| Net change in fair value of financial assets classified as available for sale | **8** | (13) | (3) |
| Net change in fair value of financial assets classified as available for sale that was transferred to income statement | **1** | 1 | (2) |
| Foreign currency translation differences for foreign activity | **(5)** | (3) | (15) |
| The Group's share of the comprehensive income (loss) of investees | **9** | (408) | 125 |
| Tax benefit (income tax) attributable to available-for-sale financial assets | **(2)** | 3 | 1 |
| **Total other comprehensive income (loss) for the period that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax** | **11** | (420) | 106 |
| **Other items of comprehensive income that will not be transferred to profit or loss** | | | |
| Remeasurement of a defined benefit plan | **-** | - | 4 |
| Taxes on income for other items of comprehensive income that will not be carried over to profit or loss | **-** | - | (1) |
| **Other comprehensive income for the period that will not be transferred to profit or loss, net of tax** | **-** | - | 3 |
| **Other comprehensive income (loss) for the period, net of tax** | **11** | (420) | 109 |
| **Total comprehensive income (loss) for the period attributed to the Company's shareholders** | **254** | (555) | 833 |

The additional information accompanying the separate interim financial statements is an integral part thereof.

## Condensed Separate Interim Information on Changes in Equity

| | Share capital and premium | Capital reserve for assets available for sale | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury stock | Capital reserve for transactions with non-controlling interests | Capital reserve for revaluation of fixed assets | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| **For the three months ended March 31, 2021 (Unaudited)** | | | | | | | | | |
| **Balance as at January 1, 2021** | 359 | 1,003 | (194) | 1 | (123) | (49) | 300 | 6,438 | 7,735 |
| **Comprehensive income (loss) for the period** | | | | | | | | | |
| Profit for the period | - | - | - | - | - | - | - | 243 | 243 |
| Other comprehensive income (loss) | - | - | 11 | - | - | - | 3 | (3) | 11 |
| **Total comprehensive income for the period** | - | - | 11 | - | - | - | 3 | 240 | 254 |
| **Transactions with shareholder recognized directly in equity** | | | | | | | | | |
| Dividend distributed | - | - | - | - | - | - | - | (257) | (257) |
| **Balance as at March 31, 2021** | 359 | 1,003 | (183) | 1 | (123) | (49) | 303 | 6,421 | 7,732 |

The additional information accompanying the separate financial statements is an integral part thereof.

## Condensed Separate Interim Information on Changes in Equity (contd.)

| | Share capital and premium | Capital reserve for assets available for sale | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury stock | Capital reserve for transactions with non-controlling interests | Capital reserve for revaluation of fixed assets | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| **For the three months ended March 31, 2020 (Unaudited)** | | | | | | | | | |
| **Balance as at January 1, 2020** | 359 | 875 | (145) | 1 | (123) | (49) | 275 | 5,709 | 6,902 |
| **Comprehensive income (loss) for the period** | | | | | | | | | |
| Loss for the period | - | - | - | - | - | - | - | (135) | (135) |
| Other comprehensive income (loss) | - | (441) | 14 | - | - | - | 8 | (1) | (420) |
| **Total comprehensive income (loss) for the period** | - | (441) | 14 | - | - | - | 8 | (136) | (555) |
| **Balance as at March 31, 2020** | 359 | 434 | (131) | 1 | (123) | (49) | 283 | 5,573 | 6,347 |

The additional information accompanying the separate financial statements is an integral part thereof.

