Harel Insurance Investments and Financial Services Ltd.

Periodic Report for 2021

Harel Insurance Investments and Financial Services Ltd.

Periodic Report for 2021

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This document is a Hebrew translation for informational purposes only. The Hebrew version is the binding version.

Harel Insurance Investments and Financial Services Ltd.

Members of the Board of Directors

Yair Hamburger - Chairman of the Board
Gideon Hamburger
Yoav Manor
Ben Hamburger - Deputy Chairman of the Board
Joseph Ciechanover
Doron Cohen
Eli Defes
Hava Friedman Shapira (External Director)
Naim Najjar (External Director)
Efrat Yavetz (External Director)

Harel Insurance Investments and Financial Services Ltd.

Chapter 1

Description of the Company's Business

Description of the Company's Business

* Note concerning implementation of the provisions of the Securities (Periodic and Immediate Reports) Regulations, 1970 ("Securities Regulations") in this report:

  Pursuant to Regulation 8C of the Securities Regulations, the provisions of Regulation 8A of the Securities Regulations in relation to the Periodic Report do not apply to a corporation that consolidated or proportionally consolidated an insurer or where the insurer is its affiliate.

  The Company is a holding company, whose principal holdings are subsidiaries which are insurance companies, provident fund management companies, pension fund management companies, a mutual fund management company, and companies engaged in finance.

  This report, in relation to the insurance, pension and provident business, is prepared in accordance with Section 42 of the Supervision of Financial Services (Insurance) Law, 1981, and the instructions of the Commissioner of Insurance by virtue of his powers under the aforementioned section concerning a description of company business in the periodic report of insurance companies, which prescribes, inter alia, the structure of the report and the information to be contained in the periodic report of insurance companies.

* This chapter is an inseparable part of the Periodic Report and the entire Periodic Report should be read as a single document.

* This chapter of the Periodic Report, which provides a description of the Company, its development, business and operating segments, also includes 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 cases, it is possible to identify sections containing forward-looking information by the appearance of the following words or phrases: "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. Forward-looking information which appears in this report refers exclusively to the date on which it was written. The Company makes no undertaking to revise or change this information insofar as additional or different information in relation to the aforesaid information becomes available.

* For the avoidance of doubt, it is stipulated that the description presented in this report concerning the insurance products is a condensed description for the purpose of the report only, and that the conditions of the insurance products which are binding on the Group's insurers are those stipulated in the relevant policies which they have drawn up. Accordingly, the description presented in this report is not to be used to interpret the policies nor will it constitute a source of authority of any kind regarding the conditions of the insurance.

* For the avoidance of doubt, it is stipulated that the description presented in the report concerning the conditions of the various pension and provident products is a condensed description for the purposes of the report only, and that their binding conditions are those prescribed in The Supervision of Financial Services (Provident Funds) Law, 2005 and subsequent regulations and in the pension fund and provident fund articles.

* For the avoidance of doubt, it is stipulated that the description presented in the report concerning the various mutual funds is a condensed description for the purpose of the report only, and that the binding conditions are those prescribed in the fund prospectuses and in the reports submitted by the fund manager.
* For the avoidance of doubt it is stipulated that the description presented in the report concerning the various exchange traded funds and/or mutual funds and/or certificates of deposit is a condensed description for the purpose of the report only, and that the binding conditions are those prescribed in the prospectuses and/or the immediate reports regarding the exchange traded funds and/or deposit certificates published by the issuers of these products.

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Foreword to Chapter 1 of the Periodic Report

Chapter 1 of the Periodic Report contains a description of the Company's business at December 31, 2021, and its business development during the course of 2021 ("the Reporting Period"). The report was prepared in accordance with the Securities (Periodic and Immediate Reports) Regulations, 1970 ("Periodic and Immediate Reports Regulations"), and in accordance with the instructions of the Commissioner of Insurance under Section 42 of the Supervision of Financial Services (Insurance) Law, 1981.

With respect to the holding of shares in the Group's companies which are mentioned in this report, information about holdings in any company include all the holdings in that company, including through wholly owned subsidiaries of the holding company. The percentage holdings are presented in round figures to the nearest whole percent, unless specified otherwise.

The materiality of the information contained in this chapter of the Periodic Report, including the description of material transactions, is examined from the Company's perspective, where in certain instances a broader description was given to provide a comprehensive picture of the subject matter.

Definitions

For the reader's convenience, the following terms or abbreviations will, in this chapter, have the meaning that appears alongside them, unless stated otherwise.

Alfa Tech	Alfa Tech Investment Management Ltd.
ICIC	ICIC – Israel Credit Insurance Company Ltd.
Financial institution	An insurer or management company.
Insurance premiums	The sum total of premiums and fees which an insured/policyholder pays an insurer according to a policy which is not an investment contract.
Benefit contributions	The amounts which a member deposits (or which are deposited on his behalf) in a pension fund or provident fund.
Fees	Amounts included in the insurance premiums whose purpose is to cover the insurer's expenses (e.g. registration fees).
Dikla	Dikla Insurance Agency Ltd. (previously: Dikla Insurance Company Ltd.).
The Commissioner	The Commissioner of the Capital Market, Insurance and Savings, according to its meaning in the Supervision Law.
Hamazpen	Hamazpen - Shutaphim Laderech Ltd.

The Group	Harel Insurance Investments and Financial Services Ltd. and its subsidiaries.
Harel 60+	Harel 60+ Ltd.
Harel Finance Alternative	Harel Finance Alternative Ltd.
Harel Insurance	Harel Insurance Company Ltd.
Harel Finance & Issues	Harel Insurance, Finance and Issues Ltd.
Harel Investments or the Company	Harel Insurance Investments and Financial Services Ltd.
Harel Index Funds	Harel Index Funds Ltd. (previously - Harel Financial Products Ltd.).
Harel Strategies	Harel Finance Strategies Ltd.
Harel Investment Management	Harel Finance Investment Management Ltd.
Harel Sal	Harel Sal Ltd.
Harel Sal Currencies	Harel Sal Currencies Ltd.
Harel Mutual Funds	Harel Mutual Funds Ltd. (previously - Harel-Pia Mutual Funds Ltd.).
Harel Finance	Harel Finance Holdings Ltd.
Harel Exchange Traded Deposit	Harel Exchange Traded Deposit Ltd.
Harel Index Trade	Harel Index Trade Ltd.
Harel Pension & Provident	Harel Pension and Provident Ltd.
Management company	A company engaged in the management of provident funds or pension funds and which has received a license to do so from the Commissioner, pursuant to Section 4 of the Provident Funds Law.
Companies Law	The Companies Law, 1999.
Supervision Law	The Supervision of Financial Services (Insurance) Law, 1981.
Securities Law	The Securities Law, 1968.

Underwriting	The process of approving an insurance proposal and setting the premium, based on actuarial assumptions, for the information specified in the insurance proposal and additional information in the insurer's possession.
LeAtid	LeAtid Pension Funds Management Company Ltd.
Long-term savings assets	Assets comprising the assets of the provident and pension funds, excluding old funds, assets held by insurers to cover the yield-dependent liabilities in life assurance, assets held by insurers to cover their liabilities pursuant to life assurance plans that provide the insured with a guaranteed yield and regarding which the insurer is not entitled to earmarked debentures for some or all of the funds deposited in them.
Insurance sectors / Lines of insurance business	As referred to in the Supervision of Insurance Business (Insurance Branches) Notice, 1985.
Income Tax Ordinance	The Income Tax Ordinance [New Version].
Individual/personal line	Individual policyholders or small business customers who enter into agreement with the insurance company on an individual basis.
Premium	Insurance premiums including fees.
Earned premium	The premiums relating to the reporting year.
Accrual	The amounts accrued to the credit of members of the provident fund, pension fund or life assurance policies with some form of savings component.
Collective or Group (including their variations)	A group of people (usually associated with a common work place, or who belong to a particular organization or share supplier-customer relations with any corporation or organization), who enter into a single agreement with the insurance company whereby all those who belong to the group are insured or are eligible to be insured (and not through separate agreements with the Group's individual members).
Insurance fund	An insurance plan that is approved as a benefits/pension provident fund, fund for severance pay or annuity, under the Provident Funds Law and under the Provident Funds Regulations.
Provident fund	A provident fund according to its meaning in the Provident Funds Law, which is not a pension fund.

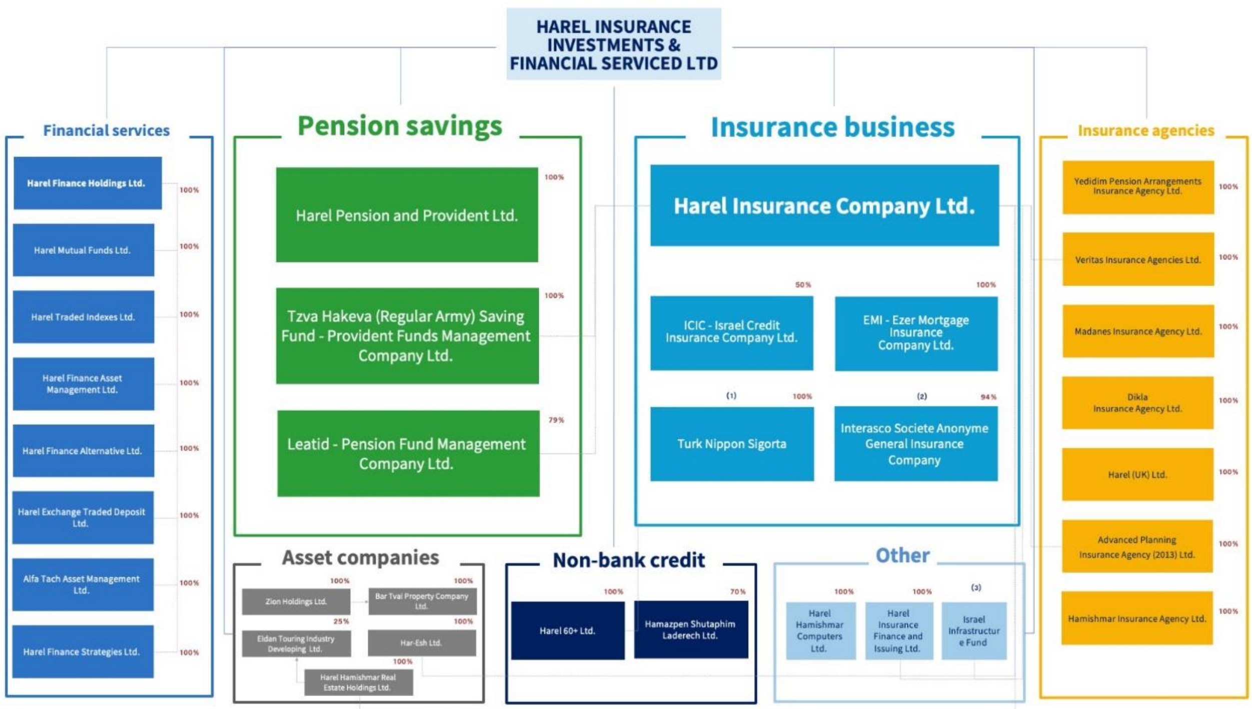
Tzva Hakeva Fund	Tzva Hakeva Saving Fund - Provident Fund Management Company Ltd.
Mutual fund	A fund for joint investments in trust, according to its meaning in Section 3 of the Joint Investment Trust Law.
Old pension fund	A pension fund which was first approved before January 1, 1995.
New pension fund	A pension fund which was first approved on or after January 1, 1995.
Pension fund	A provident fund for annuity according to its meaning in the Provident Funds Law, which is not an insurance fund.
Retention	That part of the insurance transaction which is not covered by reinsurance.
Insurance benefits	Amounts payable when an insured event occurs under the policy conditions.
Investment Regulations	Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012.
Provident Fund Regulations	Income Tax (Rules for the Approval and Management of Provident Funds) Regulations, 1964.
Interasco	Interasco Societe Anonyme General Insurance Company S.A.G.I. - a company incorporated in Greece which has a license to operate as an insurer in Greece.
Turk Nippon	Turk Nippon Sigorta A.S. - a company incorporated in Turkey which has an insurer's license in Turkey.
EMI	EMI - Ezer Mortgage Insurance Company Ltd.

1. The Company's activity and a description of its business development

1.1 The Company's activity and a description of its business development

1.1.1 Diagram of holdings

Diagram of the Company’s principal holdings at the date of preparation of this report. A complete list of the Company's subsidiaries and affiliates at the date of this report appears in Chapter 5 of the Periodic Report (Additional information about the Company), under Regulation 11 of the Periodic and Immediate Report Regulations.



<u>Comments:</u>

(1) Insurance company in Turkey.

(2) Insurance company in Greece.

(3) Four funds: in Israel Infrastructure Fund I and in the Israel Infrastructures Fund II, Harel Insurance owns some of the shares in the General Partner, in Infrastructures Fund III and in Infrastructure Fund IV the Company owns some of the shares in the General Partner.

1.1.2 Changes in the holding structure in 2021

EMI was transferred to direct holding by the Company. For additional information, see Section 1.1.7.11 below.

1.1.3 Incorporation and form of incorporation

The Group has operated in the insurance industry since 1933, when the subsidiary Harel Insurance was incorporated (under its then previous name - Shiloah Insurance Company Ltd.). Harel Investments was incorporated in Israel in 1982 as a private company. That same year the Company issued 25% of its stock to the public and became a public company whose shares are traded on the Tel Aviv Stock Exchange.

1.1.4 Control structure

At the date of the report, Yair Hamburger, Gideon Hamburger and Nurit Manor (in this section below: “the Final and Controlling Shareholders in the Company”), hold the Company principally through G.Y.N. Financial Consulting and Investment Management 2017 LP (“the GYN Partnership”), a partnership which they fully own and control, which they hold as limited partners through private companies fully owned by them, and they also hold the general partner in the GYN Partnership. The Final and Controlling Shareholders in the Company hold 46.94% of the voting rights in the Company and 46.94% of the Company’s issued share capital.

Condensed description of operations

At the reporting date, most of the Company's activity is in the following areas:

1.1.4.1 In the various insurance sectors and in long-term savings - through the subsidiaries: Harel Insurance, Interasco which operates in Greece, Turk Nippon which operates in Turkey, ICIC and EMI.

1.1.4.2 In the long-term savings segment, the Company also operates through the subsidiaries: Harel Pension & Provident, a company which manages pension funds, provident funds and education funds, Tzva Hakeva, a company which manages an education fund; and LeAtid, a company which manages an old pension fund.

1.1.4.3 In the financial services and capital market sector, the Company operates through the subsidiary Harel Finance Holdings Ltd. and its subsidiaries.

1.1.4.4 In the credit sector - through a subsidiary - Hamazpen which creates innovative financing solutions for quality entrepreneurs providing credit to small and medium businesses, including the provision of mezzanine loans; through a subsidiary of Harel Insurance, Harel 60+, which provides reverse mortgage loans. The loans are provided to borrowers aged 60 or more with a lien on their homes; and within the framework of the sale guarantee activity carried out by Harel Insurance.

The Group has been active in the insurance industry for 90 years. According to the financial statements for Q3 2021, the Group is Israel's largest insurance company with respect to volume of premiums, with a market segment of 22.2%. In health insurance, Harel Group dominates the market as Israel's largest insurer, with a market segment of 38.7%. In general (non-life) insurance, the Group is the largest insurance group with a market segment of 15.2%, and with respect to premiums in life assurance, the Group is second largest, with a market segment of 19.1%. In the new pension fund management sector, the Group has a market segment of about 17.6% correct to September 30, 2021. In the provident fund management sector, the Group has a market segment of 7.1% correct to September 30, 2021. In the mutual fund management sector, the Group has a market segment of 10.9% correct to September 30, 2021.

Data on the volume of assets managed by the Group (AUM) (in NIS billion):

	As at December 31	
	2021	**2020**
Insurance (including yield- dependent assets)	124.1	108.2
Pension funds	126.4	86.6
Provident funds	52.9	44.3
Mutual funds	43.0	39.1
Portfolio management and other*	15.9	13.0
Total	**362.3**	**291.2**

* Including a private equity fund in the amount of NIS 0.4 billion.

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

1.1.5 Main points in the history of the Company's development

In 1982, the Company was floated on the Tel Aviv Stock Exchange (TASE). At that time, the Company held the shares of Harel Insurance Company ("First Harel"). Subsequently, it expanded its activity through several significant acquisitions, including: in 1984 it acquired the full ownership of Harel Insurance (under its then name, Shiloah Insurance Company Ltd.) ("Shiloah"). At the time of this acquisition, Shiloah was involved in health insurance and life assurance; in 1985, Shiloah acquired 50% of the life assurance portfolio of Yardenia Insurance Company Ltd.; in 1989 the Company acquired 82% of the shares of Sahar Israel Insurance Company Ltd. ("Sahar") and over time it acquired the outstanding shares of Sahar; in 1993 it acquired, through Mor-Har Investments Ltd., the control of Dikla Insurance Company Ltd.; in 1999 the Company acquired control of Zion Holdings Ltd. which held all the shares of Zion Insurance Company Ltd. ("Zion"). Over time, as a result of mergers and restructuring, First Harel, Sahar and Zion were concentrated in Shiloah, which later on changed its name to Harel Insurance.

In 2006 Harel-Mutual Funds acquired the mutual fund activity of Bank Leumi LeIsrael Ltd. and Leumi-Pia Mutual Fund Management Company Ltd.; also in 2006 Harel Insurance acquired the activity of 5 provident funds from Bank Leumi (the most important of which are Otzma and Taoz); in 2006, the Company, together with Bituach Haklai and Euler Hermes, acquired control of ICIC; in 2010 Harel Insurance acquired all the share capital of EMI; In addition, over a period of several years, various provident funds, mutual funds and portfolio management activity were acquired on different dates.

In 2013, Harel Insurance acquired the life assurance and health insurance activity of Eliahu Insurance Company Ltd., and Harel Finance acquired the portfolio management and mutual fund management activities of Clal Finance Investment House. In January 2016, the insurance activity of Dikla Insurance Company Ltd. was merged into Harel Insurance, and Dikla received a license to operate as an insurance agency.

In October 2021, transfer of the activity of Psagot Provident and Pension Funds Ltd. (“Psagot”), in several provident funds and pension funds, to Harel Pension & Provident, was completed. For additional information see Section 1.1.6.17 below. In December 2021, the insurance activity of Shirbit Insurance Company Ltd. (“Shirbit”) was transferred to Harel Insurance. For additional information see Section1.1.6.14 below.

1.1.6 Main points in the Group's development in 2021

1.1.6.1 Significant developments in the Group’s various operating segments

On significant developments in the Group’s various operating segments, see sections 2.1.1.2, 2.2.2, 2.3.2, 2.4.2 and 2.5.3 below.

1.1.6.2 Effects of the COVID-19 pandemic on the Group's activity

During the Reporting Period, the spread of COVID-19 virus continued. On the effect of the crisis on the Company’s activity, see Section 2.2 in the Board of Directors Report.

1.1.6.3 Midroog rating

On a preliminary rating for the Company by Midroog, see Note 25H2 to the Financial Statements.

1.1.6.4 Dividend distribution policy

On the dividend distribution policy, see Section 1.4 below.

1.1.6.5 Dividend distributions

On a decision dated 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 21, 2021, concerning a dividend distribution in the amount of NIS 150 million, that was paid on April 20, 2021, see Note 16D to the Financial Statements.

On the repurchase of shares which took place during the Reporting Period, see Section 1.1.6.9 below.

1.1.6.6 Full early redemption of bonds (Series 5) of Harel Finance & Issues

On the full early redemption of Series 5 bonds that were issued by Harel Finance & Issues, see Note 25H 8 to the Financial Statements.

1.1.6.7 Approval of the terms of office of Michel Siboni

On May 23, 2001, May 26, 2021 and on June 30, 2021, the Compensation Committee, Board of Directors and General Meeting of the Company, respectively, approved the terms of office for Mr. Michel Siboni for the period commencing July 1, 2021, in which he serves 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.

1.1.6.8 Annual and Special General Meeting of the Company

On June 30, 2021, an annual and special general meeting of the Company was held, 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 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, Joseph Ciechanover and Eli Defes); (4) approval of the terms of service of Mr. Michel Siboni for the period commencing July 1, 2021 in which he serves as CEO of the Company and Chairman of the Board of Directors of Harel Insurance (unchanged compared with the present conditions). The general meeting approved all the items on the agenda.

1.1.6.9 Plan to repurchase shares

On June 30, 2021, the Company's Board of Directors approved a plan to buy back shares of the Company in the amount of up to NIS 100 million. This plan will be implemented from time to time as will be determined by the Company's management which was authorized by the Board of Directors to purchase securities at its discretion during the period prescribed for implementation of the plan. For additional information, see an Immediate Report of the Company dated June 30, 2021 (Ref. 2021-01-109800). At the date of publication of the report, the Company has purchased 1,490,408 shares at a total cost of NIS 51.5 million.

