



Harel Insurance Company Ltd.

Follow up | February 2026

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Harel Insurance Company Ltd.

Insurer Financial Strength Rating (IFS)	Aaa.il	Rating outlook: Stable
Hybrid Tier-2 capital and Tier-2 capital instrument	Aa2.il(hyb)	Rating outlook: Stable

Midroog upgrades the Insurer Financial Strength (IFS) rating of Harel Insurance Company Ltd (“Harel Insurance” and/or “the Company” and/or “Harel Insurance Company”) from Aa1.il to Aaa.il and also upgrades the rating for the subordinated liability notes (hybrid Tier-2 capital and Tier-2 capital instruments) from Aa3.il(hyb) to Aa2.il(hyb), that were raised through the subsidiary Harel Finance and Issues Ltd. The rating upgrade is attributable to a material, continuous improvement in underwriting profit and profitability indicators, together with an improvement in asset quality, which is supported by the growth of equity. At the same time, the Company maintains a strong business positioning and high solvency ratios which are extremely favorable for the industry. The rating outlook is stable.

The subordinated debt ratings factor in the legal-contractual subordination of these debts with respect to the IFS rating, the ranking of seniority among the actual subordinated debts and the effect of the loss-absorption mechanisms incorporated within them. Taking into account the Company’s IFS level, the present and anticipated economic solvency level, while at the same time maintaining an adequate margin from the effective regulatory economic solvency requirement for the instrument, we estimate that the uncertainty regarding the probability of reaching the “delaying circumstances”¹ is low and is therefore not factored into the lowering of an additional notch for Tier-2 capital instruments.

Bonds in circulation rated by Midroog:

Bond series	Security number	Rating	Rating outlook	Category of eligible equity	Final maturity date
Harel F&I 10	1134048	Aa2.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2029
Harel F&I 11	1136316	Aa2.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2030
Harel F&I 12	1138163	Aa2.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2031
Harel F&I 13	1138171	Aa2.il(hyb)	Stable	Tier-2 capital [1]	December 31, 2032
Harel F&I 14	1143122	Aa2.il(hyb)	Stable	Tier-2 capital	December 31, 2033
Harel F&I 15	1143130	Aa2.il(hyb)	Stable	Tier-2 capital	December 31, 2034
Harel F&I 16	1157601	Aa2.il(hyb)	Stable	Tier-2 capital	June 30, 2029
Harel F&I 17	1161454	Aa2.il(hyb)	Stable	Tier-2 capital	December 31, 2030
Harel F&I 18	1182666	Aa2.il(hyb)	Stable	Tier-2 capital	December 31, 2035

¹ Equity required for “delaying circumstances” is defined as 80% of the solvency ratio required in the transitional period, after adjustment for equity risk according to the Solvency Circular (above and below: “Required Solvency Ratio”).

Rationale

The rating of Harel Insurance Company reflects a strong business profile which is supported by the fact that the Company is Israel's largest insurer and has held a dominant position over time, as reflected in a 21% overall market segment in 2024 in terms of gross premiums, with AUM of NIS 139 billion, as at September 30, 2025. The business profile is supported by relatively good diversification of lines of business, adequate control of the distribution network and a broad, diverse customer base, all of which support revenue generating potential. The risk profile is reasonable for the rating and is supported by relatively low product risk and by a risk management policy and control levels that are adequate for the rating and supported by regulatory requirements. The Company's exposure to large groups and policyholders accounted for 19% of total gross earned premiums in 2024 compared with 27% in 2023, and is lower, partly due to the revised agreement plan between the Company and Clalit Health Services ("Clalit"),² and its extension to the end of 2026,³ that significantly reduced the Company's exposure to group policies in the health segment. In our opinion, the decrease in the rate of exposure to group policies supports the Company's risk profile. The Company's financial profile is on an upward trend and is affected by reasonable asset quality for the rating which has improved in the past year in view of the increase in equity. At the same time, during the course of 2024 and in the first nine months of 2025, the Company's profitability improved significantly and consistently with the application of IFRS 17 also contributing to profit in these periods in the life and health segments. Additionally, underwriting profit improved in all segments of insurance activity as a direct outcome of the implementation of the Company's strategic plan. Simultaneously, the improved profitability is also attributable to significant investment and finance income in the light of capital market yields. These are all reflected in the ratios of ROC and comprehensive income to gross earned premiums, which in the first nine months of 2025 were 19.1% and 14.7%, respectively, calculated at an annual rate, and are commensurate with the rating, compared with 12.1% and 8.2%, respectively, in 2024. This profitability supports the growth of the capital buffer which will be affected by the volume of dividends, if and insofar as they are distributed. The Company's capital adequacy is commensurate with the rating, as reflected in the capital surpluses in relation to the Solvency II Directive, where the Solvency Capital Ratios (SCR) at June 30, 2025, were 183% (taking the transitional period into account) and 159% (without taking the transitional period into account), and are high compared with the benchmark group. The Company's liquidity profile is stable but low for