## Condensed Separate Interim Information on Changes in Equity (contd.)

| | Share capital and premium | Capital reserve for assets available for sale | Translation reserve for foreign activity | Capital reserve for share-based payment | Treasury stock | Capital reserve for transactions with non-controlling interests | Capital reserve for revaluation of fixed assets | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million | NIS million |
| **For the year ended December 31, 2020 (Audited)** | | | | | | | | | |
| **Balance as at January 1, 2020** | 359 | 875 | (145) | 1 | (123) | (49) | 275 | 5,709 | 6,902 |
| **Comprehensive income (loss) for the year** | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | 724 | 724 |
| Other comprehensive income (loss) | - | 128 | (49) | - | - | - | 25 | 5 | 109 |
| **Total comprehensive income (loss) for the year** | - | 128 | (49) | - | - | - | 25 | 729 | 833 |
| **Balance as at December 31, 2020** | 359 | 1,003 | (194) | 1 | (123) | (49) | 300 | 6,438 | 7,735 |

The additional information accompanying the separate financial statements is an integral part thereof.

## Condensed Separate Interim Information on Cash Flows

| | Annex | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|---|
| | | 2021 | 2020 | 2020 |
| | | (Unaudited) | (Unaudited) | (Audited) |
| | | NIS million | NIS million | NIS million |
| **Cash flows from operating activities** | | | | |
| Before taxes on income | A | 8 | 25 | 93 |
| Taxes paid | | (4) | (10) | (28) |
| **Net cash provided by operating activities** | | 4 | 15 | 65 |
| **Cash flows from investing activities** | | | | |
| Investment in investees | | (62) | - | (3) |
| Dividends from investees | | - | 19 | 43 |
| Financial investments, net | | (1) | (27) | 100 |
| Repayment of loans and capital notes provided to investees | | 5 | - | 23 |
| **Net cash provided by (used in) investment activity** | | (58) | (8) | 163 |
| **Cash flows from financing activity** | | | | |
| Dividend to the Company's shareholders | | (107) | - | - |
| Repayment of loans from banks and others | | - | - | (77) |
| Repayment of lease liabilities | | (1) | (1) | (3) |
| **Net cash used for financing activity** | | (108) | (1) | (80) |
| **Net increase (decrease) in cash and cash equivalents** | | (162) | 6 | 148 |
| **Cash and cash equivalents at beginning of the period** | | 225 | 77 | 77 |
| **Cash and cash equivalents at end of the period** | | 63 | 83 | 225 |

The additional information accompanying the separate financial statements is an integral part thereof.

## Condensed Separate Interim Information on Cash Flows (contd.)

| | For the three months ended March 31 | | For the year ended December 31 |
|---|---|---|---|
| | 2021 | 2020 | 2020 |
| | (Unaudited) | (Unaudited) | (Audited) |
| | NIS million | NIS million | NIS million |
| **Annex A - Cash flows from operating activities** | | | |
| Profit (loss) for the period attributed to the Company's shareholders | **243** | (135) | 724 |
| **Items not involving cash flows** | | | |
| Company's share of losses (profits) of equity accounted investees | **(222)** | 155 | (644) |
| Net losses (profits) from financial investments | **1** | 1 | (1) |
| Change in fair value of investment property | **(1)** | (2) | (2) |
| Financing income, net | **(6)** | (5) | - |
| Taxes on income | **7** | 7 | 24 |
| Depreciation and amortization | **-** | - | 3 |
| **Changes in other statement of financial position items** | | | |
| Trade and other receivables | **(22)** | (6) | (6) |
| Trade and other payables | **7** | 9 | (2) |
| Liabilities for employee benefits, net | **1** | 1 | (3) |
| **Total adjustments required to present cash flows from operating activities** | **(235)** | 160 | (631) |
| **Total cash flows provided by operating activities** | **8** | 25 | 93 |

The additional information accompanying the separate financial statements is an integral part thereof.

# NOTE 1 - Method of preparing the separate financial information

## A. General

The following is condensed separate interim financial information from the Group's Condensed Consolidated Interim Financial Statements as at March 31, 2021 (“Consolidated Statements”) which are published as part of the Periodic Reports (“Condensed Separate Interim Financial Information”), which are presented in accordance with the provisions of Regulation 38D (“the Regulation”) and the Tenth Schedule to the Securities (Periodic and Immediate Reports) Regulations, 1970 (“Schedule no. 10”), concerning the condensed separate, interim financial information of the Company. This condensed, separate interim financial information should be read in conjunction with the separate financial information as at December 31, 2020, and with the consolidated financial statements.

