

March 31, 2024

Annual Financial Statements: 2023

Harel Insurance Investments and Financial Services Ltd. has published its financial statements for 2023

Comprehensive income of NIS 600 M;

Underwriting improvement of NIS 785 M on profit from insurance business

For the first time, the Company is publishing the results of its activity in the credit segment: assets grew by 22% to NIS 4 billion, segment profit increased to NIS 103 million

Premiums continued to grow and the volume of AUM increased substantially

Harel Group, the Board of Directors, Management and employees support the defense forces and stand with the families of the hostages, hoping and praying for their safe and speedy return home.

We offer our condolences to the bereaved families and feel the pain of their terrible loss in the horrific terror attack on October 7. At this time, Harel Group expresses its resounding faith in the resilience of the State of Israel and the strength of the Israeli economy. As a leading Israeli company, we will continue to support and contribute to our country and society, from a position of solidarity and national responsibility. Together we will overcome the challenges facing us and continue to build a better future for all of us in Israel.



Key emphases

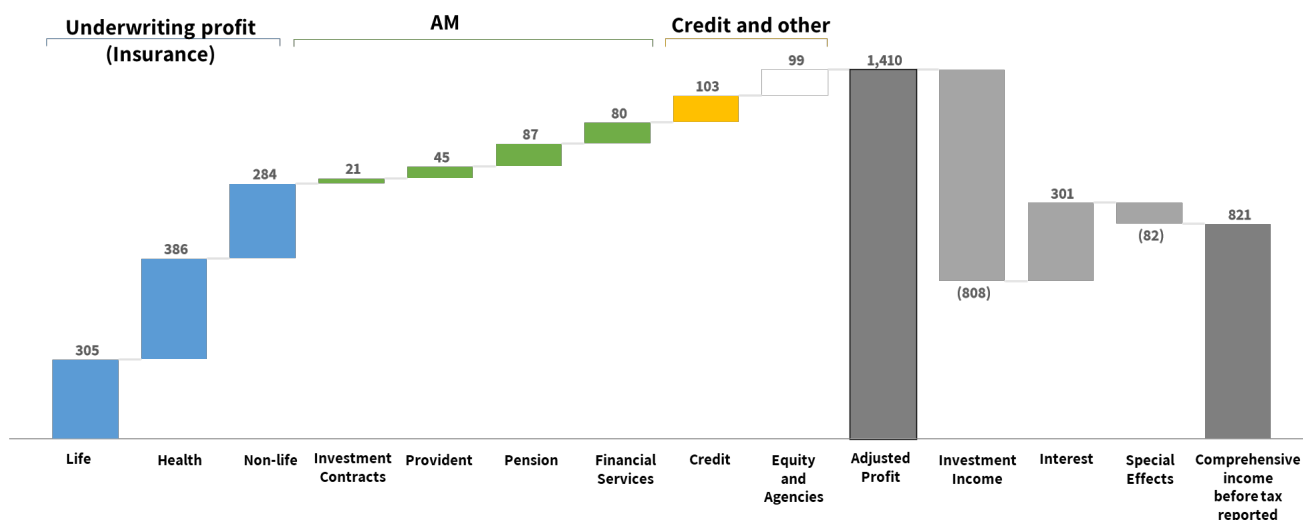
- In 2023, **comprehensive income after tax was NIS 600 million**, reflecting ROE of 7%, compared with a comprehensive loss after tax of NIS 77 million in the corresponding period last year.
- In Q4 2023, **comprehensive income after tax was NIS 203 million**, reflecting ROE of 9%, as against comprehensive income after tax of NIS 282 million in the corresponding quarter of 2022. Results in the fourth quarter were affected by an increase of NIS 97 million before tax in the cost of claims in life assurance and health insurance, as an outcome of the Swords of Iron War.
- Gross premiums earned, benefit contributions and amounts received for investment contracts were NIS 39.4 billion in 2023, representing 5% growth over 2022. In the fourth quarter, these amounts increased by 10% to NIS 10.3 billion compared with the corresponding quarter in 2022.
- In 2023, Harel worked on implementation of the strategic plan focusing on improving profitability in the operating segments and diversifying revenues. Implementation of the plan led to underwriting improvement of NIS 785 million in profit from insurance business in 2023.
- A dividend of NIS 350 million was distributed, in line with the policy to distribute dividends of at least 30% of net profit. In parallel, the Company completed a plan to repurchase shares in the amount of NIS 100 million and it announced a further repurchase plan of NIS 100 million, from which, to date, it has made purchases of NIS 21 million.
- At December 31, 2023, Harel Investments had equity of NIS 8.9 billion
- Recently, **Midroog** (the rating company) determined that the Company has strong financial flexibility, partly supported by significant liquid balances (cash and cash equivalents and a securities portfolio) of NIS 3.3 billion, and by a favorable leverage ratio and debt servicing ratio. The rating also noted that the Company's financial policy supports the Company's stability and potential for coping with changes in the business environment, including unforeseen and non-recurring events.