² On December 4, 2023, the Commissioner published an amendment to the Consolidated Circular - Section 6, Chapter 3 - Long-term Care Insurance and the Supervision of Financial Services (Insurance) (Group Long-term Care Insurance for HMO members) Provisions, 2023 - prescribing, inter alia, a reduction of the long-term care insurance benefits and cancellation of the requirement for the insurance companies to undertake a minimum risk of 20%. Subsequently, Harel and Clalit signed an Agreed Plan to extend the agreement period for the group long-term care policy for members of Clalit by 12 months (from January 1, 2024 through December 31, 2024). Among other things, the plan includes cancellation of the insurance risk threshold for Harel Insurance, reduction of the insurance benefits and raising the premiums. For additional information, see [a report on Maya on this subject](#).

³ On December 22, 2024, the Authority published an amendment to the Supervision of Financial Services Regulations (Insurance) (Group Long-term Care Insurance for HMO Members) (Amendment), 2024. Some of the provisions stipulate that from 2027, if at the end of the policy period the policy is not renewed for all those insured by any particular insurer, the insurer will not be obligated to include insureds in a group follow-on policy or any policy whatsoever and the outstanding amounts in the insureds fund at that date will be used for the benefit of the insureds in a manner to be approved by the Commissioner. Subsequently, Harel and Clalit signed an Agreed Outline to extend the agreement period for the group LTC policy for members of Clalit Health Services by 24 months (from January 1, 2025 through December 31, 2026). On December 26, 2024, a permit was received from the Commissioner to activate this policy.

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the rating, while the financial flexibility is commensurate with the rating and supported by a broad margin relative to the regulatory capital adequacy. We believe that the Company has good access to sources of finance, also for the purpose of improving the solvency ratio (raising of additional Tier-1 capital), as well as other tools at its disposal (agreements with reinsurers, change in the investment mix, etc.) for addressing erosion of the solvency ratio, should this be necessary.

In our baseline scenario for 2025-2026, Midroog expects the challenging business environment to persist until it gradually stabilizes. Nonetheless, it may continue to overshadow the insurance industry as a whole, and specifically the potential to generate revenues. Furthermore, the tight monetary environment characterized by the relatively high interest rates of the past few years, adversely affects economic activity and impacts sector-based growth. According to its baseline scenario, Midroog believes that the Company will maintain its business positioning. At the same time, we expect that the Company will maintain a high level of profitability which is commensurate with the rating, so that the ratios of ROC and comprehensive income to total gross earned premiums will be in the range of 9.0%-18.4% and 7.7%-14.3% respectively, in the forecast years.

Rating outlook

The stable rating outlook reflects our opinion that the Company's business and financial profile will remain within the range of Midroog's baseline scenario.

Factors that may downgrade the rating:

- Significant, persistent deterioration of the capital surpluses
- Significant, ongoing deterioration of underwriting performance and/or significant and persistent erosion of overall profitability.
- Significant and persistent erosion of the Company's business profile, both in market segments and diversification of income.

Harel Insurance Company Ltd. - key data (NIS million)

NIS million	September 30, 2025	September 30, 2024	December 31, 2023
Total assets	136,566	128,241	130,155
Total equity attributable to shareholders of the Company	6,174	5,114	4,813
Total comprehensive income attributable to shareholders of the Company	1,744	1,066	1,262
Total gross premiums	11,866	11,813	15,421
<i>Of which: life insurance and long-term savings</i>	<i>3,607</i>	<i>3,870</i>	<i>5,006</i>
<i>Of which: health insurance</i>	<i>4,391</i>	<i>4,051</i>	<i>5,458</i>
<i>Of which: non-life insurance</i>	<i>3,868</i>	<i>3,892</i>	<i>4,957</i>
Profit from investments, net	9,727	7,998	10,733

Solvency ratio [1]	183%*	185%**	182%
Solvency ratio without application of the transitional measures to the transitional period [2]	159%	167%**	159%

Midroog's adjusted ratios

<i>Intangible assets and - DAC long-term savings from equity [3]</i>	22%	26%	28%
<i>Return on capital (ROC) [4] [4]</i>	19.1%	13.5%	12.1%
<i>Comprehensive income attributable to shareholders of the Company to gross premium</i>	14.7%	9.0%	8.2%

* As at June 30, 2025

** As at June 30, 2024

[1] Including taking into account the measures for the transitional period and adjustment for equity risk and the effect of material capital transactions that took place in the period between the date of the calculation and date of publication of the Economic Solvency Ratio Report.