## B. Definitions

| | | |
|---|---|---|
| The Company | - | Harel Insurance Investments and Financial Services Ltd. |
| Consolidated/subsidiary companies | - | Companies, including partnerships, whose reports are fully consolidated, directly or indirectly, with those of the Company. |
| Investee companies | - | Consolidated companies and companies, including partnerships, in which the Company’s investment therein is included, directly or indirectly, in the financial statements on the equity basis (equity accounted investees). |
| Date of report | - | Date of the Statement of Financial Position. |

## C. Method of preparing the financial information

The separate financial information was prepared in accordance with the accounting policy detailed in Note 1 to the Company's separate annual financial statements.

## D. Reclassification

In some sections of the financial statements and some of the Notes, insignificant reclassifications of comparative figures were made. These reclassifications did not have any effect on the Company’s equity and/or on profit or loss and/or comprehensive income.

## NOTE 2 – Material relationships, commitments and transactions with investees

1. In accordance with a permit to control and hold the means of control in insurers and fund management companies, the Company undertook, at all times, to supplement the equity of the insurance companies included among the financial institutions that it controls, including ICIC, to the amount prescribed in the Supervision of Financial Services (Insurance) (Minimum Equity Required of Insurers) Regulation, 1998, or any other regulation or law that may replace them, and also to supplement at all times the equity of the provident fund and pension fund management companies it controls, to the amount prescribed in the Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1965, or any other regulation or law that may replace them. This undertaking is irrevocable and will remain in force as long as the Company controls the financial institutions, directly or indirectly. Additionally, the Company undertook to inject NIS 120 million into Harel Insurance should the latter fail to satisfy the regulatory capital requirements applicable to it in accordance with the Solvency model (SCR including transitional provisions). This undertaking is irrevocable and will remain in force until March 2022.
2. In the Reporting Period, Harel Mutual Funds Ltd., a subsidiary of Harel Finance, a company wholly owned by the Company, made partial repayment of a capital note in the amount of NIS 5 million. The repayment was made from the independent sources of Harel Mutual Funds Ltd.

## NOTE 3 – Material events in the Reporting Period

1. On January 27, 2021, he Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 107 million (NIS 0.5 per share). The Board of Directors made its decision after taking into account the Company's results as at September 30, 2020. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on February 11, 2021.
2. On March 21, 2021, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 150 million (NIS 0.7 per share). The Board of Directors made its decision after taking into account the Company's results as at December 31, 2020. The Board of Directors was presented with information on the distributable profits, capital surpluses of the Company's subsidiaries and the Group's cash requirements, in various scenarios. The Board of Directors reviewed the Company's compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law. Following this review, the Board of Directors confirmed that the Company was in compliance with the distribution test. The dividend was paid on April 20, 2021.
3. On a preliminary rating for the Company by Midroog, see Note 6 to the Consolidated Financial Statements.
4. On an investment and agreement with the CEO of the Company in Hamazpen - Shutaphim Laderech Ltd., see Note 9 to the Consolidated Financial Statements.
5. On a dividend distribution policy that was approved by the Company’s Board of Directors, see Note 9 to the Consolidated Financial Statements.
6. On a restructuring of the Group involving EMI, see Note 9 to the Consolidated Financial Statements.

## NOTE 4 – Material events after the Reporting Period

1. On the convening of an Annual and Special General Meeting of the Company after the Reporting Period, see Note 10 to the Consolidated Financial Statements.
2. On a bonus for 2020 for senior officers after the Reporting Period, see Note 10 to the Consolidated Statements.
3. On approval of the terms of office of Mr. Michel Siboni, see Note 10 to the Consolidated Financial Statements.