Implementation of the strategic plan included defining the Company's operating segments as follows: Insurance business (life assurance, health insurance and non-life insurance), asset management (pension, provident, financial services and investment contracts), and credit - a segment whose results were included in the 2023 annual financial statements for the first time.

- The Company's **underwriting profit**¹ from insurance business presented for the first time was NIS 975 million in 2023, reflecting an underwriting improvement of NIS 785 million compared with 2022. This is mainly the result of significant underwriting improvement in the non-life, health and life insurance sectors.
- **Profit from the asset management sector**, excluding special effects, increased by 4.5% to NIS 233 million in 2023, compared with NIS 223 million in 2022.
- **Profit from the credit segment** increased by 61% to NIS 103 million, compared with NIS 64 million in 2022.

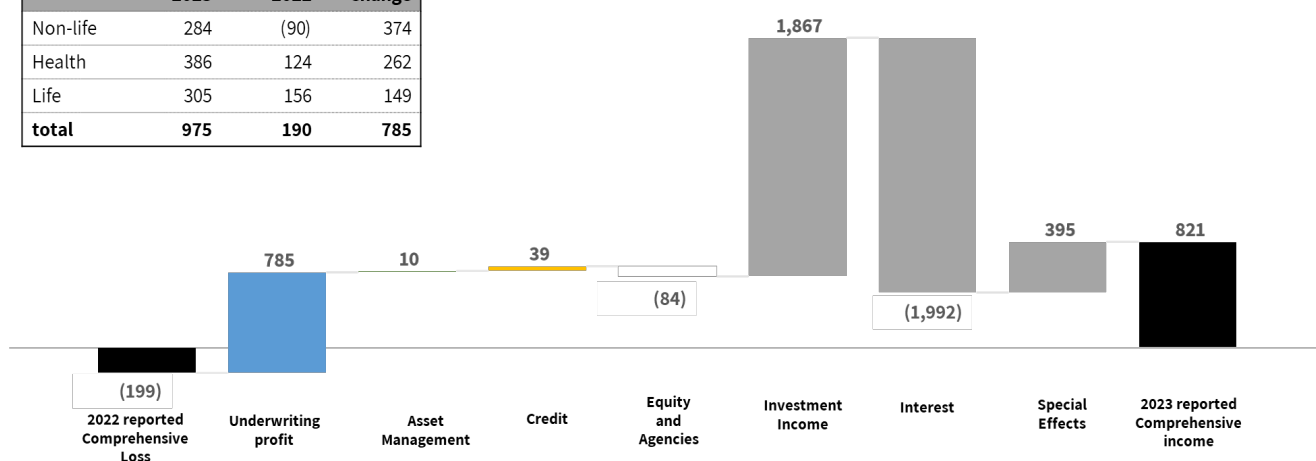
Information about the Company's sources of revenues in 2023 (NIS M):

¹ The Company's underwriting profit includes an assumed real nostro yield of 3% on insurance business profitability, excluding special effects that are not part of the normal course of the Company's business, including the effects of interest and actuarial changes.



Following is an analysis of the change in the Company's reported profit (loss) between 2022 and 2023 (NIS M):

NIS M	2023	2022	change
Non-life	284	(90)	374
Health	386	124	262
Life	305	156	149
total	975	190	785



- **This year, capital market yields were –moderately positive, compared with negative yields last year.** The total negative effect of investment income on pre-tax profit in 2023 was NIS 808 million, compared with a negative effect of NIS 2,675 million last year.
- In 2023, the effects of the interest rate led to a NIS 301 million reduction of the insurance liabilities in life assurance, health insurance and non-life insurance. This contrasts with a reduction of NIS 2,293 million in these liabilities in the corresponding period last year.



Nir Cohen, CEO of Harel Insurance Investments and Financial Services said: "Since the most serious terror attack against the State of Israel on October 7 - we have all experienced difficult and complex times. Harel Group immediately rallied to the cause on behalf of Israeli society, offering a helping hand to the families of the hostages, residents of the Gaza Envelope and communities in the north of Israel, the defense forces and IDF, Israel's farmers, the elderly, children, youth and at risk populations. Harel Group's activity takes the form of monetary donations as well as in assistance provided by volunteers and for needs arising in the field - education, economic issues, agriculture, security, employment and more. Notwithstanding the difficulties and complexities of the current situation, it has been both heartwarming and extraordinary to see how the employees, agents and business partners of Harel have mobilized and stood by Israeli society in an effort to embrace, strengthen and envelope Israeli society as a whole, sharing the burden and maintaining the State of Israel's resilience.