[2] Without taking into account the measures for the transitional period and adjustment for equity risk, and taking into account the effect of material capital transactions that took place in the period between the date of the calculation and the date of publication of Economic Solvency Ratio Report.

[3] The application of IFRS 17 led to the derecognition of Deferred Acquisition Costs (DAC) in the long-term savings segment against a reduction of the surpluses. Accordingly, the ratio refers to intangible assets from equity.

[4] Comprehensive income attributed to shareholders of the Company to the financial liabilities average (excluding derivatives) and equity (own funds) attributed to the shareholders in the period, calculated at an annual rate.

A good business profile reflected in the Company's substantial size and diversification of the lines of business, which support the ability to generate revenues

Harel Insurance Company is Israel's largest insurer, holding a dominant position over time, as reflected in a 21% overall market segment in 2024, in terms of gross premiums, and AUM of NIS 139 billion at September 30, 2025. The business profile is supported by relatively good diversification of lines of business, where the Company has maintained three significant pillars over time, as reflected in the mix of gross premiums and management fees in the 12 months ended September 30, 2025, of which the most significant is health insurance (36%) followed closely by life insurance and long-term savings (34%) and non-life insurance (30%). Notably, this mix represents a change compared with previous years since in previous years the life insurance and long-term savings segment was the Company's most significant pillar (38% of gross premiums and management fees from the life insurance and long-term savings segment, 32% from the health segment and 30% from the non-life segment, in the 12 months ended September 30, 2024). At the same time, we examine revenue diversification based on the largest line of business⁴ (in terms of premiums and management fees) as a share of the sum total of the lines of business, where this line of business accounted for approximately 36% and originates in the health segment, reflecting a relatively diverse mix of revenues, in addition to a strong brand and broad and diverse customer base. These support the business profile and potential to generate income over the economic cycle, while addressing changes in the business environment, regulatory changes and macroeconomic effects.

The Company's principal marketing and distribution channels are insurance agents and agencies and we believe that like other companies in the industry, the Company will continue to work to diversify the distribution channels in forthcoming years, enhancing the digital channel vis-a vis agents and customers. In our opinion, insurers who fail to adopt technological innovation and adapt their business model over time will experience significant deterioration of their business positioning.

Additionally, in recent years, the Company has begun to operate in the credit sector by providing "reverse mortgage loans", including through Harel 60+ Ltd. ("Harel 60+"), development property finance and by providing financial guarantees. Notably, from the annual financial statements for 2023, the Company presents credit sector activity in a new operating segment - the credit segment.

In Midroog's baseline scenario for 2025-2026 we expect the challenging business environment to persist until it gradually stabilizes. Nonetheless, it may continue to overshadow the insurance industry as a whole, and specifically the potential to generate revenues. Furthermore, the tight monetary policy, characterized by relatively high interest rates in the past few years, adversely affects economic activity and impacts sector-based growth. In the baseline scenario, we believe that the Company will maintain its business positioning.

The life insurance and long-term savings segment is expected to be affected, on the one hand, by the growing competition for long-term savings products ("risk" products in particular) and by the regulations restricting deposits in managers insurance⁵ that entered into force in September 2023,

⁴ Midroog assesses four lines of business, including: motor insurance (compulsory and motor property (CASCO)), property insurance (other property and liabilities), life insurance and long-term savings as well as health insurance.

⁵ The regulations stipulate that deposits in managers insurance, for new applicants, will be limited provided that their salary is more than twice the average wage in the economy.

both of which are expected to continue to overshadow the potential for growth of the volume of premiums in the industry. On the other hand, these effects will moderate in light of the ongoing tight labor market which will contribute to the continuation of ongoing deposits in this segment.

In the health segment, we assume that the pace of growth of premiums will be affected, on the one hand, by the provisions relating to the movement of insureds with full-coverage policies for surgery (“from the first shekel”) to policies for surgery that are in addition to the Supplementary Health Services, and on the other, by continuing demand for private health services, with the Company focusing on the more profitable private sectors. Nonetheless, further competition in the industry and the structure of the standard policy will continue to exert pressure on prices in this segment. We expect that the Company will maintain significant market segments in this sector.

In the non-life segment, we believe that the volume of the Company’s premiums will grow relatively moderately in the forecast period. Total premiums in this segment will be affected on the one hand by economic activity which supports the increase in the volume of both business and personal lines insurance, and on the other by a gradual decrease in motor property insurance tariffs, this after the significant increase in tariffs in the motor insurance lines of business in recent years.