Harel Insurance Investments and Financial Services Ltd.

# Report concerning the effectiveness of internal control over financial reporting and disclosure

<u>Quarterly report concerning the effectiveness of the internal control over financial reporting and disclosure as per Regulation 38C(a)</u>

Management, under the oversight of the Board of Directors of Harel Insurance Investments and Financial Services Ltd. ("the Company"), is responsible for defining and maintaining due internal control over the Company's financial reporting and disclosure.

In this instance, management consists of:

A. Mr. Michel Siboni - CEO of the Company, CEO of Harel Insurance Company Ltd., and Chairman of the Boards of Directors of the Group's subsidiaries that are financial institutions.

B. Mr. Arik Peretz - the Company's VP Finance, Deputy CEO and Head of the Finance and Resources Division of Harel Insurance Company Ltd., director in EMI Ezer Mortgage Insurance Ltd.

C. Ms. Nataly Mishan-Zakai - General Counsel to the Company and the Group's companies, deputy CEO of Harel Insurance Company Ltd.

D. Mr. Sami Babecov - VP of the Company and manager of the Group's investments, deputy CEO and manager of the investment division of Harel Insurance Company Ltd.

E. Ms. Osnat Manor Zisman - Internal Auditor of the Company and companies in the Group.

F. Mr. Tal Kedem - CEO of Harel Finance Holdings Ltd.

G. Mr. Tomer Goldberd - Strategic and alternative investment manager in the group.

Internal control over financial reporting and disclosure includes the Company's existing controls and procedures that were planned by the general manager and the most senior financial officer or are monitored by them or by the person who actually performs these duties, under the oversight of the Company's board of directors. The purpose of these controls and procedures is to provide a reasonable measure of assurance as to the reliability of financial reporting and the preparation of the financial statements pursuant to the provisions of the law, and to ensure that the information that the Company is required to disclose in its published reports in accordance with the provisions of the law, is collected, processed, summarized and reported on the dates and in the format prescribed by law.

Among other things, the internal control consists of controls and procedures designed to ensure that the information that the Company is required to disclose, as noted, is accumulated and submitted to the Company's management, including to the CEO and most senior financial officer, or to the person who actually performs these duties, so as to ensure that decisions are made at the appropriate time, with respect to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance that a misstatement or omission of information in the report can be prevented or detected.

With respect to the assessment of the internal control over financial reporting, Harel Insurance Company Ltd. and the Company’s subsidiaries are financial institutions governed by the instructions of the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance.

In relation to the internal control in the aforementioned subsidiaries, the Company applies the following instructions:

- Financial Institutions Circular 2010-9-7 from November 2010 - "Internal control over financial reporting – attestations, statements, and disclosures";
- Financial Institutions Circular 2010-9-6 from November 2010 – "Management's responsibility for the internal control over financial reporting - Amendment" (amendment to Financial Institutions Circular 2009-9-10);

- Financial Institutions Circular 2009-9-10, from June 2009 – "Management's responsibility for the internal control over financial reporting".

In the annual report concerning the effectiveness of the internal control over financial reporting and disclosure that was included in the Periodic Report for the period ended December 31, 2020 (hereinafter – the last annual report on internal control), the Board of Directors and management assessed the Company's internal control; based on this assessment, the Board of Directors and management of the Company concluded that this internal control, at December 31, 2020, is effective.

Prior to the date of the report, the Board of Directors and management received no information regarding any event or matter that might change the assessment of the effectiveness of the internal control, as presented in the last annual report on internal control;

At the date of the report, based on the assessment of the effectiveness of the internal control in the last annual report on internal control, and based on information submitted to management and the Board of Directors, as noted above, the internal control is effective.