1.1.6.10 Economic Solvency Report of Harel Insurance

On June 30, 2021, Harel Insurance published a report on the economic solvency ratio as at December 31, 2020. For additional information, see an Immediate Report of the Company dated June 30, 2021 (Ref. 2021-01-109848) and Section 7 in the Directors Report.

1.1.6.11 Completion of a restructuring of the Group - EMI

On July 1, 2021, the restructuring entered into force, in which all the holdings of Harel Insurance in Mortgage Holdings Israel Ltd. ("EMI Holdings"), which holds all the share capital of the insurance company EMI, were transferred to the Company ("the Restructuring"). The transfer of these holdings in EMI Holdings from Harel Insurance to the Company as part of the Restructuring was accounted for as a dividend in kind from Harel Insurance to the Company, from distributable profits. The Restructuring took 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 was no change in the Company's accounting equity on a consolidated basis.

1.1.6.12 Rotation of the CEO and Chairman of Harel Insurance

In July 2021, after obtaining all the necessary authorizations, the following appointments entered into force:

Mr. Michel Siboni, who was CEO of Harel Insurance for 12 years and CEO of the Company for most of this period, concluded his term of office as CEO of Harel Insurance and was appointed Chairman of the Board of Harel Insurance, replacing Mr. Yair Hamburger. Yair Hamburger continues to serve as Chairman of the Company's Board of Directors and as a director in Harel Insurance.

Michel Siboni continues to serve as CEO of the Company concurrent with serving as Chairman of the Board of Harel Insurance.

Mr. Nir Cohen, who was Deputy CEO of Harel Insurance and head of the HQ Division, was appointed to replace Michel Siboni as CEO of Harel Insurance.

1.1.6.13 Restructuring and rotation of senior officers in Harel Insurance

At the beginning of July 2021, the following structural changes entered into force:

The life assurance department was transferred to the Health Division, which currently functions as the Health and Life Division of Harel Insurance, headed by Mr. Alon Eliraz who is also Deputy CEO of Harel Insurance. Among other things, the Health and Life Division manages the Company's regions which coordinate the marketing and distribution activity through the agents.

The Long-term Savings Division continues to include the pension and provident activity and it also holds the business responsibility for managers insurance and personal lines savings, while the operation of these lines of business was transferred to the Health and Life Division of Harel Insurance.

Mr. Dudi Leidner, who is CEO of the Group's management companies, was appointed to head the Long-term Savings Division in the new structure and as Deputy CEO of Harel Insurance, replacing Mr. Doron Ginat who has terminated his service in Harel Insurance.

Mr. Roie Shaked who is the Deputy CEO of Harel Insurance and heads the Dikla Division, was appointed to head the Non-life Insurance Division of Harel Insurance as well, replacing Mr. Sagi Yogev who has terminated his service in Harel Insurance. As part of the Restructuring, the Dikla Division and Non-life insurance Division were merged to form one division.

Mr. Adam Polachek, who is Deputy CEO and Head of the Digital Strategy Division in Harel Insurance, was also given responsibility for management of the Company's Service Department.

Mr. Shai Galila was appointed head of the technology division and Deputy CEO of Harel Insurance, replacing Eyal Efrat who terminated his service in the Group at the end of September 2021.

Additionally, two new business divisions were established within Harel:

Agents Marketing Division - led by Mr. Yuval Goldflam who was also appointed as Deputy CEO of Harel Insurance. This division will manage the activity with the agents in the life, health, long-term savings and financial services sectors.

Direct Activity and Joint Ventures Division - led by Mr. Yaniv Hevroni who was also appointed as Deputy CEO of Harel Insurance. In addition to the pension marketers and Standard Call Center, this division will also manage Harel's in-house agencies.

1.1.6.14 Acquisition of the activity of Shirbit

On July 20, 2021, Harel Insurance signed an agreement with Shirbit, according to which, subject to satisfying suspensive conditions, Harel Insurance will acquire the insurance activity of Shirbit in consideration of NIS 111 million. The transaction was completed on November 30, 2021. As of December 1, 2021, the insurance activity of Shirbit was transferred to Harel Insurance.

1.1.6.15 Issue of Series 1 bonds of the Company

On July 22, 2021, the Company published a shelf offering report in which context it issued 250,000,000 Series 1 bonds. For additional information about the issuance and the financial covenants which will apply to the Company as a result, see Note 25H4 to the Financial Statements.

1.1.6.16 Approval of a stock options plan for senior officers and employees of the Group as well as approval of a private allotment

On August 23 and 25, 2021, and on August 30, 2021, the Company's Compensation Committee and Board of Directors, respectively, approved a stock options plan for senior officers and employees of the Group which includes up to 8,548,000 stock options which may be exercised for 8,548,000 ordinary NIS 0.1 par value shares of the Company, subject to adjustments, without any cash consideration.

7,548,000 options included in this stock options plan were offered to 158 employees, of which four are senior officers in the Company. The remaining options that were not allotted to specific recipients will allow for an additional allotment to other senior officers and employees in the future.

On the date of approval by the Company's Board of Directors and Compensation Committee, as noted above, an allotment of 250,000 options was approved to another executive with whom the Company has a consulting agreement, as well as to another advisor to the Company. These options are not part of the stock options plan or part of the allocation reports included in the plan, however the conditions for exercising these options are the same as those for exercising the options for the Group's senior officers and employees.

For additional information, see an Immediate Report of the Company dated August 30, 2021 (Ref. 2021-01-073378).

The stock options were granted on October 17, 2021. Additionally, on January 27, 2022, options were granted to other employees in the Group.

Additionally, on the date of approval by the Company's Board of Directors and Compensation Committee, as noted above, the Compensation Committee and Board of Directors approved an allotment of options for the Company's senior officers, which may be exercised for 3% of the shares in a private subsidiary.

1.1.6.17 Acquisition of provident funds and pension funds from Psagot

On September 30, 2021, and after the relevant suspensive conditions had been satisfied, the agreement between Harel Pension & Provident and Psagot was completed, in which Harel Pension & Provident acquired from Psagot the activity of several provident funds and pension funds ("the Acquired Activity"), in consideration of NIS 185 million. This Acquired Activity includes the pension funds of Psagot, including the old HAL (National Labor Federation) pension fund, the investment provident fund of Psagot and the long-term savings provident fund for children, as well as central severance pay funds. Commencing October 1, 2021, these funds will be managed by Harel Pension & Provident.

1.1.6.18 Special General Meeting

On October 6, 2021, a special general meeting of the Company took place, the agenda of which included the following topics: (1) amendment to the Company's present compensation policy so that, in the event of an allotment of options, the exercise price will not be linked to the Consumer Price Index; (2) approval of an allotment to Mr. Michel Siboni, the Company's CEO, of 180,000 options which may be exercised for up to 180,000 ordinary shares, in accordance with the stock options plan approved by the Company's Compensation Committee and Board of Directors, as specified in Section 1.1.7.16 above. The general meeting approved all the items that were listed on the agenda.

1.1.6.19 Dividend distribution decision

On a decision from November 29, 2021, concerning a dividend distribution in the amount of NIS 100 million, that was paid on January 3, 2022, see Note 16D to the Financial Statements.

1.1.6.20 Approval to engage in a Directors and Officers (D&O) liability insurance policy

On approval to engage in a D&O liability policy, see Note 38E4 to the Financial Statements.

1.1.6.21 Issuance of a new bond series by Harel Finance & Issues

On the issuance of a new bond series by Harel Finance & Issues - see Note 25H5 to the Financial Statements.

1.1.6.22 Engagement in a transaction with a relative of a controlling shareholder

On an engagement in a transaction with a relative of a controlling shareholder, see Note 38E1 to the Financial Statements.

1.1.7 Changes after the Reporting Period

1.1.7.1 Midroog rating for Harel Insurance

On a Midroog rating for Harel Insurance, see Note 25H2 to the Financial Statements.

1.1.7.2 Revision of the illiquidity premium

On a revision of the illiquidity premium - see Section 3.1.5.2.1 below and Note 41 to the Financial Statements.

1.1.7.3 Midroog rating for the Company

On affirmation of a Midroog rating for the Company, see Note 25H2 to the Financial Statements.

1.1.7.4 Expected termination of a company officer

On March 20, 2022, Ms. Nataly Mishan-Zakai, deputy CEO of Harel Insurance and Chief Legal Counsel of Harel Group as well as Chair of the Board of Directors of the Group’s pension and provident companies, announced her decision to step down from her positions in Harel Group after an eight-year term of office. Her resignation will enter into force on a date to be agreed upon by the parties and which will be about three months from her notice given to the Company. Together with her notice to the Company, Ms. Mishan-Zakai made it clear that she is resigning in view of her appointment as CEO of Discount Investment Corporation Ltd.

1.1.7.5 Dividend distribution decision

On a decision from March 28, 2022, concerning a dividend distribution in the amount of NIS 300 million, see Note 16D to the Financial Statements.

1.1.7.6 Special bonus for employees

In view of the Company’s excellent performance in 2021, management decided to grant a bonus of NIS 10,000 to all employees who have been with the Company for more than six months. This special bonus amounts to approximately NIS 50 million and is in addition to the regular bonuses that the Company pays its employees. This bonus was approved by the Company’s Board of Directors on March 28, 2022.

1.1.8 Structure of the Group's operations

The Group's principal activity takes place through two arms: insurance and long-term savings, and finance.

The insurance and long-term savings arm is divided into the following divisions:

A. Long-term savings division, which consists of the following departments:

1. Employers department

2. Personal lines department
3. Operating department (pension and provident)
4. Department for exercising rights
5. Division HQ department
6. Information systems relations department

B. Health and life insurance division, which consists of the following departments:

1. Group health and dental insurance
2. Personal lines health insurance, travel insurance, foreign workers and tourists.
3. Life assurance department[1]
4. Health and overseas claims department.
5. Life long-term care, personal accident and work disability claims department
6. Organization and methods department
7. Regions

C. Non-life (general) insurance division - consists of the following activities:

1. Personal lines non-life insurance, HQ and business development
2. General business insurance
3. Non-life insurance actuary department
4. Industry and special risks and marine insurance
5. Reinsurance in non-life insurance
6. Compulsory motor and motor property claims.
7. Property and liabilities claims.
8. Dikla
9. Shirbit's activity

D. Agents marketing division, consists of the following activities:

1. Sales in the Company's distribution channels

E. Digital and service division, consists of the following activities:

[1] Organizational changes were made in the Reporting Period, including, among others, that the life assurance division which was previously under the long-term savings department, was transferred to become part of the Health Division which is now called the Health and Life Division of Harel Insurance. Within the framework of the presentation of the Company's operating segments in this report, life assurance will continue to be part of the long-term savings segment.

1. HQ, measurement and control
2. Strategy, advertising and marketing
3. Media and customer experience
4. Communications, customer relations and corporate social responsibility (CSR)
5. Customer Service department
6. Public complaints department

F. The Group has additional insurance activity which takes place through the subsidiaries – Interasco, which operates in Greece in non-life and health insurance; Turk Nippon, which operates in Turkey in non-life and health insurance; EMI which provides credit insurance for mortgages; and ICIC, which is involved in insuring credit risks.

G. The Investment Division, comprising investment management in insurance and long-term savings and management of nostro investment monies.

H. Finance and Resources Division.

I. Actuary Division.

J. HR Division.

K. Legal Division

L. Technology Division - Harel Hamishmar Computers Ltd. ("HHM") is responsible for providing various automation services to the different divisions.

The financial services arm ("Harel Finance") coordinates the Group's capital market and finance activity. Activity in the financial services arm takes place, or in the Reporting Period was performed, through the following principal companies:

A. Harel Mutual Funds

B. Harel Investment Management

C. Harel Strategies

D. Alfa Tech

E. Harel Index Trade

F. Harel Finance Alternative

G. Harel Exchange Traded Deposit

Other additional activity of the Group:

A. Hamazpen is involved in providing credit to medium businesses.

B. Harel 60+ provides reverse mortgage loans.

1.2 The Group's operating segments

The Group operates in the insurance, provident and pension fund industries and in the capital market and financial services industry. The Group has five operating segments, as specified below:

1.2.1 Life assurance and long-term savings[2]

This segment consists of the Group's insurance activity in the life assurance sectors as well as its activity in the management of pension and provident funds.

Life assurance policies are generally long-term products and guarantee insurance benefits upon the death of the insured or when he reaches the age stipulated in the policy, or at an earlier date depending on the policy conditions. The policies may include savings, risk of death only or a combination of the two and riders may be added to the policy to cover additional risks, principally work disability and illness. Some of the life assurance policies which include a savings component are recognized as an insurance fund under the provisions of the law, and provide a tax benefit as defined in the Provident Funds Law .

Additionally, this segment includes policies offered to groups, the main purpose of which is risk insurance against death and work disability insurance without savings and for a short period, as well as policies that cover disability risk, work disability and critical illness.

In addition to life-assurance policies which include a savings component, as noted above, the Group also manages other long-term savings products in the form of pension funds and provident funds. Pension fund members are eligible to a monthly allowance (annuity) when they retire, a monthly annuity in the event of disability and a monthly annuity for survivors if the member dies. Provident fund members, upon or prior to their retirement, as defined in the Provident Fund Regulations, are eligible to receive a lump sum with respect to money which has been accrued for them in respect of deposits made until December 31, 2007, and to receive an annuity with respect to money that was deposited from January 1, 2008. Additionally, the Group manages education funds, central severance pay provident funds, central funds for sick pay, a central fund for participation in a non-contributory pension and investment provident funds.

Life assurance activity, including long-term savings based on insurance and investment contracts, is handled by Harel Insurance. The long-term savings activity in provident funds that are not insurance funds, including in pension funds, is managed by the subsidiaries which are management companies.

1.2.2 Health insurance

This segment consists of the Group's insurance activity in the illness and hospitalization and personal accident sectors. The policies sold through these sectors cover the range of losses

[2] See Footnote 1 above.

sustained by the insured resulting from illness and/or accident, including long-term care and dental treatment. Health insurance policies are offered to individual policyholders and groups.

The activity of Harel Insurance in the provision of operating services for the supplementary health services plan of Clalit Health Services takes place in the Dikla department in the non-life insurance division.

1.2.3 Non-life insurance

This segment consists of five sub-segments:

1.2.3.1 **Motor property (CASCO)**

Motor property includes the Group's activity in the sale of policies in the motor vehicle insurance branch ("motor property") which cover losses sustained by the vehicle owner due to an accident and/or theft and/or the liability of the owner or driver of the vehicle for loss caused to third-party property in an accident.

This sub-segment also includes policies for insuring vehicles weighing up to 3.5 tons. These policies are in accordance with the conditions of the standard policy prescribed in the Supervision of Insurance Business (Conditions of a Contract to Insure a Private Vehicle) Regulations, 1986 ("the Standard Policy"). On June 3, 2021, Supervision of Insurance Business (Conditions of a contract to insure Private Vehicles) (Amendment) Regulations, 2021, were published in which context the Supervision of Insurance Business Regulations, 2021, were amended which had entered into force at the beginning of 2022 and from this date refer to provisions. The Group's activity in the motor-property sector takes place through Harel Insurance.

This sub-segment also includes insurance policies for vehicles other than private and commercial vehicles weighing up to 3.5 tons (forklift trucks, trucks, taxis, buses, tractors, etc.). Policies for such vehicles are not subject to the conditions of the standard policy, but the conditions and scope of the cover of the policies for these vehicles are determined by the insurance companies based on market forces and subject to the Commissioner's approval of the policy conditions.

1.2.3.2 **Compulsory motor**

Includes the Group's activity in providing insurance cover pursuant to requirements of the Motor Vehicle Insurance Ordinance) (New Version), 1970 ("compulsory motor" and "Motor Vehicle Insurance Ordinance", respectively), which covers physical injury sustained by the owner of the vehicle, any passengers in the vehicle and pedestrians injured by the vehicle, resulting from the use of a motorized vehicle, under the Law to Compensate Road Accident Victims, 1975 ("CRAV Law"). As its name implies, this insurance is mandatory for all owners and drivers of vehicles under the Motor Vehicle Insurance Ordinance.

The conditions of the insurance cover correspond with the text prescribed in the Supervision of Financial Services (Insurance) (Conditions of a Compulsory Motor Vehicle Insurance

Contract) Regulations, 2010. The Group's activity in the compulsory motor sector takes place through Harel Insurance.

1.2.3.3 **Other liabilities sectors**

Including the Group's activity in the sale of policies covering the Insured's legal obligation towards a third party (other than liabilities cover in the compulsory motor sector, as noted above). This includes, among other things, the following lines of insurance business: third-party liability, professional liability, and product liability. Furthermore, employers liability insurance which covers the insured's liability towards his employees and professional liability. The Group's activity in the other liabilities sectors takes place through Harel Insurance.

1.2.3.4 **Property and other sectors**

This segment includes the Group's insurance activity in all the property sectors (excluding motor property) as detailed in the Supervision of Insurance Business (Branches of insurance) Notice, 1985. The Group's activity in property and other branches takes place through Harel Insurance.

This sub-segment includes, among others, comprehensive homeowners insurance, as well as the activity of Harel Insurance in insuring the investments of home buyers. Additionally, insurance for small and medium businesses (SMB) and extended fire insurance and consequential loss for medium and large businesses.

1.2.3.5 **Credit insurance for mortgages**

Activity in this line of business takes place through EMI, which is engaged in mortgage-related insurance in the housing sector, as a monoline branch .

On November 1, 2012, the Bank of Israel published a directive limiting the LTV (loan-to-value) ratio in housing loans commencing November 1, 2012, according to which a bank may not approve a mortgage with an LTV ratio of more than 70%, except for a loan for the purchase of a borrower's only apartment, for which the maximum LTV ratio is 75%.

Consequently, in 2013, the operations of EMI were almost completely discontinued with regard to the issue of new policies for insuring mortgage credit. Additionally, the format of EMI's operations was adjusted to the existing scope of activity, at the same time continuing to deal with policies which are in force and preserving the knowledge in this sector, which will facilitate a return to full operations in the event of a change in regulation.

1.2.4 Insurance companies overseas

The Company is the controlling shareholder of Interasco, an insurance company operating in Greece in the health and non-life insurance sectors (94% control), and it holds the full controlling interest in Turk Nippon, which operates in Turkey and engages in non-life and health insurance.

1.2.5 Capital market and financial services

The Group's activity in the capital and finance market takes place through Harel Finance, a private company wholly owned by the Company.

Through companies which it controls, Harel Finance is engaged mainly in the following activities:

Management of mutual funds through Harel Mutual Funds and Harel Index Trade, as a market maker for ETF mutual funds.

Management of investment portfolios through Harel Investment Management.

Management of investments for certain funds of Harel Mutual Funds, using computerized models, through Alfa Tech.

Management of private equity funds through Harel Finance Alternative.

Issue of marketable certificates of deposit (CDs) by means of Harel Exchange Traded Deposit.

Initiation of special transactions for the nostro account, through Harel Strategies and other subsidiaries.

Advice to qualifying customers, through Harel Finance Holdings.

1.2.6 Additional activities of the Company

Hamazpen

Hamazpen is involved in the creation of innovative financing solution for excellent entrepreneurs in the small and medium business sector, including the providing of mezzanine loans. Hamazpen is a subsidiary (70%) of the Company and its shareholders are: Alon Hamazpen Limited Partnership, which is controlled by Mr. Alon Nissan (20%), who is also the CEO of Hamazpen, and Mr. Michel Siboni (10%), who in addition to his position as Company CEO and CEO of Harel Insurance also serves as chairman of the board of directors of Hamazpen.

Hamazpen's activity is based on a full business analysis of the entrepreneur and his various activities as well as support for and follow-up of his business over time. Hamazpen holds an extended license to provide credit according to the meaning of this term in the Supervision of Financial Services (Regulated Financial Services) Law, 2016, and it is supervised by virtue of this law. In December 2019, a framework agreement was signed for the provision of loans to Hamazpen by Harel Insurance.

Reverse Mortgage

In 2020, Harel 60+ was established, which is fully owned by Harel Insurance. The Company offers "reverse mortgage" loans, which are provided to borrowers aged 60 or more who wish to take a loan by remortgaging their apartments.

1.3 Investments in the Company's equity and transactions in its shares

In the last two years and up to publication of the report, no investments were made in the Company's capital.

For information about the control structure of the Company, see Section 1.1.4 above.

1.4 Dividend distribution

- Approval of 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).

  The Company's dividend distribution 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 a different (higher or lower) share 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 the Company 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

- On the distribution of a dividend in the Reporting Period and after the date of the report, see Note 16D to the Financial Statements.