The risk profile is reasonable for the rating and is supported by relatively low product risk

The Company is characterized by relatively low product risk, which supports underwriting and reduces the insurance risk, given a higher degree of visibility with respect to the volume of claims. We estimate product risk in non-life insurance and health insurance in the short term as adequate for the rating, where 65% of the premiums in 2024 are for short-tail insurance contracts.⁶ In our opinion, the insurance risk in these contracts is lower than in “long-tail” contracts,⁷ which entail greater uncertainty with respect to the volume and dates of the claims, since the time period until the claims are clarified is longer. At December 31, 2024, the exposure to the largest reinsurer as a percentage of the total exposure is 48%, reflecting an increase compared with an average of 38% in the period 2021-2023. Furthermore, the ratio of the exposure to reinsurers from equity was 59%, reflecting a decrease compared with an average of 71% in the period 2022-2023, which is partially attributable to an increase of the equity in 2024. Additionally, the Company hedges the insurance risks in some sectors of the non-life segment through highly rated reinsurers with relatively low exposure in the retention for catastrophe events, that was 2.3% of the eligible equity (own funds) at December 31, 2024. The share of high-risk reserves, as we define them, in life and long-term health insurance was 29% at December 31, 2024 (an average of 30% between 2021 and 2023), is reasonable for the rating and reflects relatively low exposure to yield guaranteed and/or longevity mechanisms net of Hetz bonds which expose the insurers to significant exogenous changes, including changes in the interest-rate curve and capital market volatility, in addition to the demographic risks. The risk profile is also affected by a certain exposure to collectives (group policies) and large policyholders that could aggravate the insurance risks, credit risks and sector-specific risks over the economic cycle and it also limits risk-adjusted pricing, due to the inability to assess individual risk for each insured. This exposure accounted for 19% of total gross earned premiums in 2024 compared with 27% in 2023, and is lower, partly in view of the revised plan for the agreement between the Company and

⁶ Motor property (CASCO), other property and short-term health.

⁷ Compulsory motor and liabilities.

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Clalit concerning elimination of the Company's insurance risk in long-term care insurance. As a direct consequence of this change in the plan, the Company's exposure to groups in the long-term care sector has decreased significantly so that groups (collectives) accounted for 23% of total gross earned premiums in the long-term care sector in 2024, compared with 71% in 2023. In our opinion, the improvement in the rate of exposure to groups supports the Company's risk profile and is reasonable for the rating.

We believe that the Company's risk management policy and levels of control are commensurate with the rating and supported by regulatory requirements, while, in our opinion, full implementation of the Solvency II Directive and particularly Pillar II (ORSA) further improves risk management processes both within the Company and in the entire industry, and can support improvement of the risk profile over time and the measurement of economic capital, despite volatility of the economic capital under the Solvency II regime. Midroog also anticipates that in coming years the Company will continue to place considerable emphasis on the management of operational risks, which constitute a key, developing focus of risk, as well as on information security, business continuity and cyber security.⁸ The Company's capital surplus under the Solvency II regime supports its risk profile, business flexibility and ability to build adequate risk management processes without regulatory pressures. Furthermore, the risk management function in Harel Insurance is also supported by computer and software services provided by Harel Hamishmar Computers Ltd., which is responsible for providing the various divisions within Harel Group with a range of automation services.

Asset quality is reasonable for the rating and has improved in view of the increase in equity

In our opinion, the Company's Nostro (proprietary) investments profile indicates a high-risk appetite relative to the rating, as reflected in the ratio of "high-risk assets"⁹ to equity of 136% at September 30, 2025 although in the past year this ratio has improved due to the increase of equity (170% at December 31, 2024). At September 30, 2025, the investment mix in the Nostro (proprietary) portfolio comprises the following: government bonds - 37%, collateral-backed loans - 19%, investment funds - 10% and corporate bonds with a rating of Aa3.il and above - 7%. Any other investments are well diversified and less significant in the investment mix. At September 30, 2025, the share of intangible assets and DAC in life insurance, which typically have a "softer" value¹⁰ than the equity, improved significantly in view of the initial application of IFRS 17, which reduced the DAC held to cover the surpluses so that at September 30, 2025 the ratio was 22%, which is favorable for the rating.

⁸ See a related Midroog report on this subject: [Reputation damage resulting from cyber attacks that could exact a heavy business price from companies.](#)

⁹ High-risk assets include all the financial investments assets other than cash, government bonds and corporate bonds with an investment rating, where the latter are weighted by a partial financing rate which reflects possible impairment risk over the credit cycle as a result of credit risks, market risks or liquidity risks.