## Certification

I, Michel Siboni, hereby certify that:

1. I have reviewed the quarterly report of Harel Insurance Investments and Financial Services Ltd. (hereinafter - the Company) for Q1 2021 (“the Reports”);
2. Based on my knowledge, the Reports contains no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the presentations that they contain, in light of the circumstances under which such presentations were included, shall not be misleading with respect to the period covered in the Reports;
3. Based on my knowledge, the financial statements and other financial information contained in the Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and periods covered in the Reports;
4. Based on my most recent assessment of the internal control over financial reporting and disclosure, I disclosed to the auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee of the Company:
   A. Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure that might reasonably compromise the Insurance Company's ability to record, process, summarize and report financial information in a manner that may cast doubt on the reliability of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and –
   B. Any fraud, whether material or immaterial, that involves the General Manager (CEO) or any person directly accountable to him or other employees who hold a significant role in the internal control over financial reporting and disclosure;
5. I, myself or together with others in the Company:
   A. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of ensuring that material information relating to the Company, including its subsidiaries as they are defined in the Securities (Annual Financial Reports) Regulations, 2010, is brought to my attention by others in the Company and the subsidiaries, particularly during the preparation of the Report; and -
   B. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of providing a reasonable measure of certainty as to the reliability of the financial reporting and to ensure that the financial reports are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;
   C. No event or matter which took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report was brought to my attention, that might alter the conclusion of the Board of Directors and Management in relation to the effectiveness of the Company's internal control over financial reporting and disclosure.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, under any law.

May 30, 2021

Michel Siboni
CEO

## Certification

I, Arik Peretz, hereby certify that:

1. I have reviewed the interim financial statements and other financial information contained in the interim financial statements of Harel Insurance Investments and Financial Services Ltd. ("the Company") for Q1 2021 ("the Reports" or "the Interim Reports");
2. Based on my knowledge, the interim financial statements and other financial information contained in the Interim Reports contain no misstatement of a material fact nor do they omit any statement of a material fact necessary to ensure that the statements they contain, in light of the circumstances under which such statements were included, shall not be misleading with respect to the period covered in the Reports;
3. Based on my knowledge, the Interim Reports and other financial information contained in the Interim Reports reasonably reflect, in all material respects, the financial position, results of operations, and cash flows of the Company at the dates and for the periods covered in the Reports;
4. Based on my most recent assessment of the internal control over financial reporting and disclosure, I disclosed to the auditors, to the Board of Directors and the Audit Committee and Financial Reports Committee of the Company:

   A. Any significant deficiencies and material weaknesses in the determination or application of the internal control over financial reporting and disclosure to the extent that it relates to the interim financial statements and to any other information contained in the Interim Reports, that might reasonably compromise the Company's ability to record, process, summarize or report financial information in a manner that may cast doubt on the reliability of the financial reporting and preparation of the financial reports pursuant to the provisions of the law; and –

   B. Any fraud, whether material or immaterial, that involves the General Manager (CEO) or any person directly accountable to him or other employees who hold a significant role in the internal control over financial reporting and disclosure;
5. I, myself or together with others in the Company:

   A. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of ensuring that material information relating to the Company, including its subsidiaries as they are defined in the Securities (Annual Financial Reports) Regulations, 2010, is brought to my attention by others in the Company and the subsidiaries, particularly during the preparation of the Report; and -

   B. Defined controls and procedures, or ensured that such controls and procedures are determined and in place under my oversight, for the purpose of providing a reasonable measure of certainty as to the reliability of the financial reporting and to ensure that the financial reports are prepared in accordance with the provisions of the law, including in accordance with generally accepted accounting standards;

   C. No event or matter that took place during the period between the date of the last report (quarterly or periodic, as applicable) and the date of this report, in relation to the interim financial statements and to any other financial information contained in the Interim Financial Reports, was brought to my attention, that might, in my opinion, alter the conclusion of the Board of Directors and Management in relation to the effectiveness of the Corporation's internal control over financial reporting and disclosure.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, under any law.

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