- For additional information about a decision of Harel Insurance concerning the capital management policy, see Note 9F3 to the Financial Statements.

2. Description of and information about the Company's areas of activity

2.1 Life assurance and long-term savings[3]

2.1.1 Products and services

2.1.1.1 General

This segment consists of life assurance, and the management of pension funds and provident funds.

Life assurance and long-term savings mainly concerns saving for retirement and cover for various risks. The different products in this sector include combinations of savings and insurance cover for risks such as death, disability, work disability, and critical illness.

Products in this area of activity target salaried employees, the self-employed and for customers who wish to purchase private cover (unrelated to their occupation). In some of the products the contributions deposited by salaried employees and self-employed workers entitle them to tax benefits at three levels: at the time of the deposit - a tax credit/rebate, exemption from tax on profits from the accrual of the money, and tax benefits when the money is released. In certain instances, there may also be tax benefits for deposits made by individuals.

Pursuant to the provisions of the law, there must be full segregation between the assets and liabilities of the pension fund or provident management company and the members' assets which are accrued in the fund, as well as segregation between the insurer's assets and policyholders' monies in yield-dependent life assurance. The assets of members in the pension funds and provident funds are not included in the financial statements of the management company (and are also not included in the Company's consolidated financial statements).

2.1.1.2 Changes and trends in this segment

The life assurance and long-term savings segment has undergone far-reaching changes, particularly in light of government policy which resulted in the enactment of the Law to Encourage Competition and Reduce Concentration and Conflict of Interests in Israel's Capital Market (Legislative Amendments), 2005, the Provident Funds Law, the Pension Advice and Marketing Law, and the amendment to the Supervision Law ("Bachar legislation" which entered into force in November 2005), as well as the promulgation of a series of regulations and directives by the Superintendent which were designed, inter alia, to encourage pension savings, to increase competition and transparency in the pension savings market, to reduce the

[3] See Footnote 1 above

management fee rates and encourage customers to be involved in choosing their pension savings.

Additionally, in recent years, this operating segment has gradually adapted itself to digital and online processes performed with savers, distributing entities and other financial institutions.

Encouragement of savings for annuity (pension)

The reasoning behind the policy of the Capital Market Authority in recent years, is the desire to encourage pension savings among the population at large in an effort to ensure that Israeli citizens are able to maintain a reasonable standard of living after retirement, and to encourage competition in this area of activity, including by limiting the differences between products and allowing people to move their pension savings between the different products.

These changes have been reflected in a change in the structure of the products which were previously available and changes in the tax benefits given to long-term savers, including change within the context of Amendment no. 3 to the Provident Funds Law which gives preference to savers on an annuity track and establishing an obligation to withdraw monies in the form of payment of an annuity, insofar as the annuity available to the saver is up to the minimum amount of annuity for all long-term pension savings products. In this context, the tax benefits applicable to these products were standardized with respect to money deposited for members as of January 1, 2008.

Until that date, the different products in this sector - life assurance, pension funds and provident funds - were divided into two main channels: a channel which guarantees payment of an annuity (commonly known as a pension), and a channel which guarantees a lump-sum (capital) payment, with the possibility of combining these channels. The aforementioned amendment eliminated the division between the capital and annuity channels with respect to money deposited from January 2008 onwards so that this money may only be withdrawn as a first layer (minimum annuity amount) by way of a monthly payment. Money which has accumulated over and above the amount required to pay the minimum annuity, may be withdrawn by capitalizing the annuity or by way of payment of a monthly amount, as decided by the member or policyholder.

Encouragement of competition in this segment

Over the last few years various provisions have been published the purpose of which is to increase the possibility of moving money between different products and to standardize the different products (provident funds, pension funds and insurance funds), including with regard to the insurance cover sold as part of the pension savings products and the application of a standard management model for the collection of management fees, at the same time reducing the maximum management fees that may be collected in provident funds and insurance funds.

Furthermore, provisions were published with the purpose of making it easier for insureds or members to compare different products by standardizing the products marketed by the financial institutions. For example: the Commissioner’s instructions concerning the rights and obligations of members in the articles of a new, comprehensive pension fund which set out a binding text for the pension fund's articles, as well as guidelines for a work disability (P.H.I.) policy. Additionally, provisions were prescribed pertaining to the choice of a default pension fund, that were intended, among other things, to increase competition in the pension savings market, as will be described in greater detail below.

The aforementioned amendment on guidelines for work disability, as a result of which not all candidates who enroll in the insurance can be guaranteed coverage of 75% of their wage in insurance funds as part of the pension deposits, and the fact that the insurance companies have yet to approve the sale of simple life assurance risk riders, reinforce the trend in recent years of a shift away from insurance funds to savings in comprehensive pension funds.

Reduction of management fees

In recent years, several legislative provisions entered into force that are designed, among other things, to reduce the management fees paid by policyholders and fund members on their pension savings products.

Amendment no. 13 to the Provident Funds Law stipulates, among other things, that when a saver joins a new pension fund, savings that he holds in inactive accounts in other new pension funds will be transferred to the pension fund that he wishes to join. Insofar as the member does not object, the pension fund that he joins will submit a request to all the funds to locate inactive accounts belonging to the member and move any such savings. When the savings in the inactive accounts have been moved to the active accounts, the management fees that will apply to these members will be management fees from the accrued balance agreed upon with the members in their active accounts. This amendment led, on the one hand, to a reduction in income from management fees for inactive insureds in the pension funds, and on the other to an increase in management fees for active insureds whose balances were transferred to the pension fund from other pension funds, and also to a reduction in the number pension fund accounts.

On August 4, 2021, the circular dated March 13, 2016, which prescribes provisions on choosing a default fund and the conditions required of a provident fund management company that enrolls members in accordance with the provisions of Section 20(B) of the Provident Funds Law was updated. The circular stipulates that employees will be enrolled in a provident fund by actively choosing their own provident fund or through the employer in a provident fund of his choice in a tender process, pursuant to Section 20(B) of the Provident Funds Law, and that insofar as the employee does not choose a provident fund and a provident fund is not chosen by the employer under Section 20(B) of the Provident Funds Law, the employer will enroll the employee in the provident fund of the Commissioner's choice. The management fees to be offered by the chosen pension funds will be in force for 10 years from the date of enrolment in the fund. The pension funds will be chosen by the Commissioner once in three years.

On September 14, 2021, it was publicized that four pension funds had been selected as the chosen funds, of which two funds have not yet been established. The foregoing is in force from November 1, 2021 through October 31, 2024. The management fees collected by the management companies of those chosen funds for the enrollment of new members shall not exceed 0.22% of the accrual (annual rate) and 1% of the deposits. Additionally, the management fee rate for new old-age pension recipients, including existing members in the chosen funds who retire, will not be more than an annual rate of 0.3%.

On January 24, 2022, Supervision of Financial Services (Provident Funds) (Management Fees) (Amendment) Regulations, 2021, were published ("the Regulations"), which determine that the maximum management fees for the recipients of old-age pension or recipients of an annuity paid to a beneficiary due to the death of an annuity recipient, shall be 0.3% per annum (instead of 0.5% in a comprehensive pension fund) and 0.6% in an insurance fund or general pension fund, similar to the rate determined in a tender process for choosing a default fund. The new maximum management fee will apply to persons who start receiving an annuity from the pension funds from the date on which the Regulations enter into force on February 1, 2022 and from insurance funds that will be marketed from that date.

Digital operations

Further to the establishment of the pension clearing house, in accordance with the Commissioner's instructions and as part of the Company's policy, in the past few years a series of changes have been made facilitating the performance of digital operations by the Company's customers, distributing entities and with other financial institutions. In this context, among other things, processes for enrollment in the different pension products were regulated, automatic billing and portability processes were formalized, procedures for sending reports digitally to insureds and members were regulated and an infrastructure for taking loans digitally was established.

The Company believes that these processes are likely to intensify in coming years and will expand so that more activities are performed in this segment, which is expected to lead to improved customer service and streamlining of operations.

Development of savings products in this operating segment

In addition to products designated for retirement age, this operating segment also includes products for medium-term or private savings. In the past few years, the volume of money managed in these products has grown together with the range of products that serve this purpose in this operating segment.

These products include education funds which provide various tax benefits and from which the accrued balance can be withdrawn after a 6-year saving period with the tax benefits in force at the time of withdrawal; investment contracts that are a capital savings product and provide a substitute for the savings products offered by the banks, mutual funds and investment portfolios; deposits paid into an annuity provident fund by individuals in which, based on Amendment 190 to the Income Tax Ordinance from 2012, amounts may be deposited in an annuity provident fund by self-employed members who wish to receive an annuity in the future or to withdraw the money as a lump sum when certain conditions are met; investment provident funds - a savings product designed to pay a lump sum (capital amount) to individuals from the money accrued in it or from which tax-exempt annuity payments may be received from the age of 60. Members may deposit up to NIS 70,000 a year, CPI-linked, in an investment provident fund. Investment provident funds for long-term savings for children are the default option for money deposited by the National Insurance Institute for parents of children as part of the new "Savings Plan for Each Child" scheme.

2.1.1.3 Principal distinctions between the different products

	Life assurance*	New pension funds	Provident funds
Agreement category	Contractual obligation between insurer and insured. This undertaking can only be changed in line with the provisions of the policy and the law.	The saver is a member of the fund (provident fund or pension fund) that is managed by the management companies in accordance with the articles. The articles may be changed subject to obtaining the Commissioner's approval.	
Insurance cover	Insurance cover as chosen by the insured for death** or for work disability (P.H.I.).	Structured insurance cover for death and disability, in accordance with the provisions of the articles.	Insurance cover may be purchased for death or disability, when the conditions prescribed in the Supervision of Financial Services (Provident Funds) (Insurance Cover in Provident Funds) Regulations, 2012, are satisfied.
Annuity conversion factor	In some group policies, the annuity conversion factors incorporate a guaranteed longevity coefficient that does not change (GAO). In other group policies, the coefficient may change from time to time, based on updated mortality tables resulting from changes in life expectancy. For guaranteed yield policies, the annuity conversion factor is based on a guaranteed	The annuity conversion factor might change from time to time, within the context of changes in the fund's articles.	Do not pay an annuity and therefore do not incorporate a GAO.

	Life assurance*	New pension funds	Provident funds
	yield that remains unchanged.		
Mutual insurance	None	Mutual insurance fund. Members' rights are affected, in part, by demographic data for all the fund's members, for example, their medical condition and life expectancy. The actuarial assumptions are reviewed from time to time and affect the rights of all members in the fund, and they may change accordingly. Reinsurance may be acquired to reduce the exposure to the mutual risk.	None
Designated / earmarked bonds	In guaranteed yield policies only, until 1991.	In a comprehensive fund, at a rate of 30% of all the assets (with the allocation - 60% of the pensioners assets and the balance from the members' assets). For additional information, see Section 2.1.1.5 below.	None
Management fees	Percentage of the accrual and/or the deposits, depending on the policy conditions	Percentage of the accrual and the deposits	Percentage of the accrual and the deposits
Those eligible when the saver dies	Benefits as determined by the insured If no determination is made - heirs in accordance with an inheritance order or probation of a will	Survivors as defined the articles. If there are no survivors - the beneficiaries determined by the member. If there are no survivors and beneficiaries have not been defined, then in accordance with an inheritance order or probated will.	Benefits as determined by the member If no determination is made - heirs in accordance with an inheritance order or probated will

	Life assurance*	New pension funds	Provident funds
	Severance pay - survivors under the Severance Pay Law.		Severance pay - survivors under the Severance Pay Law.
Regulatory restriction on the amount of the premium	None	In a comprehensive fund - a monthly limit on the shekel amount which is the equivalent of 20.5% of twice the average wage in the economy (cumulative review from the beginning of the year). In a general fund - none.	None

* The comparison refers to life assurance products sold as a provident fund.

** From February 2019, the Company is no longer authorized to sell the life risk rider as part of the insurance fund.

2.1.1.4 Life assurance

General

Life assurance includes plans for a variety of risks (such as death), plans for saving for retirement, and plans combining riders for additional cover (term assurance, disability, work disability, critical illness, etc.). This sector also includes personal-lines policies with a savings component only, which are considered "investment contracts” (in contrast with insurance contracts).

In policies that include a savings component, insureds who reach the end of the policy period are entitled, according to the policy conditions, to the amounts accrued in the policy's savings component. The policy conditions stipulate whether the amounts will be paid as a lump sum, as an annuity over the life of the insured, or as a combination of the two.

If an insured event occurs before the end of the policy period (death or another event covered in the policy), insurance benefits are paid to the insured, the beneficiaries or the survivors (depending on the insured event), in line with the scope of cover purchased and in the event of death also to the amount of savings accumulated in the policy, if accumulated.

Sectors of insurance and insurance coverages included in the life assurance segment

(a) Comprehensive life assurance - all categories of life insurance which include savings, with or without risk, including payment of severance pay and annuity insurance.

(b) Life assurance - term risk only.

(c) Mutual group life assurance.

Structure of profitability in this segment

Profitability on life assurance derives principally from the following components, after offsetting the expenses attributed to the area of activity: (a) the margin between the yield received on the investment portfolio for guaranteed-yield life assurance and the yield promised to policyholders; (b) management fees from premiums and from the accrual in policies that include savings, including fixed and variable management fees (variable - as a rate of positive, cumulative real yield only), in yield-dependent policies that were marketed up to the end of December 2003; (c) the margin between the premium collected on life assurance policies designated to cover risks (death and other) and the payment of insurance benefits by virtue of these policies. Among other things, this margin is affected by the tariffs collected and the mortality rates (for term assurance), life expectancy (for annuity payments), reinsurance costs and morbidity rates; (d) investment profits in the Nostro portfolio

An important factor in the level of insurance companies' profitability over time is their ability to maintain and retain existing policies.

Profitability in life assurance which is reported by the insurance companies in their financial statements is also influenced by accounting standards with respect to revenue recognition, deferment of expenses and revaluation of assets, as well as the determination of actuarial reserves and changes in actuarial assumptions.

Information about the different products managed by the Group in the life assurance segment

There are two categories of insurance policy: policies recognized as a provident fund (insurance funds), in accordance with the Provident Funds Law (managers' insurance or retirement benefits for the self-employed); and policies which are not recognized as provident funds and are called personal lines policies.

Policy category	Product description	Key premium components	Designated bonds	Management fee
A. Policies that include a savings component (irrespective of whether or not they are recognized as provident funds)				
	A1. Guaranteed yield policies sold until December 1990			
"Meurav" (mixed) yield guaranteed policies	The sum insured is defined in advance in the policy and is CPI linked. It will be paid when the insured dies or at the end of the policy period. The savings amount is paid out as a lump sum or lump sum combined with annuity (monthly) payments. These policies were marketed as provident funds and policies that are not recognized as provident funds.	Savings component, term life component (to cover death) and riders for the insured, if purchased.	The commitment to a guaranteed yield was backed partially by designated bonds issued by the State of Israel to the insurance companies.	No management fees.
"Gimla" yield guaranteed policies	The amount of the monthly benefit payable at the end of the policy period is defined in advance in the policy and is CPI-linked. At the end of the policy period the amount saved is paid out as an annuity. Before the end of the policy period, in the event of death a lump sum will be paid as prescribed in the policy. These policies were marketed as both a provident fund and as a policy not recognized as a provident fund.			

Policy category	Product description	Key premium components	Designated bonds	Management fee
“Adif" guaranteed yield	Guaranteed yield policies where the yield is defined in the policy. The policy defined the ratio between the savings part and the part allocated to risk and expenses as chosen by the policyholder. The premium is CPI linked or linked to rates of the employee’s insurable wage. The savings amount is paid out as a lump sum or an annuity or as combined lump sum/annuity payments. This policy was marketed as both a provident fund and as a policy not recognized as a provident fund.			
	A2. Profit-sharing policies that were sold during the period 1991-2003			
“Meurav” profit-sharing policies	The future savings is determined according to the actual investment performance. If the insured dies before the end of the policy period, a lump sum will be paid as prescribed in the policy conditions. The periodic premium is prescribed in the policy and is CPI-linked, and it might also be affected by investment performance. The policy is paid out as a lump sum or as combined lump sum/annuity payments. These policies were marketed as both a provident fund and as a policy not recognized as a provident fund.	The policies include a savings component, term life component (to cover death) and riders for the insured, if purchased.	The policies are not entitled to designated bonds for policies that were marketed as of 1992. (1)	The management fees were prescribed in the Supervision of Insurance Business (Conditions of Insurance Contracts) Regulations, 1981. (2) In insurance plans which were approved until 2003, fixed and variable management fees are collected from the cumulative savings, based on the real yields attained.

Policy category	Product description	Key premium components	Designated bonds	Management fee
"Gimla" profit-sharing policies	The future savings is determined according to the actual investment performance. If the insured dies before the end of the policy period, a lump sum will be paid as prescribed in the policy conditions. The periodic premium is prescribed in the policy and is CPI-linked, and it might also be affected by investment performance. The savings amount is to be paid as an annuity (monthly) payment at the end of the policy period. These policies were marketed as both a provident fund and as a policy not recognized as a provident fund.			
"Adif" profit-sharing policies	These policies defined the ratio between the savings part and the part allocated to risk against death and expenses as chosen by the policyholder. The premium is CPI linked or linked to rates of the employee's insurable wage. The savings amount is paid out as a lump sum or annuity or as combined lump sum/annuity payments. These policies were marketed as both a provident fund and as a policy not recognized as a provident fund.			

1) In 1991 the maximum rate permitted for the purchase of designated bonds was 40%.

2) Pursuant to the mechanism for collecting management fees as set forth in the legislative arrangement, variable management fees will not be collected in respect of yield-dependent policies which were sold between 1991 and 2003, until sufficient investment profits are attained in respect of assets held against yield-dependent liabilities to cover the accrued investment losses.

Policy category	Product description	Key premium components	Designated bonds	Management fee
	A3. Yield-dependent policies sold as of January 2004:			
Policies that include investment tracks	Policies with a savings component in which context insurance cover for death (term assurance) and/or P.H.I. (work disability) may be purchased. The savings amount is paid out as a lump sum or an annuity or as combined lump sum/annuity payments. These policies are marketed as provident funds and policies that are not recognized as provident funds. The savings, risk and management fee components are segregated.	Term (risk) component, savings component and management fees on policies recognized as provident funds. Term life insurance and/or work disability insurance may be purchased at a rate of up to 35% of the contributions for retirement benefits.	None	Policies that were issued up to and including 2012 - up to 2% of the accrual or a lower percentage of the accrual and a percentage of the deposits (0%-13%). Policies that were issued during 2013 - up to 1.1% of the accrual and up to 4% of the on-going deposits. Commencing in 2014 - up to 1.05% of the accrual and up to 4% of the on-going deposits.
B. Policies which do not include a savings component				
Term life (pure risk) in the event of death - personal lines	Policies that are marketed to individuals or as group policies and guarantee coverage in the event of death for any reason (including term life policies to guarantee mortgage repayments). These policies are sometimes sold as a supplementary product to the pension component and to managers insurance and retirement benefits policies for the self-employed, including for payment from the compensation component in the policy.	A term life component only for the coverages it includes.	Not relevant	No management fees

Policy category	Product description	Key premium components	Designated bonds	Management fee
Work disability insurance (P.H.I.)	A policy sold as a stand-alone policy or as a rider to life assurance policies or as group policies. The policies guarantee a monthly payment in the event of a partial or full loss of the ability to work due to an accident or illness. These policies are sometimes sold as a supplementary product to the pension component and to managers insurance and retirement benefits policies for the self-employed, including for payment from the benefits component in the policy.	Term (risk) component only for the coverages it includes.	Not relevant.	No management fees
C. Policies consisting exclusively of savings				
Investment contracts ("Migvan / More" policies)	Pure savings policies which are offered on several investment tracks (general track, share-based track, shekel track, etc.). On-going and/or lump-sum deposits may be made. These policies are marketed as provident funds and policies that are not recognized as provident funds.	Savings component only.	None	In personal lines Migvan policies - up to 2% per annum of the accrual. In the other policies, including policies that are recognized as a provident fund, like the management fees collected on policies that include investment tracks (see Section A3 in this table, above).