¹⁰ The economic value of these assets is generally uncertain and it might not be possible to dispose of them of at the values in which they were created at the time of purchase.

Capital adequacy is commensurate with the rating and favorable for the insurance industry, as reflected in the economic solvency ratio

The capital to balance sheet ratio (excluding assets for yield-dependent contracts) was 12.6% at September 30, 2025 and is commensurate with the rating. In our opinion, in the short to medium term the ratio will remain stable and/or improve, due the continuing strengthening of the Company's capital buffer accompanied by the further growth of AUM. The Company's capital adequacy is also reflected in the capital surpluses with respect to the Solvency II directive, where the Solvency Capital Ratios (SCR) at June 30, 2025 were 183% (taking the transitional period into account) and 159% (without taking the transitional period into account), higher than those of the benchmark group. In our opinion, these ratios support the Company's business flexibility and ability to implement strategic measures in view of the margin from the regulatory requirement. On February 28, 2021, the Company's Board of Directors approved a dividend distribution policy in which the Company will distribute a dividend of at least 35% of its comprehensive income in the annual consolidated financial statements, and this as long as the Company is in compliance with the minimum targets for Solvency II based solvency. In this context, we note that in January 2025, the Company's Board of Directors approved an update to the minimum economic solvency ratio target for the distribution of a dividend without taking into account the transitional measures for the transitional period, from 110% to 115%.¹¹ The minimum economic solvency ratio target taking into account the transitional measures for the transitional period remained unchanged at 135%. We believe that the Company will continue to build up the capital buffer and maintain a Solvency II ratio that is commensurate with the rating, notwithstanding our assumption that it will continue to distribute dividends in the forecast years, in line with its aforementioned dividend distribution policy.

Improvement in underwriting profit together with a significant improvement in profitability indicators are commensurate with the rating and support the rating upgrade

In 2024 and the first nine months of 2025, the Company's profitability improved significantly and consistently while the application of IFRS 17 also contributed to profit in these periods in the life and health segments. Additionally, underwriting profit improved in all segments of insurance activity as a direct outcome of the implementation of the Company's strategic plan. Simultaneously, the improved profitability is also attributable to significant investment and financing income in the light of capital market yields. These are all reflected in the ratios for ROC and comprehensive income to gross earned premiums, which in the first nine months of 2025 were 19.1% and 14.7%, respectively, calculated at an annual rate, and are commensurate with the rating, compared with 12.1% and 8.2%, respectively, in 2024.

According to Midroog's baseline scenario for 2025-2026, we expect that the Company will maintain a high level of profitability which is commensurate with the rating. Nonetheless, we anticipate that the business environment which is affected by the tight macroeconomic environment, will continue to overshadow the insurance industry and specifically the potential to generate profits and the ability to build up the capital buffer from ongoing profits. Additionally, the insurance industry will continue to be affected by volatile yields in the capital markets together with exposure to excessive regulation, which encourages competition and generates additional costs.

¹¹ See [a report on the Maya website dated January 15, 2025](#). [Hebrew]

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The health insurance segment will continue to be affected by the business focus of most of the companies in the industry in the profitable segments and by regulatory changes. These include the entering into force of the provisions concerning the transfer of insureds with full-coverage policies for surgery (“from the first shekel”) to policies for surgery that are in addition to the Supplementary Health Services, as well as a standard policy structure, both of which intensify price competition and exert pressure on profitability in this sector. Additionally, we believe that profitability in the medical expenses product may be eroded to a certain extent, in view of the continuing increase in the use of medications that are not included in the health services basket and the gap between actual costs and current price levels. Nonetheless, in our opinion, these influences are moderated by the fact that the Company holds a dominant market share in this segment and that it is expected to maintain significant market shares in this segment in the forecast years.

In the non-life segment, we expect competition to remain strong from both the traditional companies and the direct insurance companies, alongside the continuing development and growing use of digital tools and AI technology that intensify competition in this sector. We expect profitability in the motor insurance sector to be affected, on the one hand, by a gradual decrease of motor property insurance tariffs, following substantial price increases in the motor sectors in recent years, and on the other hand to improve as a result of the streamlining of operations and better control of the operating expenses structure, in part through the growing use of technology combined with the streamlining of claims and use of arrangement repair garages. As a direct result, we expect that the Company will maintain good levels of profitability for the rating, to that the ratios of ROC and comprehensive income to total gross earned premiums will be in the range of 9.0%-18.4%, and 7.7%-14.3%, respectively, in the forecast years.