I wish to emphasize and reiterate the considerable contribution made by Harel's dedicated employees and agents who worked round the clock during the War in order to serve the Company's customers. Thanks to their efforts, determination and dedication we managed to provide full, comprehensive services despite the fact that many of our employees and agents were called up for reserve duty. Thanks to the Group's employees and despite all the challenges, we have presented impressive results. We appreciate their dedication and skills which have made a considerable contribution to Harel Group's success.

Now is the place to stop and mention that Harel Group has not forgotten the hostages who have been held in captivity by Hamas for 176 days. We pray for their speedy return home".

In his statement, Cohen also noted that: "Notwithstanding this difficult year, Harel Group concluded 2023 with comprehensive income of NIS 600 million. We also worked on implementation of the strategic plan, focusing on improving profitability in the operating segments and diversifying revenues. Implementation of the plan led to an underwriting improvement of NIS 785 million in profit from insurance business in 2023".

Results by the Group's operating segments:

Insurance business:

Non-life insurance:

- In 2023, **comprehensive income before tax in non-life insurance increased to NIS 279 million**, compared with NIS 7 million in the corresponding period last year.
- **Underwriting profit in non-life insurance** was NIS 284 million in 2023, a significant improvement of NIS 374 million compared with the corresponding period last year, thanks to improved underwriting in all sectors of activity. In the compulsory motor sector, the underwriting improvement was mainly due to optimization of the portfolio and a reduction in the cost of the average claim that was offset by a negative development in respect of prior years in a number of groups and an increase in the loss for the Pool's business. In the motor property (CASCO) sector, the improved underwriting was mainly due to an increase in the average premium and a reduction in the provision for premium deficiency. In property and other sectors, the improved underwriting was mainly due to the growth of activity in the property loss and homeowners sectors. In the liabilities and other sectors, the improved underwriting was mainly due to a positive development in respect of prior years.

- In 2023, changes in the interest curve and changes in the retained fair value of assets reduced the insurance liabilities by NIS 83 million compared with a reduction of the insurance liabilities by NIS 524 million in the corresponding period last year.
- **Comprehensive income before tax in non-life insurance** in Q4 2023 **was NIS 73 million**, compared with a comprehensive loss before tax of NIS 10 million in the corresponding quarter in 2022.

Health insurance:

- In 2023, **comprehensive income before tax in health insurance was NIS 129 million**, as against NIS 787 million in the corresponding period last year. Profit in the corresponding period last year was materially affected by changes in the interest rate that reduced the insurance liabilities by NIS 1,542 million and contributed to increasing comprehensive income.
- **Underwriting profit in health insurance was NIS 386 million**, an improvement of NIS 262 million compared with the corresponding period last year, mainly the result of improved underwriting in group policies, as well as in cover for medications and the personal accident product. This was partially offset by an increase in the number of claims in ambulatory cover and by an increase in the number of claims in accidental cover in the wake of the Swords of Iron War in the amount of NIS 9 million in the fourth quarter of the year.
- **Comprehensive income before tax in health insurance** in Q4 2023 **was NIS 73 million**, as against comprehensive income before tax of NIS 427 million in the corresponding quarter in 2022. Profit in the corresponding quarter in 2022 was materially affected by changes in the interest rate that reduced the insurance liabilities by NIS 763 million and contributed to increasing comprehensive income.

Life assurance:

- In 2023, **comprehensive income before tax in life assurance was NIS 124 million**, compared with a comprehensive loss before tax of NIS 793 million in the corresponding period last year. The improved profitability is mainly attributable to improved underwriting and improved real nostro yields: a positive yield in 2023 and in the fourth quarter, compared with a negative nostro yield in the corresponding periods last year.
- **Underwriting profit in life assurance was NIS 305 million in 2023**, an improvement of NIS 149 million compared with the corresponding period last year, mainly the result of an increase in profit from risk (term assurance) products due to the continuous growth of activity and a decrease in the number of claims in work disability (P.H.I.) cover. This underwriting improvement was partially offset in the fourth quarter by an increase in the number of claims in the wake of the Swords of Iron War in the amount of NIS 88 million.
- In Q4 2023, **an improvement of NIS 15 million was recorded in comprehensive income before tax**, compared with a comprehensive loss of NIS 32 million in the corresponding quarter in 2022.