Policy category	Product description	Key premium components	Designated bonds	Management fee
D. Group policies				
Group policies	Policies that are marketed to defined population groups in an agreement for a specific period and offer to insure all members of the group. The policies are not recognized as a provident fund, except P.H.I. which is sold incidentally to pension savings.	Term life component only for the coverages it includes.	Not relevant	No management fees
E. Other				
Critical illness insurance	Sold as a personal lines policy as a rider to other personal lines policies that guarantee compensation to the insured if a critical illness defined in the policy is diagnosed. The policies are not recognized as a provident fund.	Term life component only for the coverages it includes.	Not relevant	No management fees
"Hosen" policies	The insurance is sold as a stand-alone policy or as a rider, and it insures against total disability due to illness and/or accident. The policies are not recognized as a provident fund.	Term life component only for the coverages it includes.	Not relevant	No management fees
Riders	Other insurance products, which are offered as riders to life assurance policies, for example: cover for "accidental death", "accidental disability" (which are additional coverages for death or permanent disability from an accident). The policies are not recognized as a provident fund.	Term life component only for the coverages it includes.	Not relevant	No management fees

* When referring to management fees from the accrual, the data relate to annual management fees.

** The implication of the recognition of a policy as a provident fund, is, in part, tax benefits which are given to provident fund members.

Material changes anticipated by the Company in the markets and the mix of products

No material changes are expected in the markets and the mix of products in the life assurance segment.

New products

In March 2020, a savings and investment policy was launched, under the name Harel Index ("Harel More Personal Investments" savings and investment policy) which offers index-tracking investment tracks that are managed passively.

In March 2022, riders were added to the "insurance umbrella" policy which can be purchased for insurance coverages offered in the policy as a supplement to the disability cover in a pension fund (cover for work disability according to the definition of a specific occupation, cover for work disability during the qualifying period in the pension fund and cover for cancelling a National Insurance offset by the pension fund). The riders offered for the above-mentioned coverages are:

- Payment of insurance benefits and release from premiums and deposits for part of the waiting period - a person who purchased this rider and suffers a work disability will receive additional compensation in the fourth months equal to the compensation that was paid for the fourth months and also for the fifth month. Additionally, the deposits will be paid to the pension fund and the premium for the umbrella policy in the period in which the monthly compensation is paid.
- Payment of a supplement to the monthly compensation purchased in the umbrella policy in the event of a long-term care condition - in the event of total work disability as well as a long-term care condition, a supplement to the monthly compensation will be provided of 33.33% of the rate of the monthly compensation purchased in the umbrella policy.
- Increased insurance benefits in the period of work disability - in a case of entitlement to insurance benefits due to work disability, the guaranteed wage on which the amount of monthly compensation is based will increase every year, from the date on which the insured event occurred, by 1% or 2%, in line with the insured's choice..

2.1.1.5 Pension funds

General

The pension fund sector includes new comprehensive pension funds, new general pension funds, and old pension funds.

Pension funds pay their members a monthly old-age annuity when they retire or an annuity in the event of disability and they also pay a survivors' allowance if the member or pensioner dies, in accordance with their articles of association.

Pension funds operate by means of a mechanism of mutual insurance between the members. The actuarial assumptions which form the basis for the members' rights are reviewed from time to time. If any changes have occurred, the members' rights may change and they bear joint responsibility for any actuarial surplus or deficit in the fund.

Relations between the pension fund and its members are regulated in the articles of association which essentially are the rules for determining entitlement to payment, the rate of payment and rules which regulate membership of the fund. When the company is required or wishes to make changes in the articles of association, it adjusts the articles and as a result the members' rights and obligations may also change, all subject to approval from the Commissioner. When an entitlement event occurs, the rights are defined in accordance with the provisions of the fund's articles of association as they are in force on the date of the event.

New comprehensive pension funds

The new, comprehensive pension funds have been operating since January 1995. To date, the new comprehensive pension funds are entitled to invest 30% of their assets in designated government bonds. The balance of the assets of the new funds is invested in other investments in line with the Investment Regulations. The purpose of issuing designated bonds to pension funds is to provide a safety cushion guaranteeing the members' pension rights. As of July 2017, the method of allocating the earmarked bonds within the new comprehensive pension funds changed, so that the Company allocates designated bonds at a rate of 60% of the pensioners' assets to the pensioners' accounts and the balance is allocated to the members' accounts.

On November 15, 2021, the Economic Efficiency (Legislative Amendments to Achieve the Budgetary Targets for the 2021 and 2022 Fiscal Years) Law was published, according to which the mechanism for guaranteeing stability of the pension fund yields must be streamlined and the present mechanism (government bonds at a rate of 30%) must be replaced with a new mechanism to be based on supplementing a cumulative yield target (5.15%). According to the new mechanism, the State will provide a differential undertaking for each pension fund and five years after the date of providing this undertaking, the yield will be calculated for each fund. If the yield on the assets is lower than the cumulative target yield that was determined, the State will pay the pension fund the difference between the cumulative target yield and the yield on the assets that was actually obtained. If the yield on the assets is higher than the cumulative target yield, the difference will be transferred to a special-purpose fund.

Furthermore, the law stipulates that money for which a guaranteed yield was given will be invested in the investment track in which most of the fund's assets are managed. These provisions are due to enter into force on July 1, 2022, although the Minister of Finance may postpone this date by no more than four months.

Moreover, the maximum deposit in these funds is limited to 20.5% of twice the average wage in the economy. Insurance cover for disability or survivors before the age of 60 cannot be waived in these funds, excluding waiver of cover for survivors for persons with no spouse, in accordance with the articles of the pension fund.

Additionally, there is a limit to the effective wage according to which the disability and survivors' allowance is calculated, equal to up to three times the average wage in the economy.

The Group has a new comprehensive pension fund (Harel Pension), a general pension fund (Harel General Pension) and an old pension fund (Atidit). Commencing October 1, 2021, further to the acquisition transaction detailed in Section.1.1.7.17, Harel Pension and Provident began to manage another old pension fund (HAL -National Labor Federation).

Insurance tracks in the comprehensive pension funds

Members of comprehensive pension funds can choose insurance tracks where the difference between the tracks is the balance between the entitlement to old-age pension, disability pension and survivors' pension.

The default option track in the fund's articles, which entered into force in February 2018 (and is based on the standard articles) is the track of 75% for disability and 100% for survivors (excluding mend who enroll from the age of 41).

Active members may move from one channel to another as specified in the provisions of the fund's articles.

General pension fund

The General Pension Fund, which does not benefit from designated bonds, is not limited with respect to the amount or class of deposits.

In the event of disability, insured members are entitled to receive a disability pension, in accordance with the fund's articles.

In the event of death, the insured members' survivors are entitled to receive a survivors pension, in accordance with the fund's articles.

Additionally, at retirement age members receive an old-age pension and after the death of the member, his survivors are eligible to receive a pensioner survivor's pension, under the member's pension arrangement.

Insurance tracks in the general pension fund

The general pension fund has a basic pension track which is a track that provides a right only to receive old-age pension, without cover for disability pension and survivors pension. Additionally, in the general pension fund, members may join insurance tracks that include cover for survivors pension and disability pension, similar to the tracks in the comprehensive fund as described above, as well as a track that includes cover for survivors only.

Main distinctions between a general pension fund and a comprehensive pension fund:

	Comprehensive pension fund	General pension fund
Designated / earmarked bonds	Provides entitlement to invest in Arad designated government bonds bearing a yield of 4.86% CPI-linked, at a rate of 30% of the fund's total assets. For more information about the allocation of designated bonds between members and pensioners and the expected changes on this matter, see Section 2.1.1.5 above.	Does not benefit from designated bonds
Contributions	Maximum monthly deposit limit of an amount equal to 20.5% of twice the average wage in the economy.	No limit to the maximum contribution or type of deposit.
Insurance cover	All the insureds in the fund have insurance cover for disability and death (survivors' pension) in the various insurance tracks. On all the tracks, the insurance cover for survivors may be reduced so that cover remains only for disability for a single person (namely: where there are no survivors) and for an individual with children (namely: there is no spouse). Additionally, it is possible not to purchase cover for disability and survivors for insureds above the age of 60.	Membership of the fund is possible as part of a track that does not include any insurance or in a track that does not include insurance in the event of death.

Investment tracks

Investment tracks in the comprehensive pension fund (Harel Pension)

The pension fund manages 10 investment tracks for members, as follows; 3 age-adjusted investment tracks (default option tracks), Gilad General and Manof General which were closed to new members as of January 2016, bonds without shares, shares, *Halacha* (a track that adheres to Jewish Law), short-term shekel and a track that tracks the S&P 500 index.

Additionally, the pension fund manages 5 investment tracks for pensioners: a basic track for annuity recipients, *Halacha* track for annuity recipients, track for members already eligible to an annuity which is designated for annuity recipients who became eligible to receive an annuity from the fund before January 1, 2004, a basic track for existing annuity recipients and a *Halacha* track for existing annuity recipients, intended for annuity recipients whose date of eligibility to receive an annuity from the fund precedes January 1, 2018.

Investment tracks in the general pension fund (Harel General Pension)

The pension fund manages 8 investment tracks for members, as follows: 3 age-adjusted investment tracks (default option tracks), share-based track, short-term shekel track, a track that tracks the S&P 500 index (the track was opened in March 2021), a *halacha* (Jewish law) track (the track was opened in October 2021), and a general track that was closed to new members from January 2016.

Additionally, the pension fund manages 3 investment tracks for pensioners: a basic track for annuity recipients, a basic track for existing annuity recipients intended for annuity recipients whose date of eligibility to receive an annuity from the fund precedes January 1, 2018, and a *halacha* (Jewish law) track for annuity recipients (the track was opened in October 2021).

Old pension fund

As noted above, the Group also manages two old pension funds. Since April 1995 these funds can no longer admit new members. The companies which manage the old funds concentrate on providing service and dealing with existing customers.

The old pension funds are currently also entitled to earmarked government bonds that bear real interest of 4.8% where the pension fund periodically invests 30% of the value of its assets in these bonds. The balance of the old funds' assets is invested in other investments, in accordance with the investment regulations.

Like the new pension funds, the mechanism for the earmarked government bonds in the old pension funds is also expected to be replaced on October 1, 2022, with a mechanism based on an accrued target yield of 5.15%. For additional information on this matter, see the table above in Section 2.1.1.5.

Insurance tracks in the old pension fund

Members of the old pension fund may choose a basic pension track that confers a right to receive old-age pension only, without cover for disability pension and a pension for the insured's survivors, or a comprehensive pension track which confers a right to an old-age pension, disability pension and survivors pension. Additionally, HAL has a special old-age pension track that provides entitlement to receive an old-age pension only from the age of 65 for a woman, and for a man at the standardized age of retirement.

Structure of profitability in this segment

The profitability of the management companies in the pension fund sector derives from the margin between the management fees which they collect (from the contributions and the accrual) and the operating and marketing expenses, including the cost of purchasing insurance benefits for members of the pension funds.

Material changes anticipated by the Company in the markets and the mix of products

On the effect of the regulations concerning the choice of a default option fund, including the end of the period of choice for the fund, see Section 2.1.1.2.

New products

No new products were marketed during the Reporting Period.

2.1.1.6 Provident funds

General

Monies deposited until December 31, 2007, may be withdrawn as a (capital) lump sum amount. Commencing January 1, 2008, money deposited in provident funds is designated for annuity payments. Benefit contributions that have accumulated over and above the amount required to pay the minimum annuity may be withdrawn as decided by the member, by way of a capitalized annuity or by way of annuity payment after it has been transferred to a pension fund or insurance fund. Additionally, Harel Group's provident fund management companies also manage education funds and investment provident funds which are an intermediate savings instrument and benefit from tax breaks. Provident funds do not have an actuarial risk component and members are entitled to the yield which is actually attained, net of management fees. One may enroll as a member of one of the provident funds managed by the Group: funds for the self-employed, funds for salaried employees, investment provident funds and education funds (for self-employed and salaried workers), all of which have different investment tracks.

According to the Provident Funds Law, a member may move from one fund to another, and in a multi-track fund - between one track and another. A variety of provident funds are managed by the Group, in which employers and/or the employees or individual self-employed persons may deposit contributions designated for the payment of severance pay, retirement benefits, sick pay, education, and annuity.

On October 26, 2020, the Board of Directors of Harel Pension and Provident Ltd. approved the merger of two provident funds that it manages - a fund for career soldiers and the tracks that it manages and the provident fund Harel Provident Fund. The process of merging these provident funds was completed on February 1, 2021.

The Group manages a range of provident funds in which the employer and/or employee or individual self-employed workers may deposit monies for severance pay, retirement benefits, sick pay, education and annuity:

	Product description	Conditions for withdrawing the money	Management fees
Retirement benefit funds / savings provident funds	Money deposited for long-term savings for self-employed and salaried members.	Money deposited up to December 31, 2007 may be withdrawn as a lump-sum (capital) amount at the age of 60 or on other dates in line with the statutory provisions. Money deposited on or after January 1, 2008 may be withdrawn as an annuity (monthly benefit). Money that has accumulated over and above the amount required to pay the minimum annuity, may be withdrawn as decided by the member by way of a capitalized annuity or by way of payment of an annuity after it has been transferred to a pension fund or insurance fund. Entitlement to redeem severance-pay money upon termination of employer-employee relations is subject to the statutory provisions.	Up to 4% of the deposits and up to 1.05% per annum of the accrual.
Education funds	Provident funds which are designed for savings for education/studies to maintain the employee's professional standard.	The amounts saved may be withdrawn for any purpose after six years of saving.	Up to 2% per annum of the accrual.
Investment Provident Funds[4]	Provident funds designated for capital savings by self-employed individuals. The amount of the deposit is limited to NIS 70,000 a year, CPI linked.	The savings may be withdrawn as a lump sum at any time upon payment of 25% tax on the real capital gains. An exemption from capital gains tax applies to money withdrawn by way of an annuity after the age of 60.	Up to 4% of the deposits and up to 1.05% per annum of the accrual.

[4] Investment provident funds also serve as the product for money deposited by the National Insurance Institute in the "Savings Plan for Each Child" scheme, and in this context specific rules prescribed in the provisions are applicable.

Central funds for severance pay	Provident funds in which the employer accumulates amounts to guarantee the rights of his employees to receive termination benefits. From the end of 2010, money may no longer be deposited in these funds.	The employer may redeem or provide payment instructions to his employees, subject to the statutory provisions.	Up to 2% per annum of the accrual.
Sick pay funds	Provident funds in which the employer accumulates amounts to guarantee the rights of his employees to receive sick pay.	In the event that the employee is sick, subject to the statutory provisions.	Up to 2% per annum of the accrual.
Central fund for non-contributory pension	A fund designated for the accrual of amounts deducted from the employee's wage by an employer where the applicable pension arrangement is that of a non-contributory pension.	When an employee retires who is eligible for non-contributory pension from the employee, subject to the statutory provisions.	Up to 2% per annum of the accrual.

Structure of profitability in this segment

Profitability of the management companies in the provident fund sector derives from the margin between the management fees collected from members and the operating and marketing expenses of the provident funds.

Material changes anticipated by the Company in the markets and the mix of products

See details regarding the significant changes that are expected, in Section 2.1.1.2 above.

New products

No new products were marketed in the Reporting Period.

Provident funds and pension funds managed by the Group (correct to December 31, 2021) (NIS million):

	Old pension funds	New pension funds		Provident fund for retirement benefits and severance pay	Education fund	Other	Total
		Comprehensive	Supplementary				
Managed assets (AUM)	19,610	104,551	2,254	29,121	21,532	2,297	179,365
Benefit contributions	83	9,547	399	1,552	2,208	2	13,791
Net accrual	(59)	4,780	299	(827)	(158)	(343)	3,692
Management fees from assets	0.66%*	0.17%	0.27%	0.55%	0.56%	0.59%	-
Management fees from deposits	7%**	1.74%	1.13%	0.19%	-	-	-

* Percentage management fees for the old Atidit fund only, management fees as a percentage of assets for HAL Fund are 0.1%.
** Management fees as a percentage of deposits for HAL Fund only.

Information about provident funds and pension funds managed by the Group (correct to December 31, 2020) (NIS million):

	Old pension funds	New pension funds		Provident fund for retirement benefits and severance pay	Education fund	Other	Total
		Comprehensive	Supplementary				
Managed assets (AUM)	1,299	83,651	1,665	24,456	19,280	514	130,865
Benefit contributions	18	8,860	307	1,051	2,177	2	12,415
Net accrual	(3)	6,193	243	(1,487)	(335)	(4)	4,607
Management fees from assets	0.66%	0.19%	0.32%	0.57%	0.57%	0.62%	-
Management fees from deposits	-	1.84%	1.13%	0.26%	-	-	-

Information about provident funds and pension funds managed by the Group (correct to December 31, 2019) (NIS million):

	Old pension funds	New pension funds		Provident fund for retirement benefits and severance pay	Education fund	Other	Total
		Comprehensive	Supplementary				
Managed assets (AUM)	1,245	73,274	1,349	25,390	19,047	510	120,815
Benefit contributions	20	8,660	258	1,299	2,172	2	12,411
Net accrual	(2)	6,638	209	(271)	713	(236)	7,051
Management fees from assets	0.66%	0.20%	0.37%	0.61%	0.59%	0.57%	-
Management fees from deposits	-	2.01%	1.15%	0.25%	-	-	-

2.1.2 Substitute products

The products in this area of activity are interchangeable, as they meet similar needs for the same target population. Thus for example, insurance funds, pension fund and provident fund products are interchangeable as they provide long-term savings solutions for retirement and entitle the plan holder to standard tax benefits.

Products in this area of activity can be substituted with other financial products, such as long-term deposits, although this is to a lesser extent, as such products generally do not include two significant elements that are present in the products in this area of activity: tax benefits and a combination of insurance against risks together with savings. Notwithstanding the foregoing, savings and investment products such as bank savings schemes and, investment in mutual funds could be a substitute for investment contracts and investment provident funds and for depositing monies available in a recognized annuity under Regulation 190 of the Income Tax Ordinance.

2.1.3 Competition

General:

Competition in the life assurance and long-term savings sector between the different products in this segment and between the different producers (insurance companies and investment houses) is extremely strong.

Given that investment contract policies and investment provident funds can be substituted with a variety of financial products (savings products, bank deposits, mutual funds, etc.), there is also competition with the producers and marketers of the different financial products.

In recent years, the level of competition in the market has been affected by regulatory policy aimed at increasing competition, reducing the management fees, improving transparency, options for portability, giving preference to annuity-type products and by the various reforms which have been introduced in this segment in recent years. On this, see also Section 2.1.1.2.

Competition among the different products is reflected, in part, in the rates of management fees in the various products, the range of investment tracks, the yield attained with respect to the level of risk and the quality of service provided to customers and agents.

The principal methods of addressing the competition in this area of activity are: the creation of synergy between the Group's different activities, maintaining a high level of customer service including providing digital services, customer retention, improving the marketing and distribution departments, streamlining of operations and technologies, exploiting economies of scale, etc.

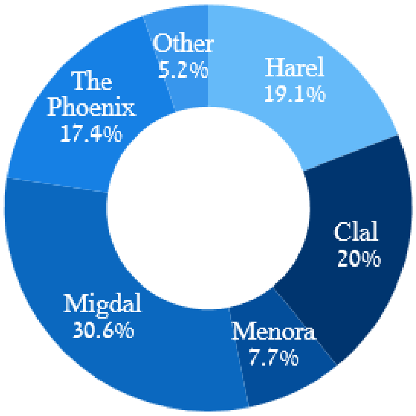
Life assurance:

According to figures published by the Ministry of Finance, total assets in profit-sharing policies in the life assurance market increased by 18% to NIS 467 million at December 31, 2021, compared with NIS 397 billion at December 31, 2020.

Most of the premiums in the life assurance segment in Israel are paid to the five largest insurance groups (Migdal, Harel, Clal, The Phoenix, and Menora) and consequently in this segment, Harel Group competes with the other insurance companies. Regarding life assurance products which include long-term savings, the competition is also against the provident funds and pension funds, which offer substitute products or partial substitutes for these products. In the investment contract policies, the Group competes with the other insurance companies and investment houses that offer similar products.

The Group is third largest in total premiums collected from life assurance in 2021 (based on published figures relating to the end of Q3 2021), where according to the financial reports of Israel's insurance companies at September 30, 2021, Harel's share of the total premiums in this sector was 19.1%. The stronger competition in the life assurance sector can be attributed to greater customer awareness, more involvement by insurance advisors, as well the options for alternative products, mainly in the pension sector.

The following diagram shows segmentation of the life assurance market between the insurance companies (based on figures published at the end of Q3 2021):

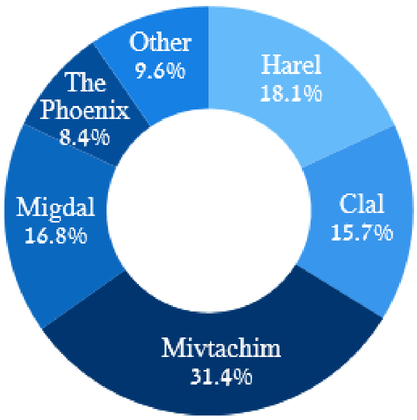


Management of pension funds:

According to Ministry of Finance publications, the volume of assets accrued in the new pension funds increased by 24% to NIS 577 billion at December 31, 2021, compared with NIS 465 billion at December 31, 2020. Net accrual in the new pension funds in the reporting period was NIS 41 billion.