The liquidity profile is stable but low for the rating; in contrast, financial flexibility is commensurate with the rating and supported by a broad margin relative to the required regulatory capital adequacy

The Company’s liquidity profile is stable, but low for the rating, as reflected in a current ratio of x 1.6 between the weighted liquid assets inventory and the insurance and financial liabilities due for repayment in the short term. In view of the Company’s diverse mix of business, some of the liabilities are expected to mature in the long term (life insurance and long-term savings) while others will mature in the short term (non-life insurance).

The Company’s financial flexibility is commensurate with the rating, supported by Solvency II ratios that are significantly higher than the regulatory requirement. At the same time, there is no significant pressure in the short term for dividend distributions from the parent company Harel Insurance Investments and Financial Services Ltd (“Harel Investments” or the “Parent Company”), which has a rating of Aa2.il, outlook stable. In our opinion, Harel Investments is somewhat dependent on the dividend distributions from the Company to service its debts, while the insurance company continues to serve as the principal anchor for the parent company’s consolidated activity and it has business ties with the other group companies, although the parent company also relies on additional sources (Harel Pension and Provident Ltd., and E.M.I. - Ezer Mortgage Insurance Company Ltd.). Notably, the parent company has substantial liquid balances at its disposal, providing it with financial flexibility for servicing its debts. We believe that the Company has good access to sources of finance, also for improving the solvency ratio (raising of additional Tier-1 capital), as well as other tools at its disposal

(agreements with reinsurers, change in the investment mix, etc.) to address deterioration of the solvency ratio, should this be necessary.

Additional rationale

Relatively long duration of liabilities which supports the liquidity profile

The Company has a relatively long duration of liabilities which provides strong support for both its liquidity profile and rating. In our opinion, insurers characterized by a long duration of liabilities and that have no PUT options for policyholders to call in money, are less exposed to liquidity risk and are better able to respond over time, a fact which supports their resilience and rating. Moreover, the volatility that may result from marking to market of assets (MTM) does not always reflect the economic value of insurers with a long duration of liabilities, given their ability to hold the relevant assets to maturity. We therefore believe that the economic capital of those companies may be less exposed to short-term market volatility.

ESG considerations

Environmental considerations: Israel's insurance companies, and particularly insurers operating in the non-life sector, are exposed to risks that could materialize in view of climate change. Climate change has the potential to affect the frequency and severity of natural perils (earthquakes, fires, floods, etc.), that could cause significant losses and affect the actuarial models. In our opinion, the impact of climate events, if and when they materialize, is difficult to estimate thus increasing the uncertainty attributable to this risk. While insurers are only able to reprice policies periodically, the increasing global frequency of catastrophe losses relating to climate change and the accumulation of these risks, make underwriting and risk management ever more complex. In contrast, such exposures are moderated mainly by the use of reinsurance for spreading risks. However, the insurance companies have indirect exposure by means of the financial strength of the reinsurers that insure the local insurance companies and any harm to them could create an additional risk for the insurance companies in the industry. We believe that these risks are adequately expressed in the rating matrix, and specifically in the "product risk - non-life and short-term health insurance" parameter as well as in the solvency ratio which reflects various scenarios with respect to the Company's capital requirement.

Social considerations: Israel's insurance companies, and particularly the insurers operating in the life assurance and long-term savings and health sectors, are exposed to significant demographic and social changes, including: longevity and an increase in the morbidity rate. Accordingly, increased longevity due to a decrease in mortality rates after the age of retirement affects the period of future annuity payments (mainly with the development of accrual in policies with a guaranteed annuity option), which are expected to trigger an increase in the reserves required to cover these payments. Furthermore, an increase in the mortality rates for insureds with life assurance that includes compensation in the event of death ("risk"), including in the event of catastrophe, might cause an immediate loss and affect the value of the portfolio. Rising morbidity, including long-term care, work disability and insurance for medications, also has a material impact on the scope of the insurance companies' profits. We believe that these risks are adequately expressed in the rating matrix, and specifically those in the categories "product risk - long-term life assurance and long-term savings,

long-term care and long-term health insurance” as well as in the solvency ratio which reflects various scenarios with respect to the Company’s capital requirement.

Corporate governance considerations: In our opinion, corporate governance risks carry a material effect for the insurance industry. These risks form a key credit consideration, where weak corporate governance could lead to a worsening of the insurer’s credit repayment capacity, whereas strong corporate governance might positively impact its credit repayment capacity. Corporate governance risks are mitigated by the regulatory framework in which the insurers operate, a framework that outlines the internal control functions as well as tight controls imposed by the regulator. Midroog examined the effect of corporate governance on the Company and does not assume any significant exposure in this respect.