Asset management:

- Asset management includes pension and provident activity, investment contracts and financial services - mainly mutual funds and portfolio management, under Harel Finance.
- In 2023, **pre-tax profit, excluding special effects,² increased in the asset management sector to NIS 233 million, compared with NIS 223 million in 2022**. Most of the higher profit is attributable to an increase in

² Special effects include extraordinary expenses that are not part of the normal course of business and after subtracting retained costs created in the course of business combinations. Total special effects attributed to pension and provident was NIS 19 million in 2023.

AUM in pension and provident and to the ongoing raising of capital by Harel Finance's money market funds. Profit from investment contract activity was NIS 21 million.

- At December 31, 2023, AUM in the asset management sector increased by 22% to NIS 318 billion compared with NIS 261 billion at December 31, 2022. The volume of AUM in the investment contracts sector was NIS 19 billion.

Pension and provident:

- In 2023, **comprehensive income before tax in pension and provident increased by 10% to NIS 113 million**, compared with NIS 103 million in 2022. In Q4 2023, **comprehensive income before tax in pension and provident increased by 8% to NIS 28 million**, compared with NIS 26 million in the corresponding quarter in 2022.
- AUM in the Group's pension funds and provident funds was NIS 151 billion and NIS 65 billion, respectively, at December 31, 2023, compared with NIS 126 billion and NIS 56 billion, respectively at December 31, 2022.

Harel Finance:

- In 2023, **comprehensive income before tax from financial services activity increased by 10% to NIS 80 million**, compared with NIS 73 million in the corresponding period last year. In Q4 2023, **comprehensive income before tax from financial services activity was NIS 22 million**, as against NIS 25 million in the corresponding quarter in 2022.
- At December 31, 2023, assets managed by Harel Finance **increased by 41% to NIS 83 billion**, compared with NIS 59 billion at December 31, 2022

Credit:

- **The activity covered by the credit segment that was presented separately for the first time in the 2023 annual financial statements includes the activity of Hamazpen; development property project financing, providing financial guarantees and development and operating services for mortgage portfolios insured by third parties; and Harel 60+ that provides credit for mortgages and reverse mortgages - loans to borrowers aged 60 or more with a lien on their home.**
- AUM in the credit sector **increased by 22% to NIS 3.95 billion**, compared with NIS 3.24 billion in 2022.
- In 2023, **comprehensive income before tax increased by 61% to NIS 103 million**, compared with NIS 64 million in the corresponding period last year. The improved profit in 2023 is attributable to the growth of activity and improved finance margins.

Addendum: Financial data for the Group:



Gross earned premiums, benefit contributions and amounts received for investment contracts

	2023	2022	Change	Q4.23	Q4.22	Change
Life assurance	6,286	6,504	-3.4%	1,392	1,465	-5.0%
Health insurance	6,468	5,928	9.1%	1,653	1,527	8.3%
Non-life insurance*	5,018	4,689	7.0%	1,333	1,257	6.0%
Total earned premiums, gross	17,772	17,121	3.8%	4,378	4,249	3.0%
Pension benefit contributions	13,705	11,797	16.2%	3,668	3,195	14.8%
Provident benefit contributions	5,066	4,717	7.4%	1,547	1,305	18.5%
Amounts received for investment contracts	2,865	3,936	-27.2%	714	642	11.2%
Total	39,408	37,571	4.9%	10,307	9,391	9.7%

*Including the insurance companies overseas segment

Comprehensive income (loss) before tax by segment

	2023	2022	Q4.23	Q4.22
Life assurance	124	(793)	15	(32)
Provident	40	46	11	14
Pension	73	57	17	12
Total long-term savings	237	(690)	43	(6)
Health insurance	129	787	73	427
Non-life insurance	279	7	73	(10)
Insurance companies overseas	(5)	(25)	7	-
Financial services	80	73	22	25
Credit*	103	64	27	20
Equity and agencies	(2)	(415)	14	(54)
Total	821	(199)	259	402

*From the annual financial statements for 2023, the Company presents the results of credit sector activity as a separate segment. Comparison figures were restated

AUM

	December 31, 2023	December 31, 2022
Yield-dependent insurance contracts and investment contracts	80.6	77.8
Pension funds	150.6	128.2
Provident funds and education funds	65.0	56.1
Mutual funds	67.7	43.2
Portfolio management and other*	14.9	15.0
Total for insureds and members	378.8	320.3
Nostro**	48.9	42.8
Total	427.7	363.1

*Including financial assets issued by the Group and managed in portfolios in the amount of NIS 4.2 billion and NIS 4.3 billion at December 31, 2023 and December 31, 2022, respectively

* Including certificates of deposit issued by Harel Finance in the amount of NIS 5.9 billion at December 31, 2023 and 2022