The Group’s pension fund management companies compete with the Menora insurance group which manages the new Mivtachim pension fund, with Migdal Group which manages the new Makefet pension fund, Clal Group which manages, among others, Clal Pension, The Phoenix Group as well as the pension funds belonging to the investment houses: Altshuler Shaham and Meitav Dash.

Distribution of assets of the new pension funds (based on figures published on the Ministry of Finance website correct at December 31, 2021):



Management of provident funds:

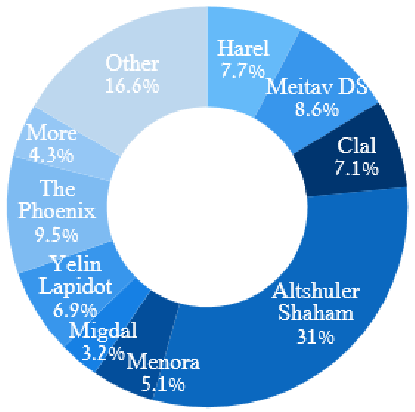
The provident funds managed by the Group compete with the provident funds managed by the other insurance groups and the provident funds managed by investment houses.

According to Ministry of Finance publications, at December 31, 2021, the provident funds managed assets totaling NIS 688 billion (of which NIS 321 billion was in the education funds), compared with NIS 579 billion at December 31, 2020 (of which NIS 273 billion was in the education funds).

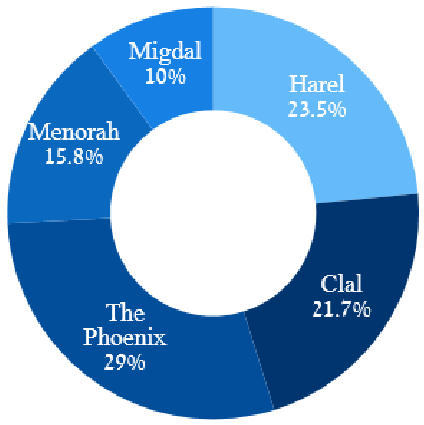
The net accrual in the provident funds market in the Reporting Period was positive, amounting to NIS 38,769 million. Of this amount, the net accrual in the provident funds owned by insurance companies was positive and amounted to NIS 13,953 million.

The main competitors in the provident fund market are: Altshuler Shaham, Meitav Dash, Yelin Lapidot, Clal Gemel, Excellence (The Phoenix), Menora, Migdal and More Investment House.

The following diagram shows the distribution of provident fund assets (including education funds) which are managed by the principal management companies operating in this sector (correct at December 31, 2021, based on figures published on the Ministry of Finance website):



The following diagram shows the distribution of provident fund assets (including education funds) which are managed by the insurance groups (correct at December 31, 2021, based on figures published on the Ministry of Finance website):



Competition in the long-term savings segment is dealt with in several ways:

2.1.3.1 Marketing and distribution activity, recruiting new agents and offering sales incentives.

2.1.3.2 Customer retention activity in the existing portfolio and updating customers with the variety of products which are marketed by the Group in the long-term savings sector.

2.1.3.3 Synergy between the Group's companies - offering customers integrated solutions in all long-term savings channels and including related insurance products.

2.1.3.4 Efficiency (streamlining) of operations.

2.1.3.5 The integration of advanced digital methods for providing customized and optimum service for clients and agents.

2.1.3.6 Maintaining a high level of customer service.

2.1.3.7 Improving existing products, including the development of market-driven investment tracks (low-risk investment tracks, share-based tracks, etc.).

The factors which affect the Company's competitive status are mainly: the size and reputation of the Group, its experience in the area of activity, the yield attained in customers' portfolios, financial robustness and the standard of service provided to customers and agents.

2.1.4 Customers

Distribution of revenues from premiums in the life assurance sectors during the reported period:

	Gross premiums					
	NIS million			Percent		
	2021	2020	2019	2021	2020	2019
Employers	3,022	2,909	2,877	51%	48%	46%
Private and self-employed insureds (personal lines)	2,721	3,057	3,220	47%	50%	51%
Groups	144	150	158	2%	2%	3%
Total	**5,887**	**6,116**	**6,255**	**100%**	**100%**	**100%**

The rate of redemptions from the average life assurance reserves is 4.3% in 2021, compared with 3.6% in 2020 and 3% in 2019.

Distribution of contributions received by the pension funds and provident funds (in NIS million):

	Pension funds			Provident funds		
	2021	2020	2019	2021	2020	2019
Sums received through employers	9,694	8,899	8,695	2,625	2,523	2,494
Other sums received	335	286	243	1,137	707	979
Total	**10,029**	**9,185**	**8,938**	**3,762**	**3,230**	**3,473**

Section 2.1, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social

developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

2.2 Health insurance

2.2.1 Products and services

2.2.1.1 General

The main line of business in the health insurance segment is illness and hospitalization, and personal accident. The insurance cover is indemnity or compensation for the insured for medical expenses in respect of health impairments resulting from illness or accident, and also from long-term care condition or the need for dental treatment. The policies in this sector also include policies for travel insurance, insurance for foreign workers and insurance for tourists.

In Israel, there are several layers that provide cover for health services. The first layer is the basic health services basket ("the Health Basket"), which was prescribed in the National Health Insurance Law, 1994 ("the Health Law"). All Israeli residents are entitled to this layer through one of the HMOs. The second layer is the supplementary healthcare services which are not included in the Health Basket ("SHS" - supplementary healthcare services). The third layer is the healthcare services purchased from the insurance companies. The third layer of cover may be a substitute for and/or supplement the healthcare services according to the Health Law (Health Services Basket or SHS) and/or may be new coverages which are not part of the Health Services Basket or SHS.

The health insurance sector has been influenced by changes in the scope of the cover provided by the HMOs (health funds), including their supplementary health services, changes in government policy regarding health insurance, in technological developments, and comprehensive regulatory changes.

Following are details on a variety of policy types in this category that were sold during the Reporting Period, as personal lines and group policies.

<u>Long-term care insurance [LTC]:</u>

This insurance mainly guarantees a monthly payment when the insured requires long-term care, based on the definition prescribed in the policy and after the waiting period specified in the policy.

Regarding personal lines LTC policies, in accordance with a decision of Harel Insurance, due to the conditions of the existing LTC policies, which in practice embed 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 operated in this sector have announced the discontinuation of their activity in this sector, it was decided to discontinue the sale of new personal lines LTC policies from October 30, 2019.

Regarding group LTC policies, in accordance with an agreement that was signed between Harel Insurance and Clalit Health Services (“Clalit”), from January 1, 2019, Harel Insurance provides members of Clalit with group long-term care insurance (“Supplementary Plus LTC plan”). The agreement between the parties is in force through December 31, 2023.

Harel Insurance provides several other groups with long-term care insurance.

Other categories of health insurance:

- Medical expenses

  Policies that provide the insured, among other things, with cover for surgery (in Israel and abroad), transplants, special treatment abroad, prescription drugs which are not covered by the health services basket and ambulatory services.

- Dental insurance

  Policies that provide cover for all or some of the following dental treatments: conservative treatment, periodontal treatment, orthodontic treatment, oral rehabilitation treatment (including implants), etc.

- Travel insurance

  Policies that provide the insured with insurance cover for traveling abroad. Among other things, the policy covers the insured’s medical expenses and a medical flight to Israel. Cover is also provided for search and rescue and third-party liability, which the insured may relinquish. Related cover (riders) may also be included in the policy, such as: baggage, cover for injury in extreme sports activity, cover for special expenses such as cancellation or curtailment of a trip for medical reasons, etc. Additionally, the Company has a policy to provide indemnification for travel or flight expenses in the event of cancellation by the customer (for any reason). The marketing of this policy was discontinued with the worldwide outbreak of the COVID-19 pandemic.

- Foreign workers and tourists

  Policies that are purchased by the employers of foreign workers in Israel (based on the statutory obligation imposed on the employers) or by tourists, and provide the insured with health insurance which includes hospitalization costs, ambulatory treatment and prescription drugs.

- Critical illness insurance

  Policies which provide the insured with compensation in the event that he is diagnosed with one of the illnesses on a pre-defined list.

- Personal accident

  Policies that provide the insured with, among other things, compensation in the event of death resulting from an accident and accidental disability.

Service notes

A document attached to an insurance policy that details the conditions under which a service provider will render a service to insureds.

Substitute products

Some of the proposed coverages in the health insurance sector can be partially substituted by cover provided by the health funds (HMOs), both as part of the basic health-services basket and through the SHS plans. Changes in the basic health basket or SHS may affect the size of the relevant market, as well as the cover offered in the area of activity and the costs of settling claims.

2.2.2 Changes and trends in this segment

Long-term care insurance [LTC]

In the past few years, the Commissioner has taken various steps to eliminate group long-term care policies in view of his position whereby there is a structural problem with such policies. Group long-term care policies are generally for a defined period after which the insurance might not be renewed and insureds could find themselves facing the option of buying a personal lines policy for a significantly higher price than was paid in the group insurance. In view of the foregoing, during the course of 2017 and in accordance with the circular published by the Commissioner, from December 31, 2017, it is no longer possible to extend group long-term care insurance in the format that existed until that date, but only in a completely different format that was set out in the circular. Accordingly, most of the group policies to which the Company was committed until the end of 2017, have been terminated. Accordingly, at the date of this report, the Company provides group LTC insurance for members of Clalit, as noted in Section 2.2.1.1, as well as for several other small groups only.

On February 24, 2021, a draft reform of health insurance was published, the purpose of which is, among other things, to define a basic, standard health policy and only after the purchase of this policy will it be possible to continue to purchase additional health products. For additional information about the anticipated health insurance reform, see Section 3.1.7.1 below.

Personal accidents

Subsequently, and based on an amendment to the provisions of the consolidated circular Section 6, Part 3, Chapters 2, 3 and 4, personal accident insurance, published by the Commissioner on June 7, 2020 ("Personal Accident Circular"), which prescribed various provisions, including with respect to the coverages to be included in the basic layer of the insurance and where a standard definition was determined for "accident", the Company made changes in the cover for personal accidents and submitted a product for the approval of the Finance Ministry which corresponds with the provisions of this circular. Since May 2021, when the personal accident Circular entered into force, the Company has not marketed a personal accident insurance product. A personal accident product which is consistent with the circular began to be marketed at the beginning of 2022.

Development of digital processes

In recent years, this operating segment has rapidly adapted itself to digital and online processes performed by insureds and agents, through the development of sales, operating and advanced digital service channels. The integration of digital processes in this operating segment intensified particularly in the Reporting Period in view of the challenges posed by the COVID-19 pandemic.

Furthermore, in the Reporting Period, the Company expanded activity on the "Harel Overseas" application which is a digital platform for performing transactions as part of an overseas travel policy. The app allows claims to be filed, action to be taken in the policy and useful information to be received about medical services abroad.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company's share of the principal markets in relation to products and services in this operating segment. Notably, the volume of the Company's sales with respect to the marketing of personal accident insurance policies may be affected based on the reform in this sector and further to the amended provisions of the consolidated circular regarding personal accident insurance and the product adjusted to the provisions of the circular which the Company has submitted to the Finance Ministry, as noted in Section 2.2.2 above. Additionally, the process of enrolment and the structure of products in the health sector may be affected, based on the final provisions of the anticipated health insurance reform which is due to be published during the course of 2022. For additional information about the anticipated health insurance reform, see Section 3.1.7.1 below.

New products

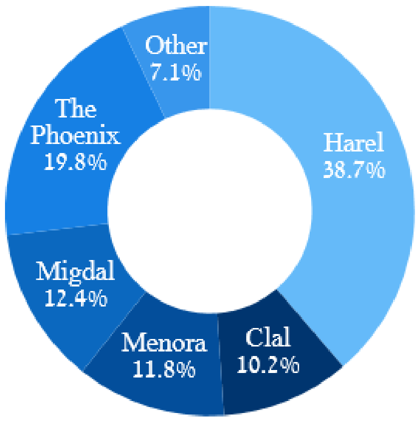
During the Reporting Period, the Upgrade policy - insurance for private surgery in Israel over and above the right to supplementary health services was relaunched and expanded, and coverages in the critical illness policy were also expanded. Additionally, the services provided to new and existing subscribers were extended as part of the “Online personal medicine” service note.

2.2.3 Competition

The Group is the largest, most dominant insurance group in Israel's health insurance segment, and according to the financial statements published by the insurance companies at September 30, 2021, it accounts for 38.7% of the health insurance market in Israel. The Group's principal competitors in the health insurance sector are The Phoenix, Clal, Migdal and Menora, as well as the supplementary health services plans and dental treatment offered by the HMOs.

The Group has been engaged in the health insurance sector for 90 years, and it has a great deal of know-how and experience. To perform quality underwriting, costing and to develop products and coverages which have a relative advantage, the Group utilizes databases, in which it has many years of accumulated claims experience data, wisely. Additionally, the Group has a broad set of agreements with medical service providers and medical institutions all over the world and that provide superior services to those of its competitors, particularly for the complex medical conditions that require treatment abroad or bringing medical services from abroad to Israel. As a result, the Group has managed to preserve its dominant position in this segment and a reasonable profit level, despite ever-increasing competition.

The following diagram shows segmentation income of the health insurance market between the insurance companies (based on figures published at the end of Q3 2021):



Competition in the health insurance segment is dealt with at several levels:

2.2.3.1 The development of new products and services and/or improvements to existing products, by identifying significant customer requirements that are not provided (or partially provided) on the public level, and meeting these requirements.

2.2.3.2 Strengthening the Company's long-standing reputation in this segment.

2.2.3.3 A broad set of agreements with medical service provides and medical institutions worldwide.

2.2.3.4 Constant improvement to and preservation of professional customer service during the policy period, and when a claim is filed.

2.2.3.5 Customer retention activity in the existing portfolio.

2.2.3.6 Efficiency (streamlining) of operations.

2.2.3.7 Marketing and distribution activity, running sales promotions campaigns, recruiting new agents and offering sales incentives .

The key factors which affect the Company's competitive status in the health segment are mainly: the Company's strong reputation and the size of the Group, its extensive, cumulative experience in the health insurance segment, and the high standard of service provided to customers and agents.

2.2.4 Customers

Distribution of income from gross premiums in the long-term care insurance sector:

	Gross premiums					
	NIS million			Percent		
	2021	2020	2019	2021	2020	2019
Private policyholders	763	757	755	33%	34%	35%
Groups	1,577	1,463	1,377	67%	66%	65%
Total	**2,340**	**2,220**	**2,132**	**100%**	**100%**	**100%**

Distribution of income from gross premiums in the other health insurance sectors:

	Gross premiums					
	NIS million			Percent		
	2021	2020	2019	2021	2020	2019
Private policyholders	1,888	1,675	1,829	62%	62%	65%
Groups	1,141	1,038	970	38%	38%	35%
Total	**3,029**	**2,713**	**2,799**	**100%**	**100%**	**100%**

The cancellation rate in terms of premiums, from policies that are in force at the beginning of the year in long-term care insurance (personal lines policies) is 3.1% in 2021, 4.2% in 2020, and 6.5% in 2019.

The cancellation rate in terms of premiums, from long-term personal lines policies that are in force at the beginning of the year in other health insurance sectors is 9.3% in 2021, 4.2% in 2020, and 15.4% in 2019.

The Group has no customer in the health insurance segment which accounts for 10% of more of its total revenues which are included in the consolidated financial statements.

Section 2.2, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

2.3 Non-life insurance segment

2.3.1 Products and services

General

This segment consists of motor property insurance, compulsory motor insurance, other liabilities sectors, property and other sectors, and credit insurance for mortgages.

Additionally, the policy exclusions in some of the insurance policies in the non-life segment include a pandemic exclusion, based on a permit from the Capital Market Authority.

2.3.1.1 Motor property (CASCO)

The products in this sub-segment are policies that guarantee cover for loss incurred by the insured vehicle mostly as a result of an accident or theft, as well as cover for the owner's liability for losses caused to third-party property by the insured vehicle. Additionally, riders may be added to the policy such as: legal defense, increased compensation for cars which are less than 24 months old, cover for damage to windshields - with no deductible, substitute vehicle in the event of an accident or theft, towing and roadside services, cancellation of the deductible based on a compensation threshold and cover for other non-standard fixtures.

The motor-property insurance sub-segment can be divided into two secondary segments: insurance for damage to third-party property (insurance which covers the liability of the car owner/driver if the insured vehicle causes damage to third-party property) and insurance known as "comprehensive insurance" which also covers the losses sustained by the insured vehicle (for example, due to an accident or theft), as well as property damage caused to a third party.

The motor property branch can be divided into two main groups by category of vehicle:

(a) The insurance of private and commercial vehicles up to 3.5 tons – In accordance with the policy that prescribed in the Supervision of Insurance Business (Conditions of an insurance contract for a private vehicle) Regulations, 1986 and the insurer may deviate from them only if the change is beneficial to the insured, or if it refers to a fleet of cars. The conditions of the Standard Policy allow the insured to purchase a modular package of coverages, as specified in above.

(b) Insurance for vehicles with the exception of private and commercial vehicles up to 3.5 tons (forklift trucks, trucks, taxies, buses, tractors, etc.). Policies for such vehicles are not subject to the terms of the Standard Policy, but the conditions and scope of the cover in policies for such vehicles are determined by the insurance companies in line with market forces and subject to the Commissioner approving the policy conditions.

The premiums for insuring motor property are determined, inter alia, taking into account underwriting, based on the vehicle's specifications (model and year of manufacture) and the specifications of those authorized to drive it (age, driver's license seniority, and claims experience) and depending on the range of coverages purchased. The formula for calculating the premiums which forms the basis for determining the premium is based on an actuarial model and approved by the Commissioner.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company’s share of the principal markets in relation to products and services in this operating segment.

For information about the acquisition of the insurance activity of Shirbit, see Section 1.1.6.14.

New products

No new products were marketed in the Reporting Period.

2.3.1.2 Compulsory motor

Compulsory motor insurance is insurance which the vehicle owner or its driver must purchase according to the Motor Vehicle Insurance Ordinance, as noted in Section 1.2.3.2 above). The failure to comply with this obligation is a criminal offense. The conditions of the insurance cover correspond with the wording of the Standard Policy prescribed in the Supervision of Financial Services (Insurance) (Conditions of a Compulsory Motor Vehicle Insurance Contract) Regulations, 2010. There is therefore no variety of products available in this sector. On March 16, 2021, Provisions of the Supervision of Financial Services (Insurance) (Conditions of a Compulsory Insurance Contract for a Motorized Vehicle) (Amendment), 2021, (“the Provisions”) were published. The provisions amended the Supervision of Financial Services (Insurance) (Conditions of a Compulsory Insurance Contract for a Motorized Vehicle) Regulations, 2010 (“The Key Provisions”) so that they were changed to Provisions. This change entered into force on May 16, 2021.

The insurance cover in compulsory motor insurance is based on the CRAV Law which prescribes absolute liability, namely, according to the CRAV Law, persons injured in a road accident are entitled to compensation from the insurer of the vehicle, based on the scope of the compensation stipulated in the CRAV Law, without the need to prove the culpability of any of those involved in the road accident. This absolute liability is subject to certain exclusions prescribed in the CRAV Law which negate the right to compensation by law. The amount of compensation is limited to certain heads of damages .

The Standard Policy stipulates that the insurer's liability is in accordance with the provisions of Section 3 of the Motor Vehicle Ordinance, 1970, and covers any liability that may be incurred by the insured under the CRAV Law, any other liability that the insured may incur on account of physical injury sustained by a person who used a motor vehicle or resulting from the use thereof, and physical injury sustained by the insured in a road accident.

According to the provisions of the Compensation of Road Accident Victims (Arrangements for Allocation of the Burden of Compensation among the Insurers) Order, 2001, in the event of an accident involving a vehicle defined as a "light" vehicle (weighing less than 4 tons) and a vehicle defined as a "heavy" vehicle (weighing more than 4 tons, excluding buses), the insurer of the light vehicle is entitled to a refund of half the amount of the cost of the claim from the insurer of the heavy vehicle or the other vehicle. Pursuant to Amendment no. 20 to the CRAV Law, in the event of a road accident involving one or more motorbikes and one or more vehicles that are not a motorbike, the insurers of the other vehicle shall pay the insurers of the motorbike 75% of the compensation for physical injury which the motorbike's insurers are liable for as a result of the accident .