Structural considerations

Characteristics of subordinated instruments

Based on Midroog’s methodology, the anchor for rating the subordinated debts (hybrid Tier-2 and Tier-2 capital) is the Insurance Financial Strength (IFS) rating, from which we adjust the rating to the credit risk of the subordinated debt instrument according to its contractual characteristics. We lower two notches from the insurer’s IFS for rating hybrid Tier-2 / Tier-2 capital. Lowering the notches factors in the legal-contractual subordination of these debts in relation to IFS, the ranking of seniority among the actual subordinate debts and the effect of the loss-absorption mechanisms they incorporate (in the contractual trigger for “delaying circumstances” or at the discretion of the Commissioner of Insurance). For Tier-2 capital instruments, we estimate that the uncertainty regarding the probability of reaching the “delaying circumstances” is substantially lower than the Company’s current and expected solvency ratio and it was therefore not factored into the lowering of an additional notch. The Solvency Circular defines “delaying circumstances” as a solvency ratio which is 80% of the solvency ratio required in the transitional period, after adjustment for equity risk. At June 30, 2025, the Company’s solvency ratio in the transitional period was 183%, as mentioned above.

Rating matrix

Category	Parameter	Sub-parameter	September 30, 2025		Midroog outlook [1]	
			Measurement [1]	Score	Measurement	Score
Business profile	Business positioning		21% [2]	Aaa.il	21%	Aaa.il
	Distribution channel:		-	Aa.il	-	Aa.il
	Revenue diversification		36%	Aa.il	36%~	Aa.il
Risk profile	Product risk - short-term non-life and health insurance		65% [2]	Aaa.il	65%~	Aaa.il
	Product risk - life assurance and long-term savings, long-term care and health		29% [2]	Aa.il	29%~	Aa.il
	Percentage exposure to groups and large enterprises (group from total premiums)		19% [2]	Aa.il	19%~	Aa.il
	Risk management policy		-	Aa.il	-	Aa.il
Financial profile	Asset quality	Assets at risk / equity	136%	A.il	136%~	A.il
		DAC life + intangible / equity	22%	Aaa.il	22%~	Aaa.il
	Capital adequacy	% capital surplus over regulatory requirements	183%	Aa.il	183%~	Aa.il
		Equity / total assets in balance sheet (excluding yield dependent)	12.6%	Aaa.il	13%~	Aaa.il
	Profitability	Return on capital (ROC)	19.1%	Aaa.il	9.0%-18.4%	*Aaa.il
		Comprehensive income to gross premium	14.7%	Aaa.il	7.7%-14.3%	*Aaa.il
	Liquidity	Liquidity ratio (excluding yield dependent)	x 1.6	Aa.il	x1.6	Aa.il
	Financial flexibility		-	Aa.il	-	Aa.il
Estimated derived financial strength						Aa1.il
Estimated actual financial strength						Aaa.il

[1] The indicators presented in the table are after Midroog's adjustments and are not necessarily the same as those presented by the Company. Midroog's outlook includes its assessments of the issuer based on Midroog's baseline scenario rather than the issuer's assessments.

[2] At December 31, 2024

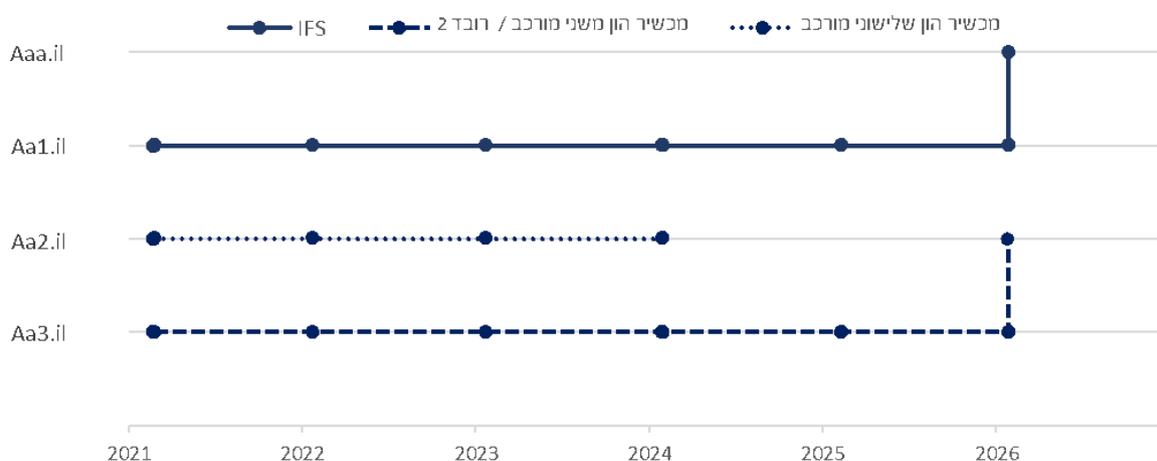
* The forecast range and results for 2024 were taken into account in calculating the score