Claims in the compulsory motor insurance sub-sector are typically long tail, namely, there is often a considerable time lag from the date on which event took place until the claim is finally settled. It follows that in addition to the underwriting result for this area of activity, revenues from investments or investment losses have a significant impact on overall profit in this operating segment.

On September 17, 2020, the Supreme Court ruled that the provision - whereby the discounting interest rate for compensation due to bodily injury in torts will remain 3% (unless a need to change it is proven, based on the mechanism set out by the Kaminetz Committee) - is presumed also to apply to NII subrogation claims (Civil Appeal 4025/19 the National Insurance Institute v. Megilot Dead Sea Regional Council). For additional information, see Note 3C2I to the Financial Statements.

Owners of vehicles (usually motorbikes) may purchase insurance via the Pool (Israel pool for car insurance). In this regard, the Pool operates as an insurance company to all intents and purposes and its tariffs, which are set by the Commissioner. All the insurance companies which operate in the compulsory motor sector are partners in the Pool, and each company bears a pro rata share of the Pool's losses in the compulsory motor insurance market for the previous year.

According to the Pool’s articles of association, the share of the insurance companies in the Pool is determined in accordance with the premiums they collect each year. The final share of Harel Insurance in the Pool for 2020 is 10.61% and the provisional share of Harel Insurance for 2021 (also including Shirbit’s provisional share) is 13.58%. A final calculation for 2021 will be made after publication of the annual financial statements for that year.

Commencing in 2010, the responsibility for treating road accident victims was transferred to the HMOs. To pay for the medical services that road accident victims receive from the HMOs, every month insurers transfer to the Fund for the Compensation of Road Accident Victims ("the Fund") 9.4% of the premiums that the insurer collected in the previous month on all the compulsory insurance policies that it issued. The Fund will transfer these amounts to the National Insurance Institute which in turn will transfer them to the HMOs.

As part of the 2016 reform of compulsory motor insurance reform, which according to the Commissioner's circular aims to increase competition, it was determined that from March 2016, the residual insurance tariffs (the Pool) have change and the tariffs for insuring private and commercial vehicles weighing up to 3.5 tons were revised in line with a variety of variables and coefficients, in contrast with the previous situation in which there was a standard, non-differential tariff according to class of vehicle. In view of the fact that in some of the variables, the Pool’s tariff is lower than that of the insurance companies on the same date, the implications of this provision are that another competitor will be entering this area of activity.

The reform further stipulates that the risk tariff for each policyholder will be based on all the variables prescribed by the Commissioner, in contrast with the former situation in which the insurance companies can choose which variables they wish to use. For example, among the other variables, the tariff will be based on the driver's sex, age in a broad cross section of categories, years of licensed driving experience, various protective systems, etc.

The reform also stipulates that the insurance companies may include conditions whereby the premiums can be revised (lowered) retroactively, by way of a premium refund, which will be a bonus for the insured public.

Given that the reform also prescribes pure risk tariffs that are lower than the current tariffs in force at the date of publication of the reform, as a result of the reform, the profitability of insuring motorized vehicles was eroded.

Furthermore, the reform stipulates that commencing in 2017, it will no longer be possible to offer a different price to groups, and that differential prices may only be offered in accordance with the calculated risk as noted above.

On January 2018, a memorandum of the Economic Efficiency (Legislative Amendments to Achieve Budget Targets for 2019) Law, 2018, was published. According to the memorandum, the mechanism for the settlement of accounts between the National Insurance Institute (NII) and the insurance companies regarding road accidents will be changed, the NII's existing right to subrogation for road accidents will be abolished and a comprehensive arrangement will be established under which the insurance companies will transfer a fixed amount to the NII every year. The Minister of Finance will prescribe regulations concerning the amount to be transferred to the NII. With respect to road accidents that occurred between January 1, 2014 and December 31, 2018, and for which the NII has not submitted a claim or demand by January 1, 2019, the Minister of Finance will prescribe in the regulations an overall lump sum to be paid to the NII by the insurance companies for such claims or demands, the payment schedule and the amount from this sum to be paid by each insurance company. At the end of December 2021, Harel Insurance paid a sum of NIS 140 million.

From 2023, a proportional payment of 10% of the compulsory insurance premiums will be transferred to the NII as an alternative to the NII's subrogation claims against the insurance companies. From 2025, 10.95% of the compulsory motor insurance premiums will be transferred as an alternative to the NII's subrogation claims against the insurance companies. For additional information see Note 3C2(j).

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company's share of the principal markets in relation to products and services in this operating segment.

For information about the acquisition of the insurance activity of Shirbit, see Section 1.1.6.14.

New Products

In view of the fact that this is a standard policy dictated by the regulator, from which there can be no deviation, there are no new products in this operating segment.

2.3.1.3 Other liabilities sectors

In liabilities insurance (also known as professional indemnity insurance or E&O), Harel Insurance covers the insured's statutory liability due to his negligence for loss that may be incurred by third parties. The policies in this sector cover the insured's liability for third party loss, such as: D&O liability, professional liability, product liability, liability due to a cyber event, etc. Additionally, employers' liability for covering the insured's liability towards his employees.

Insurance in the other liabilities sectors (like compulsory motor insurance, which is also a form of liabilities insurance) is typically long-tail, namely - notice of an insured event may be submitted many years after the event and settlement of the claim may take several years after receiving notice of the insured event. On this, Section 70 of the Contracts (Insurance) Law, 1981, prescribes that in liabilities insurance a claim for insurance benefits is not limited by time until the third party claim against the insured is prescribed.

In view of the fact that claims in the liabilities sub-sector are typically "long tail", in addition to the underwriting profit for this area of activity, revenues from investments or investment losses have a significant impact on overall profit in this area of activity.

The insurance coverages included in this area of activity:

Professional liability insurance

Professional liability policies provide various professionals, such as investment consultants, portfolio managers, attorneys, engineers, architects, accountants and IT companies with insurance cover against claims that may be filed against them for third-party loss, as a result of professional malpractice. Today, these policies are sold not only to qualified professionals, but also to a variety of businesses who wish to have insurance cover against such claims. The policy may be purchased as a stand-alone product or as part of a business insurance package, where in many cases, the policy is combined with the product liability.

Medical malpractice policies provide insurance cover for medical professionals for a breach of professional obligation originating in a bona fide act of negligence, error or omission by the insured while practicing medicine, and which caused third-party loss.

Insurance for clinical trials

Insurance for clinical trials provides cover for clinical trials approved by the Helsinki Committee (National Helsinki Committee for Genetic Research in Humans) in accordance with Ministry of Health procedures. The policy provides cover in the event of a torts claim by participants in the trial or by a third party.

Directors and Officers liability insurance (D&O)

Policies that provide cover for directors and officers for their liability in respect of an unlawful act or omission performed ex officio by the officeholders. The policy usually covers the officeholder's liability under the Companies Law and other statutory provisions which establish duty of care and various fidelity obligations for the officeholder.

Liability insurance for defective products (product liability)

Policies that provide the policyholder with cover for its lawful liability for damage sustained by the person or property of a third party (including consequential loss resulting from the damage to property) as a result of products that were manufactured, marketed, assembled, repaired or serviced by the insured once the product is no longer in its possession. The liability covered in a product liability policy is generally liability by virtue of the Responsibility for Defective Products Law, 1980, and by virtue of the Torts Ordinance (New Version), 1968 ("the Torts Ordinance"). The policy may be purchased as a stand-alone product or as part of a business insurance package, where in many cases, the policy is combined with product liability.

Cyber insurance

Policies that cover loss caused to the insured in respect of a cyber event (as defined in the policy), such as: physical damage (damaged hardware), costs of restoring data, loss of income due to the shut-down of operations, etc. The policy also covers the insured's liability resulting from claims filed against him by any third party. This cover may be purchased as an extension (rider) to an existing policy (e.g. business premises policy, office policy, fire insurance policy, etc.).

Third-party liability insurance

Policies that provide the insured with indemnity for amounts that the insured may be obligated to pay a third party as compensation by law, resulting from an unforeseeable event that caused damage such as: bodily injury, death, illness, physical, emotional or mental injury or disability or third-party property damage (including damage to a tow truck). The responsibility covered in third-party liability is generally liability under the Torts Ordinance.

These policies can be purchased as a stand-alone product or together with other coverages, (such as: policies for businesses, homeowners insurance, policies which insure the work of building contractors, etc.).

Employers' liability insurance

Policies sold to employers, generally as part of a business insurance package or as a separate chapter in homeowners insurance. These policies cover the insured against torts claims against an employer in respect of bodily injury (illness or accident) sustained by the employee while and as a result of working for the insured (the employer). The policy covers the employer's liability under the Torts Ordinance, over and above the amount of compensation given by the National Insurance Institute.

Substitute products

The different products in the other liabilities sub-branch are specific and unique to insurance companies and cannot be properly substituted with non-insurance products. Nevertheless, the need for insurance cover can be reduced if measures are taken to manage and mitigate the risk. Likewise, in some sectors of this area of activity, the need for insurance cover can be reduced by indemnity and exemption mechanisms (such as D&O liability or other professional liability) or through independent funds that manage various businesses.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company's share of the principal markets in relation to products and services in this operating segment.

For information about the acquisition of Shirbit's insurance activity, see Section 1.1.6.14.

New products

No new products were marketed in the Reporting Period.

2.3.1.4 Property and other sectors

Property insurance consists of a broad range of coverages for damage to property (except for vehicles) such as physical loss and/or damage to property, consequential financial loss stemming from the damage to property, comprehensive homeowners insurance, mortgage-related structural insurance, mortgage insurance, insurance for engineering equipment and construction work, insurance for goods in transit, etc.

The insurance cover in this segment is directed at private and business customers.

The principal coverages in this sub-sector are in the fire and property insurance branch and in the comprehensive homeowners insurance branch, including mortgage-related structural insurance.

Depending on the specific conditions listed in the different policies, the policies provide cover for the insured's property against loss or damage which may be caused by various risks, including: fire, burglary, theft, water damage, flood damage, earthquakes, etc. The policy is designed to cover reinstatement of the insured property, by providing indemnity for the physical losses sustained by it and in some of the policies the insured is also indemnified for loss of profits resulting from the damage caused to the business (to the extent that such cover is purchased). Catastrophic natural perils and earthquakes are not frequent in Israel, although when they occur it is likely to be on a large scale. In contrast, losses from fire, water and burglary are much more frequent but generally less severe. The premium for these policies is usually set as a percentage of the sum insured, where the precise rate is determined in accordance with the classes of activity of the business or other property, the sums insured, scope of the cover provided, rate or amount of the deductible, the insured's claims experience, type and quality of protections, safety measures, etc.

The property and other insurance sub-sector provides the insured with cover against damage to or loss of property which is owned by the insured or in which he has an interest (e.g. property in custody or pledged property). This insurance covers direct losses to the property but it may also cover consequential loss, such as a loss of profits. The insured property may be an apartment, business premises, industrial plant, warehouse, goods in transit (by sea, air or over land), etc. The sums insured in property other insurance may, in many cases, typically involve large amounts. In these insurances, the insurer is required to cover its exposure through facultative reinsurance, the cost of which is a key factor in influencing the amount of the premiums collected from the insureds (and even more so when they relate to catastrophes which may cause damage to a large number of independent insured's, such as natural perils in the form of earthquakes and floods).

The insurance coverage's included in this area of activity:

Fire insurance

Policies that cover the insured for damage caused as a consequence of the risks as "extended fire" risks. The insured may purchase riders to the policy such insurance against burglary, natural disasters, earthquake, and insurance against the loss of profits caused as a consequence of the aforementioned insurance events.

Comprehensive homeowners insurance

Policies that are directed and marketed mainly to the private sector and covers carious risks relating to the Insured's home, cover for the structure and/or contents of an apartment, where the insured may purchase cover for both or just one of the components. The Supervision of Insurance Business (Conditions of a Contract to Insure Homes and their Contents) Regulations, 1986, establish minimum conditions regarding policies for structure and contents ("standard homeowner's policy"). According to these regulations, the standard homeowners policy includes, inter alia, cover for the following risks: fire, lightning, flood, explosion, storm, earthquake, and burglary (the last two coverages are optional and the insured may waive them). Beyond the minimum conditions, the insured may purchase riders such as cover against damage from water, third-party liability, employers' liability and the addition of compensation for the value of a building in respect of loss resulting from earthquake.

Terror insurance

A policy that provides cover for physical loss or damage to the insured property resulting from a terror event (an act that is confirmed by Israel Police / Ministry of Defense / Property Tax Administration, under the Property Tax and Compensation Fund Law, where such activity was perpetrated to advance political goals / to promote an uprising known as an "*intifada*" or that was carried out by a lawful authority for the purpose of preventing such activity). The policy provides compensation over and above the compensation given under the Property Tax Law. The policy can also be extended to include cover for loss of profit due to physical damage resulting from a terror event. (The cover can also be extended for loss resulting from a war event. but war cover is less common).

Comprehensive insurance for businesses/offices

Policies that provide broad insurance cover for small and medium businesses and offices. These policies are sold as a collection of chapters where each chapter provides the insured with cover against a particular risk or group of risks (direct or consequential). In practice, these policies are modular and the policyholder may choose which chapters he wishes to purchase depending on the nature of his business, the risks to which the business is exposed and the level of risk to which the owner is willing to be exposed.

Cash in transit insurance and fidelity insurance

A policy that covers physical loss or damage to money belonging to the insured business (cash, notes, checks, etc.). The money is covered while it is located on the insured premises or when being transferred from one place to another outside the insured premises.

Fidelity insurance covers direct financial loss caused to the insured business as a result of fraud by an employee carried out with the intention to cause damage to the business or to benefit the defrauder and/or other persons.

Insurance for goods in transit and transporter liability

Policies that provide the insured with cover for various risks involved in the movement of property (by sea, air or land). The principal coverages purchased by policyholders who purchase these policies are for damage caused to property as a result of the sinking of a ship, plane crash of the transporter, fire, collision, capsizing, burglary, loading and unloading.

Insurance for electronic equipment

Policies that cover the insured on an “all risks” basis (other than exclusions) against physical damage or loss sustained by electronic equipment, including external data storage media, including, among other things, cover for the recovery of lost information as well as for additional operating expenses due to physical loss to the damaged electronic equipment. This cover is generally residual and supplements the cover provided in the property policy, but it can also be marketed as a stand-alone product.

Insurance for the work of building contractors

These policies cover the insured for unforeseen physical damage for the insured project in construction projects that are underway, such as the construction of infrastructure, buildings, various renovations and installations, etc. These policies also include additional chapters relating to the insured’s liability for physical loss caused to any third party person or property while the work is underway and to cover for the insured’s liability as an employer for physical injury or work-related illness caused to workers employed in performing the work, during the course of and as a result of the work. These policies are marketed to developers, contractors and sub-contractors.

Crop insurance and insurance for natural perils in agriculture

Policies that provide comprehensive cover for farms or an agricultural cooperative against unforeseen physical loss to the insured property (excluding some crops). The policies are sold to farmers or agricultural cooperatives. The policy is modular and the insured may choose which coverages he wishes to purchase, depending on the type of farm, the risks to which the farm is exposed and the level of risk to which he wishes to be exposed.

Insurance for mechanical engineering equipment

Policies that cover accident loss of any kind (except for the exclusions listed in the policy) to heavy engineering equipment. The possible coverages include natural perils, earthquake and mechanical breakdown. The coverage may be extended to include third-party loss and certain physical injuries that are not covered by the CRAV Law.

Insurance against mechanical breakdown

Policies that provide cover against sudden physical damage or loss sustained by equipment and machinery as a result of mechanical failure. The insured may also purchase riders to the policy such as insurance against the loss of profits caused as a result of the occurrence of the aforementioned insurance event as well as cover for goods damaged due to mechanical failure.

Insurance for the investments of homebuyers

Policies for homebuyers as required in the Sale (Housing) (Assurance of Investments of Persons Acquiring Apartments) Law, 1974.

Substitute products

The different products in the other property sub-segment are specific and unique to insurance companies and generally cannot be replaced with non-insurance products. Nevertheless, the need for insurance cover can be reduced if measures are taken to manage and mitigate the risk. Similarly, for some risks in this branch, the need for insurance coverage can be reduced by applying mechanisms such as a self-owned fund to cover damage or by means of a captive. Furthermore, cover for loss from natural perils, war, etc. can also be obtained through the property tax office, and this subject to the restrictions and conditions prescribed in the Property Tax and Compensation Fund Law, 1961.

Nevertheless, in insurance for the investments of home buyers, substitute products are available that are provided by the banks.

Material changes anticipated by the Company in the markets and the mix of products

No significant changes are expected in the Company’s share of the principal markets in relation to products and services in this operating segment .

In the line of insurance for the investments of home buyers, during the Reporting Period, the Company increased the scope of its operations in this branch and built up its market. Nevertheless, this change is not expected to have any significant impact on the revenues of Harel Insurance in this line of activity.

New products

No new products were marketed in the Reporting Period.

2.3.1.5 Credit insurance for mortgages

EMI commenced its insurance activity in 1998, as a pioneer in mortgage insurance in Israel. As noted in Section 1.2.3.5 above, in 2013 EMI discontinued the issue of new policies and it is currently handling policies issued in the past only.

Until it discontinued the issue of new policies, EMI offered insurance for highly financed residential mortgages (mortgages with a high LTV ratio) and insurance for loans for any purpose - insurance that is designed to provide indemnity for loss incurred as a result of borrower default on loans given against a first-ranking lien on a single, residential property only, and after disposal of the asset that serves as the collateral for such a loan.

The policyholder pays the premiums to EMI in advance as a lump sum. The policyholder collects the premiums directly from the borrower when the loan is taken, or alternatively, the amount of the premium is added to the borrower's loan so that the amount of the loan in respect of the premium is paid to the policyholder throughout the duration of the loan.

The period of cover with respect to any loan is for the entire period of the loan. The policyholder is entitled to cancel the insurance cover in respect of the loan at any stage, and in this case EMI will refund the policyholder and/or the borrower (at the policyholder's request) 75% of the balance of the unearned premium in respect of that loan.

A claim for the payment of insurance compensation under the policy shall be filed by the policyholder only after the property has been disposed of, that is - the property has been sold and the proceeds in respect thereof have been received (sale by the policyholder or voluntary sale by the borrower for which the company has given its prior consent).

The amount of the insurance benefits payable to the policyholder is the outstanding principal of the loan at the time of disposal of the property, plus: linkage as per the conditions of the loan, contractual interest of up to 36 months (but without interest in arrears and bank charges), legal expenses and expenses associated with the sale, all after deducting the amounts received by the policyholder in respect of the sale of the property. This amount is limited to the level of the maximum insurance cover.

Substitute products

There are no substitute products in this segment given that EMI is the only insurance company in Israel which holds a license in the credit insurance sector for residential mortgages.

Material changes anticipated by the Company in the markets and the mix of products

In view of a Bank of Israel directive dated November 1, 2012 on limiting the LTV ratio for housing loans (as noted in Section 1.2.3.5 above), during the reporting year EMI only handled policies it had issued prior to the directive. This corresponds with the plan to cut back the operations of EMI as approved by the Company's board of directors so that EMI will continue to provide policyholders with the same service as in the past, while significantly reducing the size of the departments which are engaged in underwriting and the issue of new policies.

This discontinuation of activity negatively affected the premiums earned from this activity, so that in the periods after the date on which the provision entered into force, the Company recorded new premiums of an insignificant amount and it is not expected to record any significant premium in the forthcoming period as long as this provision remains in force.

The insurance cover is long-term cover, where the entire premium is received in advance when the policy is issued. Accordingly, recognition of the revenue and the profit is spread over the period of the insurance risk and EMI has an insurance undertaking for many years in advance.

Almost all the premiums earned in the Reporting Period are from policies that were sold before the aforementioned provision entered into force.

No changes are expected in the markets and mix of products in this segment, given that due to the Bank of Israel regulatory requirements, EMI has discontinued its marketing operations.

New products

No new products were marketed in the Reporting Period.

2.3.2 Trends and changes in the segment of operations

<u>Development of digital processes</u>

In the past few years, this operating segment has undergone a gradual transformation to enable insureds and agents to conduct business digitally and online through the development of advanced tools for enrolment in the insurance, the renewal of existing insurance, claims handling and ongoing service.

Within the framework of the comprehensive and compulsory insurance approved for marketing, the Company markets Harel Switch. Harel Switch is a unique comprehensive and compulsory motor insurance policy for private or commercial vehicles weighing up to 3.5 tons which requires the use of an app and where the monthly payment for the comprehensive insurance is set according to a basic premium plus pricing based on the number of kilometers travelled by the vehicle every month (monthly kilometrage).

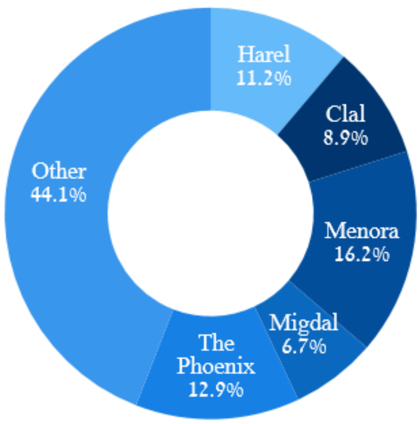
The policy is suitable for drivers with low car usage and is based on a basic premium with a supplement for each kilometer driven. The distance travelled is measured by a GPS component installed in the vehicle and the monthly charge is calculated accordingly.

2.3.3 Competition

2.3.3.1 Motor property (CASCO)

Most of the insurance companies in Israel are engaged in the motor property insurance sub-segment. Harel Insurance accounts for 11.2% of this segment (according to figures in the Q3 2021 reports), compared with a market segment of 10.6% for the corresponding period last year.

The following diagram shows segmentation of the motor property sub-segment, based on figures published at the end of Q3 2021:



Motor property policies for vehicles weighing up to 3.5 tons are governed by the Standard Policy and must be approved by the Commissioner, so that there is no significant difference in the policies offered by the different companies. Additionally, comparative information about prices and other conditions is readily available. Consequently, there is considerable sensitivity in this segment to the product price (the premiums) and competition is strong.

The Group’s principal competitors in this sector are: Menora, Shomera, The Phoenix, Migdal, Clal, Ayalon, IDI and AIG.

The measures which the Company takes to address the competition are:

(a) Streamlining operations, improving work methods and the use of digital and technological methods.

(b) High standard of customer service.

(c) Improved underwriting, costing and preparation of actuarial calculations.

(d) Improved work methods, as: policy production in the agents' offices, and the streamlining of claims settlement activity.

(e) Quality and availability of the service at the time of purchasing the insurance and submission of claims.

(f) Systematic action to improve the services, at the same time reviewing the customer's needs efficiency and professionalism in dealing with customers.

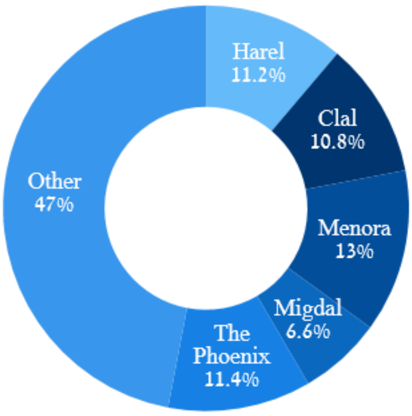
(g) Marketing campaigns for agents - to encourage the enrollment of new members and increase the rate of renewals.

(h) Marketing campaigns for customers - a variety of benefits offered to customers, including discounts consistent with the nature of the product.

2.3.3.2 Compulsory motor

Most of the insurance companies in Israel engage in the compulsory motor insurance sub-segment. Harel Insurance accounts for 11.2% of this segment (according to figures in the Q3 2021 reports).

Diagram of the allocation of the market into the compulsory motor sub-segment. Figures are based on data published at the end of Q3 2021:



The insurance cover in this sub-segment is standard. Information about prices and conditions, including information published on the Commissioner's website, is readily available. Consequently, there is considerable sensitivity to price and terms of payment.

The variance in the tariffs offered by the different insurers in this area of activity and the increased public awareness of the price differences, has led policyholders, or agents acting on their behalf, to decide to split the motor insurance so that the compulsory insurance is done through one company while the motor property insurance is done through another.

The differences between the insurance companies are also reflected in the level of service, particularly for claims settlement.

Harel Insurance is known to be a financially robust company, it has proven experience, integrity and is fair and professional when settling claims. Harel Insurance has diverse marketing channels tailored to the needs of its customers. The combination of all the aforementioned parameters has helped Harel Insurance to be successful despite the fierce competition which has developed in Israel in recent years in this sub-segment.

Another factor which affects the choice of insurer is the insurance agent.

The Group's principal competitors in this sector are: Menora, Shomera, Migdal, Clal, The Phoenix, Ayalon, Bituach Yashir (IDI) and AIG, and Shlomo Insurance.

The principal methods of dealing with the competition are:

(a) Streamlining operations, improving work methods and the use of digital and technological methods.

(b) Streamlining of operations and improved work methods, as well as improved agreements with service providers that handle claims settlement.

(c) Improved costing methods and work based on a broad database for setting premiums.

(d) Focused marketing to policyholders with lower-than-average risk specifications.

(e) Availability of the operating systems of Harel Insurance and producing compulsory motor insurance certificates in real time, including at the agents' offices.

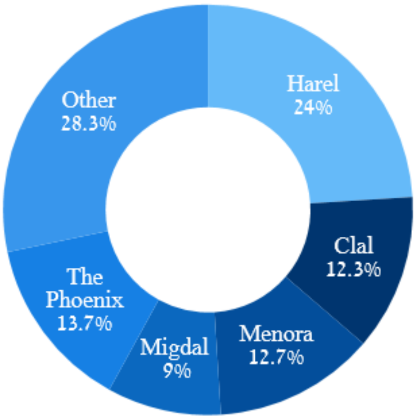
(f) Marketing campaigns by agents.

2.3.3.3 Other liabilities sectors

Most of the insurance companies in Israel engage in the other liabilities insurance sub-segment.

Harel Insurance accounts for about 24% of the market in this sub-segment (according to figures in the reports for Q3 2021 reports).

Allocation of the market into the liabilities insurance sub-segment, based on figures published at the end of Q3 2021:



Competition in this sub-segment is affected largely by the overall competition in providing insurance cover for business insurance packages, as a considerable part of the coverages in this area of activity are sold as part of a basket of insurance cover to business customers.

The Group’s principal competitors in this sector are: Menora, Migdal, Clal, The Phoenix, Ayalon, Hachshara and AIG.

The methods employed to address the competition are meeting high professional and service standards, and the ability to tailor the insurance cover packages to the special needs of specific business customers. Likewise, the ability to enter into reinsurance treaties for the policies offered has a marked impact on the ability to compete effectively in this sub-segment.

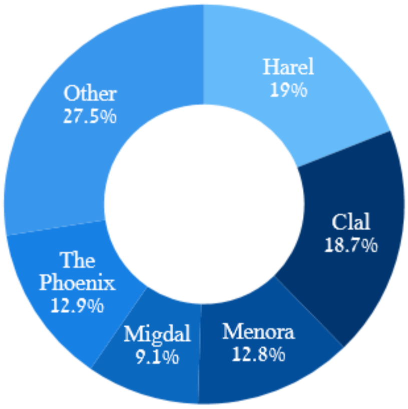
Harel Insurance has unique experience in the professional liability branch which has given it an edge on medical professional liabilities policies.

Notably, a variety of professional organizations (e.g. the Institute of Certified Public Accountants, the Bar Association, the Engineers Association, etc.) publish tender proposals from time to time for the purchase of professional liability insurance for members of the relevant organization. Organization members are not obligated to purchase insurance from the winning companies. These tenders affect competition in the professional liability insurance branch.

2.3.3.4 Property and other sectors

Most of the insurance companies are engaged in property and other insurance. According to figures published by the Israel Insurance Association, based on reports Q3 2021, Harel Insurance accounts for 19% of the insurance in this market. The key products in this sub-segment are fire insurance and comprehensive homeowners insurance.

Segmentation of the property and other insurance sub-segment, based on figures published at the end of Q3 2021:



Comprehensive homeowners policies are subject to the conditions of the Standard Policy for homes and must be approved by the Commissioner. Consequently, there is little variance between the products offered by the different companies competing in this sector. Thus, there is considerable sensitivity in this sector to the price of the product (the premium) and the preferential conditions over those of the Standard Policy for homeowners.

The Group's principal competitors in this sector are: Menora, Shomera, Migdal, Clal, The Phoenix, Ayalon, IDI and AIG.

The key methods employed to deal with the competition are streamlining of operations, continuous improvement of costing and actuarial practice, emphasizing improved quality of customer service and agreements with the mortgage banks' insurance agencies.

2.3.4 Customers

2.3.4.1 Motor property (CASCO)

Distribution of gross premium revenues:

	Premiums					
	NIS million			Percent		
	2021	2020	2019	2021	2020	2019
Private policyholders and small business customers	692	623	588	73%	72%	69%
Collectives and large plants	261	248	266	27%	28%	31%
Total	**953**	**871**	**854**	**100%**	**100%**	**100%**

2.3.4.1.1 No single customer in this sub-segment accounts for 10% of more of all premiums in the consolidated financial statements.

2.3.4.1.2 The percentage of renewals in the motor property sector in 2021, in terms of premiums, on policies that were in force in 2020, is 62/8%, compared with 64.2% in 2020 and 61.2% in 2019 (relative to 2019 and to 2018, respectively).

The decrease in the rate of renewals in terms of premiums is attributable to an erosion of the premium in 2019 compared with 2018.

Information about premiums paid in the Reporting Period, by years of seniority, in the motor property (CASCO) sector:

Number of Years of Insurance (seniority)	Premiums (NIS million)	Percentage of total income
First year of insurance (no seniority)	416	43.6%
Second year of insurance (one year seniority)	196	20.6%
Third year of insurance (two years seniority)	139	14.6%
Three years or more	202	21.2%
Total premiums (2021)	**953**	**100%**

2.3.4.1.3 The joint share of customers in the motor property sub-segment that the Company also insures for compulsory motor insurance was 86% in 2021, as against 87% in 2020 and 2019.

2.3.4.1.4 Customer seniority in the motor-property sub-segment in terms of premium turnover is as follows: first year of insurance (new policies) – 43.6%, one year seniority – 20.6%, two years seniority – 14.6%, three years or more – 21.2%.

2.3.4.1.5 On October 4, 2021, Shirbit was informed that it had been awarded the tender published by the Accountant General for 33% of the scope of motor property insurance and compulsory motor insurance of state employees for 2022. The results of the tender did not significantly affect the financial results of Harel Insurance.

2.3.4.2 Compulsory motor

Distribution of gross premium revenues:

	Premiums					
	NIS million			Percent		
	2021	2020	2019	2021	2020	2019
Private policyholders and small business customers	400	348	340	65%	62%	53%
Collectives and large plants	220	214	307	35%	38%	47%
Total	**620**	**562**	**647**	**100%**	**100%**	**100%**

2.3.4.2.1 No single customer in the compulsory motor sub-segment accounts for 10% or more of all premiums in the consolidated financial statements.

2.3.4.2.2 The percentage of renewals in the compulsory motor sector in 2021, in terms of premiums, on policies that were in force in 2020, is 69.3%, compared with renewals at a rate of 65.8% in 2020 (relative to 2019) and 62.4% in 2019 (relative to 2018).

Information about premiums paid during the Reporting Period, according to number of years' seniority, in the compulsory motor segment:

Number of Years of Insurance (seniority)	Premiums (NIS million)	Percentage of total income
First year of insurance (no seniority)	249	40.2%
Second year of insurance (one year seniority)	101	16.3%
Third year of insurance (two years seniority)	122	19.6%
Three years or more	148	23.9%
Total premiums (2021)	**620**	**100%**

2.3.4.2.3 The joint share of customers in the compulsory motor sub-segment that the Company also insures for motor property was 69.7% in 2021, as against 71.3% in 2020, and 67.5% in 2019.

2.3.4.2.4 Customer seniority in the compulsory-motor sub-segment in terms of premium turnover (excluding Harel's share of the Pool) is as follows: first year of insurance (new policies) – 40.2%, one year seniority – 16.3%, two years seniority – 19.6%, three years or more – 23.9%.

2.3.4.3 Other liabilities sectors

Distribution of gross premium revenues:

	Premiums					
	NIS million			Percent		
	2021	2020	2019	2021	2020	2019
Private policyholders and small business customers	588	487	512	59%	56%	53%
Collectives and large plants	413	383	456	41%	44%	47%
Total	**1,001**	**870**	**968**	**100%**	**100%**	**100%**

2.3.4.4 There are several large customers in the other liabilities insurance sub-segment, although no single customer accounts for 10% or more of all the premiums in the consolidated financial statements. A significant part of the premiums originates in a small number of customers. The loss of premiums from these customers will not significantly affect profitability in this area of activity.

2.3.4.5 Property and other sectors

Distribution of income from gross premiums:

	Premiums					
	NIS million			Percent		
	2021	2020	2019	2021	2020	2019
Private policyholders and small business customers	773	737	729	69%	72%	74%
Collectives and large plants	346	289	254	31%	28%	26%
Total	**1,119**	**1,026**	**983**	**100%**	**100%**	**100%**

2.3.4.5.1 In the property and other sectors sub-segment, there is no dependence on a single customer or a small number of customers, the loss of which would significantly impact this area of activity.

2.3.4.5.2 No single customer accounts for 10% or more of all premiums reported in the consolidated financial statements.

2.3.4.5.3 The percentage of policy renewals in the comprehensive homeowners segment in 2021 (excluding mortgage-related structural insurance sold through the mortgage banks), in terms of premiums, of policies that were in force in 2020, is 88.6% compared with a renewal rate of 85.5% in 2020 (relative to 2019), and 87.2% in 2019 (relative to 2018).

Information about premiums paid in the Reporting Period, by number of years seniority, in comprehensive homeowners policies (excluding mortgage-related structural insurance sold through the mortgage banks):

Number of Years of Insurance (seniority)	Premiums (NIS million)	Percentage of total income
First year of insurance (no seniority)	45	17.1%
Second year of insurance (one year seniority)	35	13.3%
Third year of insurance (two years seniority)	19	7.2%
Three years or more	164	62.4%
Total premiums (2021)	**263**	**100%**

2.3.4.5.4 Customer seniority in the comprehensive homeowners policies in terms of premium turnover (excluding mortgage-related structural insurance sold through the mortgage banks) is as follows: first year of insurance (new policies) – 17.1%, one year seniority – 13.3%, two years seniority – 7.2%, three years or more – 62.4%.

Section 2.3, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

2.4 Insurance companies overseas

2.4.1 Products and services

Description of the insurance sectors and coverages included in this segment

The insurance coverages included in the Group's overseas insurance companies segment are non-life and health insurance in Greece through Interasco, and non-life and health insurance in Turkey through Turk Nippon.

2.4.1.1 Non-life insurance

Non-life insurance consists of sub-segments, similar to non-life insurance in Israel, with the exception of a difference in the motor vehicle sectors:

2.4.1.1.1 Compulsory motor

Insurance in accordance with the requirements of the statutory provisions in Greece and Turkey (the scope of cover is similar and meets the requirements of local law). Compulsory motor insurance covers third-party loss only - to person and property, caused as a consequence of the use of a motor vehicle. Both Turkey and Greece have a limit of liability for compulsory cover, divided by type of victim, category of loss and total loss. The limits to cover change from time to time according to the local regulator's instructions (in Turkey) and to the statutory provisions (in Greece and the EU).

<u>Turk Nippon</u>: From April 2017, a database for motor insurance was set up in Turkey, including taxis, minibuses, buses and trucks ("the Pool"). The Pool is managed by the Turkish Motor Insurers' Bureau (TMTB), where the Pools premiums and claim losses are shared among the insurance companies who are party to it.

To make adjustment for the volatility that might have been caused in the capital requirements of Turk Nippon as a result of the foregoing, the increase in premiums is not included in the capital requirements of Turk Nippon .

The health expenses of private and public hospitals relating to road accidents are covered by the Social Security Institute. The insurance companies that are obligated to issue third-party policies, transfer to the National Insurance Institution part of the premium collected from the customer.

In June 2021, the regulatory provisions concerning claims payments were updated. This update is expected to lead to greater clarity regarding all aspects of claims handling although the number of payments is expected to increase due to inflation and the general increase in the percentage of claims.

<u>Interasco</u>: the insurance coverage in the compulsory motor sub-segment is in accordance with the regulatory provisions in Greece and entails compulsory cover for all owners of motor vehicles. According to the law, the policy covers any bodily injury, death and property loss sustained by a third-party as a consequence of damage caused by the insured vehicle. There is no price regulation on insurance prices in these sectors in Greece.

2.4.1.1.2 CASCO/MOD (not only motor property):

Since the does not cover the driver and other potential injured parties who are not defined as third party (and with respect to Turkey: the maximum cover in compulsory motor insurance for third-party loss (including personal accident cover for passengers at a relatively low amount) is limited to a low sum, an extended supplement for compulsory motor insurance may be purchased), this line of insurance exists in which the policies are voluntary. This branch covers loss (to person and property) sustained by the owner of the vehicle, first-degree relatives and/or the driver of the vehicle, as a result of an accident and/or theft and/or liability of the vehicle owner, or the driver, for damage (to property and/or person) sustained by a third party and that are over and above the limits of cover of the compulsory insurance (and regarding Turkey: the policies also include personal accident cover for passengers in the vehicle, including the driver, with relatively low limits of liability).

Turk Nippon: From the middle of 2018, a new tariff structure was applied in this sub-segment, a tariff symbol for private and light commercial vehicles. With respect to other categories of vehicles, pricing of the risk premiums is closely controlled by actuarial standards.

Turk Nippon offers three categories of policy: one is an extended MOD policy with a broad service network; the second is the same MOD policy but with a more limited service network; the third and last is a policy exclusively for Total Loss events.

Like the other insurers in the motor insurance market in Turkey, Turk Nippon has been affected by significant changes in inflation and in the exchange rates, which increased the prices of spare parts in the motor sector. In the first half of 2021, these effects were partially offset due to the lockdowns in Turkey which led to fewer road accidents. Nonetheless, in the second half of 2021, f as the lockdowns were lifted and traffic resumed, a significant increase was recorded in both the number and volume of claims.

Interasco: the products in this sub-branch are policies that guarantee cover for loss incurred by the vehicle owner as a result of an accident or theft, as well as certain natural perils. Additionally, the policy can be extended by purchasing riders and supplements, such as: legal defense, cover for damage to windscreens, a substitute vehicle in the event of fire or theft, towing and roadside services, as well as cover for the vehicle's sound system.

In addition, an extension for personal accident insurance may be purchased for drivers of the vehicle who are not covered by the compulsory motor policy (see above).

2.4.1.1.3 Other liabilities sectors

These sectors consist of cover in the different liabilities sectors, similar to the existing cover in these sectors in Israel, and subject to the provisions of law in Turkey and Greece.

Regarding employers' liability insurance in Greece: the policy provides cover for torts claims against an employer in respect of physical injury in the event of an accident only (and not for illness) caused to the employee during the course of his work due to the employer's negligence. The policy covers the employer's liability over and above the compensation granted by Greece's national insurance or other entities which provide similar compensation.

Substitute products

The different products in the other liabilities sub-segment are specific and unique to insurance companies and are not fully interchangeable with non-insurance products. Nevertheless, the need for insurance cover can be reduced if measures are taken to manage and mitigate the risk. Likewise, in some sectors of this area of activity, the need for insurance cover can be reduced by indemnity and exemption mechanisms (such as D&O liability or other professional liability) or through self-owned funds.

2.4.1.1.4 Other property sectors:

Property insurance consists of a broad range of coverages for damage to property (excluding vehicles) such as physical loss and/or damage to property, consequential financial loss stemming from the damage to property, comprehensive homeowners insurance, insurance for engineering equipment and construction work, insurance for goods in transit, etc.

The insurance cover in this sector is directed at private and business customers.

In Turkey there is an obligation to insure residential buildings against earthquake, for a minimum mandatory sum insured. In respect of this compulsory insurance, the insurance liability is transferred in full to an entity called TCIP. Insurance companies only act as distributors of this insurance and they do not bear the loss when an earthquake occurs. Accordingly, the premiums in respect of this insurance are not included in Turk Nippon's financial statements. The insurance companies in this insurance receive commissions only.

Insurance coverages in this sub-segment:

Fire and theft insurance

The insurance coverage is similar to the cover provided by these policies in Israel. For additional information, see Section 2.3.1.4.

Comprehensive homeowners insurance

Comprehensive homeowners insurance covers the structure and/or contents of an apartment, where the insured may purchase cover for both or just one of the components. A household insurance policy includes, inter alia, cover for the following risks: fire, lightning, explosion, earthquake (in Turkey above the amount for compulsory insurance, which is fully covered by TCIP). The coverages may be extended.

Comprehensive insurance for businesses

The insurance coverage is similar to the cover provided by these policies in Israel. For additional information, see Section 2.3.1.4.

Insurance for goods in transit, insurance for electronic equipment, mechanical failure insurance, insurance for building work and range of projects by contractors

The insurance coverage is similar to the cover provided by these policies in Israel. For additional information, see Section 2.3.1.4.