About the Company

Harel Insurance is a private company fully controlled by Harel Investments. Harel Investments is a public company whose shares have been traded on the Tel Aviv Stock Exchange since 1982. The principal shareholders in Harel Investments are Yair Hamburger, Gideon Hamburger and Nurit Manor (“the Controlling Shareholders”), holding approximately 45.7% of the voting rights and the issued share capital of Harel Investments. The Controlling Shareholders hold the Company principally through G.Y.N. Financial Consulting & Management 2017 Limited Partnership (“G.Y.N. Partnership”) which they fully own and control and which they hold, as limited partners, through private companies which are fully controlled by each of the Controlling Shareholders, and they also hold the general partner in G.Y.N. Partnership. The Company’s CEO is Mr. Nir Cohen and Chairman of the Board is Mr. Guy Rotkopf.

Harel Insurance operates primarily in the insurance industry, including: the life insurance and long-term savings, health insurance and non-life insurance sectors. The insurance activity is performed by the Company itself. In the long-term savings segment, activity is performed by the Company and also through the following subsidiaries that are provident fund and pension fund management companies: Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd., under full control and LeAtid Pension Funds Management Company Ltd. (in which the Company holds a 89.5% stake), which manages an old pension fund. Additionally, credit activity takes place through: (1) the subsidiary Harel 60+, which provides ordinary mortgage loans, reverse mortgages in the form of a loan provided to customers aged 60 or more, against a first lien on their home; (2) within the context of development property finance activity, including the Company’s sale guarantee activity; (3) within the framework of providing financial guarantees and operating services for mortgage portfolios.

Rating history

**Diagram text [key]:**

Solid line: IFS

Dashed line: Hybrid Tier-2 capital instrument / Tier-2 capital

Small dotted line: Hybrid Tier-3 capital instrument

Related reports [update list of reports][Harel Insurance Company Ltd. – related reports](#)[Harel Insurance Investments and Financial Services Ltd. – related reports](#)[Rating for Life insurance, Health and Non-life Companies - Methodology Report, May 2022](#)[Guidelines for assessing environmental, social and corporate governance risks as part of a credit rating – Methodology Report, February 2022](#)[Table of affiliations and holdings](#)[Midroog Rating Scales and Definitions](#)The reports are published **(in Hebrew)** on Midroog's website www.midroog.co.il

General Information

Date of rating report:	February 5, 2026
Date of previous rating update:	February 16, 2025
Publication date of initial rating:	February 24, 2021
Name of rating initiator:	Harel Insurance Company Ltd.
Rating paid for by:	Harel Insurance Company Ltd.

Information from the Issuer

Midroog's rating relies, among other things, on information received from authorized parties at the issuer.

Local Long-term Rating Scale

Aaa.il	Issuers or issues rated Aaa.il demonstrate, in Midroog’s judgment, have the highest creditworthiness relative to other local issuers.
Aa.il	Issuers or issues rated Aa.il demonstrate, in Midroog’s judgment, very high creditworthines relative to other local issuers.
A.il	Issuers or issues rated A.il demonstrate, in Midroog’s judgment, high creditworthines relative to other local issuers.
Baa.il	Issuers or issues rated Baa.il demonstrate, in Midroog’s judgment, moderat creditworthiness relative to other local issuers and may possess certain speculativ characteristics.
Ba.il	Issuers or issues rated Ba.il demonstrate, in Midroog’s judgment, weak creditworthines relative to other local issuers and may possess speculative characteristics.
B.il	Issuers or issues rated B.il demonstrate, in Midroog’s judgment, very weak creditworthines relative to other local issuers and possess speculative characteristics.
Caa.il	Issuers or issues rated Caa.il demonstrate, in Midroog’s judgment, excessively wea creditworthiness relative to other local issuers and possess very significant speculativ characteristics.
Ca.il	Issuers or issues rated Ca.il demonstrate, in Midroog’s judgment, extremely wea creditworthiness and are very near insolvency, with some prospect of recovery of principa or interest.
C.il	Issuers or issues rated C.il demonstrate, in Midroog’s judgment, the weakest creditworthiness and are usually insolvent, with little prospect of recovery of principal o interest.

Note: Midroog appends numeric modifiers 1, 2, and 3 for each rating category from Aa.il to Caa.il. The modifier “1” indicates that the debenture ranks in the higher end of its rating category, which is denoted by letters. The modifier “2” indicates a mid-range ranking category and the modifier “3” indicates a ranking in the lower end of that category, which is denoted by letters.