<u>Substitute products</u>

The different products in the other property sub-segment are specific and unique to insurance companies and generally are not interchangeable with non-insurance products. Nevertheless, the need for insurance cover can be reduced if measures are taken to manage and mitigate the risk. Similarly, for some risks in this branch, the need for insurance coverage can be reduced by applying mechanisms such as a self-owned fund.

2.4.1.2 Health insurance:

Health insurance is designed to indemnify or compensate the insured in respect of medical expenses in the event that the insured's health is impaired due to illness or an accident.

<u>Interasco</u>: In Greece, this segment is written into public health insurance legislation which provides cover for basic health services (doctors, hospitals, medical examinations, etc.) for all the country's residents .

Greek citizens consider the country's public health system to be poor quality due to overcrowding in public hospitals and clinics, and particularly due to the long queues. However, private medical services are well developed (regarding professional treatment and availability and with regard to the standard of accommodation in case of hospitalization). Many Greek citizens therefore use private medicine for almost all their needs, from doctors' appointments, out-patient care, pregnancy and birth, hospitalization and surgery. The insurance companies provide cover for services that the customer wishes to purchase outside the public system, such as: prescription drugs, doctor's appointments, diagnostic tests, surgery and hospitalization. These coverages provided by the insurance companies serve as a substitute for coverage in the health service package provided by the Greek government.

Following are details on the range of policies in this category that are sold by Interasco as personal lines policies.

<u>Illness and hospitalization</u>

(a) Cover for medical expenses

Among other things, these policies offer the insured cover for surgery and hospitalization in private hospitals, in the event of surgery or hospitalization at a public hospital for cases in which the Greek government does not participate. When the insured is far away from his place of residence, evacuation to a nearby hospital in case of emergency, a private nurse for surgery in Greece and hospitalization and surgery abroad. The ambulatory coverages are given as part of a service note which is a rider to the health insurance policy.

(b) Compensation policies

Compensation in the event of surgery that is performed according to the list of operations defined in the policy as well as a compensation policy for hospitalization according to the number of days of hospitalization.

Other insurance

Personal accident - these policies offer the insured cover in the event of death, disability and work disability resulting from an accident as well as medical expenses.

Turk Nippon:

Turk Nippon markets policies for foreign workers resident in Turkey and travel insurance and insurance for tourists. Activity in these sectors slowed as a result of the COVID-19 pandemic but they are expected to recover in 2022. Additionally, the regulatory changes in health insurance for foreign workers are expected to lead to an increase of the average premiums and the sum total of premiums in this sector. Turk Nippon continues to focus on supplementary health insurance, which cover health expenses that are not covered or are only partially covered by public health insurance. Other than the standard supplementary health insurance policy, Turk Nippon markets an additional health policy together with Medical Park, Turkey's largest hospital chain network.

2.4.2 Changes and trends in this area of activity

Turk Nippon: The key changes which took place in Turkey's insurance market in 2021 are: update of the regulatory provisions in compulsory motor insurance (as noted above), as well as the increase in claims, which is expected to significantly impact competition. Additionally, new local insurance companies (Arex, Ana, Gri, Prive, Dogan Trend) began to operate in Turkey's insurance market. This activity might affect competition in Turkey's insurance market.

Material changes forecast by the Company in the markets and the mix of products

Interasco: No significant changes are expected in the company's share of the principal markets in relation to products and services in this operating segment.

Turk Nippon: Due to the regulatory changes and weight of compulsory motor claims, Turk Nippon is directing its marketing efforts towards health, property and personal accident insurance and in parallel is cutting back its activity in compulsory motor and motor property insurance.

New products

Interasco: No new products were marketed in the Reporting Period.

Turk Nippon: No new products are expected to be launched, although changes are expected in some of the existing products in different lines of business, e.g.: comprehensive homeowners insurance, MOD (motor own damage) with a limited service network, and supplementary health. The health products for foreign workers were recently updated as a result of the aforementioned regulatory changes.

Competition

The non-life and health insurance sectors in Greece and Turkey, in which both Turk Nippon and Interasco operate, are extremely competitive sectors with a large number of insurers operating in these markets and multiple products that are offered in the Greek and Turkish insurance markets. At December 31, 2021, 57 insurance companies operate in Greece. Some of the insurance companies are owned by the banks (mostly local banks) and are authorized to market insurance products, even those issued by the companies they own. More than 50% of the insurance companies which operate in the Greek insurance sector are owned by foreign companies, such as AXA, Generali and Groupama. Interasco is a relatively small company and has a small share of the market (1.5%). Interasco's main competitors in the non-life sector are: Ethniki Asfalistiki, Ergo and Generali, and in the health insurance sector are: Eurolife and Generali. As a small company, Interasco works to differentiate its status as an efficient, accessible and trustworthy company on the one hand, and as a niche company that emphasizes profitability at the expense of sales turnover on the other. Interasco assesses the competition and responds to the relevant changes in the market, with the emphasis on providing its customers with quality service. Furthermore, Interasco has close relationships with the distribution networks (insurance agencies) in Greece.

At December 31, 2021, 61 insurance companies operate in Turkey. Turk Nippon has a market share of 1.18% of the Turkish market. The international companies that operate in Turkey's insurance market in the non-life insurance sector account for 52% of the market.

2.4.3 Customers

Distribution of gross premium revenues:

	Premiums					
	NIS million			Percent		
	2021	2020	2019	2021	2020	2019
Private policyholders and small business customers	276	283	312	56%	54%	55%
Collectives and large plants	214	228	259	44%	46%	45%
Total	**490**	**511**	**571**	**100%**	**100%**	**100%**

2.4.3.1 No single customer accounts for 10% or more of all premiums in the consolidated financial statements.

2.4.3.2 The rate of renewals in the overseas insurance companies sector in 2021, in terms of premiums, on policies that were in force in 2020, is 25%, compared with a 22% rate of renewals in 2020 (relative to 2019) and 25% in 2019 (relative to 2018).

2.4.3.3 The rate of cancellations in terms of premiums, from long-term personal lines policies that are in force at the beginning of the year in Interasco's health insurance segment is 17% in 2021, 17% in 2020, and 20% in 2019.

2.4.3.4 The joint share of customers in the motor property segment that Interasco and Turk Nippon also insure for compulsory motor insurance was 52% in 2021, as against 65% in 2020, and 62% in 2019.

2.4.3.5 The joint share of customers in the compulsory motor segment that Interasco and Turk Nippon also insure for motor property was 8% in 2021, compared with 7% in 2020, and 7% in 2019.

2.4.3.6 Customer seniority in the overseas insurance companies sector in terms of premium turnover is as follows: first year of insurance (new policies) – 45%, one year seniority – 18%, two years seniority – 12%, three years seniority or more – 25%.

2.4.4 Capital Requirements

Interasco: At June 30, 2021, based on a calculation prepared by Interasco, Interasco has a capital surplus for solvency purposes in the amount of EUR 3.9 million (about NIS 14 million according to the exchange rate at December 31, 2021) which reflects a solvency ratio of 138.8%.

Additionally, Interasco prepared an indicative calculation at December 31, 2021, according to which it has a capital surplus for solvency purposes in the amount of EUR 3.4 million (about NIS 12 million according to the exchange rate at December 31, 2021) which reflects a solvency ratio of 132.6%.

Turk Nippon: At June 30, 2021, based on a calculation prepared by Turk Nippon, there is a capital deficiency for solvency purposes in the amount of GBP 62 million (about NIS 15 million according to the exchange rate at December 31, 2021) which reflects a solvency ratio of 72.6%.

Additionally, Turk Nippon prepared an indicative calculation at December 31, 2021, according to which it has a capital deficiency for solvency purposes in the amount of GBP 116 million (about NIS 27 million according to the exchange rate at December 31, 2021) which reflects a solvency ratio of 50.5%.

Notably, Turk Nippon is waiting for the publication of regulatory provisions which will simplify calculation of the solvency ratio. These provisions are expected to be published as part of a series of reliefs given to Turkey's insurance companies due to the economic situation in Turkey.

Section 2.4, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

2.5 Financial services and capital market activity

2.5.1 Financial information about the capital market and financial services segment

Financial services and capital market (NIS million):	2021	2020	2019	Change in 2021 against 2020	Change in 2021 against 2019
Total income	**254**	**220**	**207**	**15.45%**	**22.7%**
Costs that are not considered income from the Company's other segments of operation	172	165	173	4.2%	(0.6%)
Total costs	**172**	**165**	**173**	**4.2%**	**(0.6%)**
Write-down of intangible assets	4	5	5	(20.0%)	(20.0%)
Write-down of goodwill	-	10	-	(100%)	-
Pre-tax profit from ordinary activity	**78**	**40**	**29**	**95.0%**	**-**
Total comprehensive income from ordinary activity before taxes on income	**78**	**40**	**29**	**95.0%**	**-**
Total comprehensive income before taxes on income	**78**	**40**	**29**	**95.0%**	**-**
Total assets in balance sheet	**5,128**	**2,838**	**2,279**	**80.7%**	**-**

2.5.2 General information about this area of activity

For general information about the segment of operations, see Section 1.2.5 above

2.5.3 Structure of the segment and the applicable changes

The Group's activity in the financial services segment takes place through Harel Finance and the companies it controls, which together form the Group's financial wing.

Harel Finance holds the following companies:

2.5.3.1 Harel Mutual Funds, which is a mutual fund management company managing open mutual funds and ETFs.

2.5.3.2 Harel Index Trade, a company that provides market making services for the ETFs managed by Harel Mutual Funds.

2.5.3.3 Harel Investment Management, a company which is a licensed portfolio manager and performs portfolio management activity for its customers.

2.5.3.4 Alfa Tech, a company which holds a portfolio management license and manages investments using computerized models for funds that are managed by Harel Mutual Funds.

2.5.3.5 Harel Finance Alternative, a company that serves as a general partner in limited partnerships that are foreign private equity funds..

2.5.3.6 Harel Exchange Traded Deposit, a company that issues marketable certificates of deposit (CDs) (held through Harel Sal Currencies) and which is a reporting company.

2.5.3.7 Harel Strategies, a company that performs transactions for its own account (Nostro). This activity is also performed through additional subsidiaries for their own accounts (Nostro).

2.5.3.8 Harel Finance Operation Services Ltd., which provides management resources and operating services to different companies in the finance arm.

2.5.4 Legislative restrictions, regulations and special constraints that apply to this operating segment

Activity in the financial services and capital market sector is subject to several laws, of which the most important are:

(a) Securities Law, 1968, including the subsequent regulations, orders and directives.

(b) Regulation of Investment Advice, Investment Marketing, and Portfolio Management Law, 1995, including subsequent regulations.

(c) Joint Investment Trust Law, 1994, including subsequent regulations.

(d) Prohibition on Money Laundering Law, 2000, and the Prohibition on Money Laundering (Duty of Portfolio Managers to Identify, Report and Keep Records for the prevention of Money Laundering and Financing of Terror) Order, 2010.

Moreover, other restrictions apply to the Group by virtue of other laws. For details of the regulation which applies to this area of activity, see Section 2.5.17 below.

2.5.5 Changes in the scope of operations and in profit in this segment

The financial services and capital market segment is typically extremely volatile, due to growth or recession in the global and the domestic capital markets, as well as due to political events in Israel and worldwide which affect share prices and the volume of activity in the capital market, global macroeconomic data (e.g. interest rates), and growing competition. This volatility affects the Group's performance in this segment. Additionally, this segment is constantly subject to changes in regulation.

2.5.5.1 Management of mutual funds

At December 31, 2021, he volume of assets managed by Harel Mutual Funds increased to NIS 43 billion. compared with its AUM at December 31, 2020 This is mainly due to an increase in the value of the funds' assets resulting from sharply rising prices in most investment channels in Israel and other parts of the world..

2.5.5.2 Portfolio management

In the Reporting Period, the volume of assets under management (AUM) in this sector increased to NIS 15.4 billion at December 31, 2020, compared with AUM of NIS 12.7 billion at December 31, 2020. The increase is mainly attributable to positive yields in the capital market and to the raising of capital.

On March 1, 2021, Harel Investment Management, as an outsourced investment manager, began to manage the investments of the investment provident funds managed by Harel Pension and Provident, in the amount of NIS 1.7 billion, correct to December 31, 2021. Commencing October 1, 2021, Harel Investment Management, as an outsourced investment manager, began to manage the investments of central severance pay funds managed and operated by Harel Pension and Provident, in the amount of NIS 250 billion, correct to December 31, 2021.

2.5.5.3 Management of investments in mutual funds using computerized models

The volume of assets under management at December 31, 2021, was the same as the previous year and amounted to NIS 0.3 billion.

2.5.5.4 Management of private equity funds

At the end of 2021, Harel Finance manages, through Harel Finance Alternative, directly and indirectly through subsidiaries: (1) a real-estate investment fund in the USA, which at December 31, 2021, has AUM of USD 45 million; (2) a real-estate debt investment fund in the USA, which at December 31, 2021, has AUM of USD 114 million; and (3) a real-estate backed loan fund in Europe which is an open fund that began to recruit investors and raise funds after the Reporting Period, in Q1 2022.

Additionally, on June 22, 2021, the Capital Market Authority approved an amendment to the provisions of the Consolidated Circular (Codex) - Chapter 4, Part 5, Management of Investment Assets (cooperation with a related fund) according to which Section 7C was added to Chapter 4 regarding cooperation between insurers and investment funds to which they are a related party. As a result of this amendment, a new company was established - Harel Alternative Investment Funds Ltd. ("Harel Investment Funds"), which is the general partner for three new investment funds established in the real-estate, non-marketable credit and technology sectors ("the Related Funds") in which Harel Investments holds 50.1% and Harel Finance Alternative holds 49.9% of its shares. Issue of marketable deposits.

Issue of marketable deposits

In 2019 and 2020, Harel Exchange Traded Deposit issued 2 series of bonds, Series 1 and Series 2, both backed by bank deposits deposited in banks with a high rating. The total assets managed by the two series together amount to NIS 0.8 billion at December 31, 2021, compared with NIS 0.6 billion at December 31, 2020.

2.5.6 Developments in the markets of this operating segment, or changes in the characteristics of its customers

The situation in the capital markets in Israel and around the world significantly affects this operating segment as well as the volume of activity by private and institutional customers. The huge redemptions in short-term investments during the COVID-19 crisis, mainly during the course of March 2020, led to a significant reduction in AUM due to redemptions. The dramatic impairment which occurred at that time, was almost completely written off, however the money that was redeemed has yet to be returned in full.

2.5.7 Critical success factors in this area of activity and the applicable changes

The Group believes that several factors are critical to the success of the financial services and capital market sector, including: state of the global capital market, state of the capital market with respect to turnover and yields, interest rates, the public's tastes, the yields generated by the investments that the Group manages for its customers, rating of mutual funds in the banks' rating software, financial risk management, portfolio retention, high level of customer service and the Group’s ability to operate credibly and fairly while upholding the customer’s interests, effective marketing and distribution channels that allow the Group to increase its volume of business, operating and budget effectiveness, the mix and variety of products, positioning of Harel Finance as a leading investment house, and the Group's ability to leverage all the foregoing by way of creating a brand which will enhance its competitive position, while preserving values such as integrity, professionalism and a quality service experience.

Additionally, the factors critical to the Group's capital market activity are skilled, professional manpower which includes investment personnel and experienced, professional traders, marketing and financing personnel to cost the products and services offered by Harel Finance and marketing them to customers in this sector, and close, on-going working relationships with the institutional investors so as to learn their requirements and preferences.

Other critical success factors are the Group's reputation (goodwill), computer and information systems that support the management of customer relations, control and risk management.

2.5.8 Substitutes for products in this segment and the applicable changes

The substitute products and services available to customers in the portfolio management and mutual fund management segment are savings channels in financial institutions, including structured deposits, financial investment policies, investment in investment provident funds, foreign funds or investment in securities by the investor without the assistance of a professional investment manager or advisor in the pension savings channel.

2.5.9 Products and services

2.5.9.1 Management of investment portfolios

Harel Finance Group manages investment portfolios through two companies: one - Harel Investment Management which manages customer portfolios in a variety of investment tracks for private customers and companies, and two – Alfa Tech, which is an external investment manager that uses computerized models to manage the mutual funds managed by Harel Mutual Funds.

The investment policy in each portfolio managed by Harel Investment Management is determined together with the customer, based on his definitions and needs (e.g. customer specifications and activity, requested risk level, purpose of the investment, etc.). Harel Investment Management and Alfa Tech have full professional discretion in deciding upon the investments within the framework outlined by the customer. Alfa Tech operates within the framework of the investment policy set out in the prospectus of the fund whose investments it manages.

Harel Investment Management and Alfa Tech have an interest in financial assets (mutual funds) and are a “corporation associated with financial institutions” (insurer, management company and fund manager). They are therefore considered a portfolio manager engaged in the marketing of investments (unlike investment advisors).

All employees engaged in investment management or investment marketing are licensed portfolio managers or licensed investment marketers.

Harel Investment Management has an investment committee whose members are employees of Harel Finance Group, which, together with analysts employed by the Group, regularly determines the investment management policy for its customers, based on the different exposure strategies and customer specifications.

Additionally, a supervisory committee operates on behalf of the board of directors of Harel Investment Management, which is charged with outlining the company’s investment management policy and investment management approach and overseeing, on a quarterly basis, compliance with the limitations prescribed by the investment committee. The supervisory committee receives reports on deviations from the investment procedures and the investment policy of customers and on any failure to comply with the investment limitations prescribed by the investment committee, if there is any.

Portfolio management activity usually takes the form of direct contact and familiarity with the customers, most of whom hold assets over and above a certain minimum volume. Customer portfolios are managed in accounts in the customer's name in banks and non-bank TASE members.

Alfa Tech has a voluntary investment forum which periodically examines the computerized models and analyzes the risks of the computerized models.

According to the Regulation of Activity in Investment Advice, Investment Marketing and Portfolio Management (Equity and Insurance) Regulations, 2000, the capital requirement is negligible and the companies are in compliance with the requirement:

At December 31, 2021, Harel Investment Management has equity in the amount of NIS 12 million.

At December 31, 2021, Alfa Tech has equity in the amount of NIS 1.1 million.

The revenues of Harel Finance from portfolio management activity performed by Harel Investment Management, derive from management fees collected from customers who receive investment management services and from portfolio management activity which takes place through the Group’s mutual funds. In most cases, Harel Investment Management does not collect management fees from its customers for the component of the customer’s investment portfolio which is invested through mutual funds managed by Harel Mutual Funds. Harel Investment Management is entitled to a marketing and management fee from Harel Mutual Funds for marketing and managing the mutual funds of Harel Mutual Funds for the portfolios of the customers of Harel Investment Management, including for mutual funds whose investments it manages.

The revenues of Harel Finance from the activity of Alfa Tech stem from the management fee revenues of the funds whose investments are managed by Alfa Tech as an external investment manager.

2.5.9.2 Management of mutual funds

Harel Mutual Funds manages mutual funds which are differentiated from one another by different investment policies. Mutual funds make it possible to invest in numerous and diverse assets, and at the same time retain a high level of distribution. Each mutual fund has an investment policy which is implemented by the fund manager who purchases securities for the fund. The mutual fund issues participation units to investors which represent their relative share of the fund's assets. The mutual fund units are purchased and redeemed via TASE Members (mainly the banks) both independently by investors and as part of the general consulting or portfolio management activity.

In 2020, Harel Mutual Funds began to allow external fund managers, who do not belong to Harel Finance Group, to manage mutual investments of mutual funds that it manages based on a hosting model. In the Reporting Period, Harel Mutual Funds continued to enter into agreement with external investment managers for the purpose of managing these investments. At the date of the report, Harel Mutual Funds manages 13 funds on a hosting model, and their AUM is NIS 0.3 billion.

The mutual funds managed by Harel Mutual Funds are divided into several categories: funds that track indices (open tracker funds and ETFs) and managed mutual funds, based on the investment policy of each fund. These mutual funds have diverse investment policies (foreign currency, share-based, shekel, money-market, flexible, bonds, mixed, conversion, etc.) with the purpose of providing investors with a variety of investment options based on their requirements.

Harel Mutual Funds has distribution agreements with TASE members for the purpose of distributing the mutual funds (payment to the TASE members is in accordance with the rates prescribed in the Joint Investment Trust (Distribution Fee) Regulations, 2006, depending on the category of fund). Based on these agreements, the TASE members distribute the funds managed by Harel Mutual Funds to their customers.

At December 31, 20210, Harel Mutual Funds manages 292 mutual funds of various categories, according to investment specifications and different investment channels. Mutual fund management activity is subject to the provisions of the Joint Investment Trust Law and subsequent regulations.

A mutual fund is established according to an agreement between a fund manager and a trustee ("the Fund Agreement"). The Fund Agreement sets out the fund's investment policy, the maximum wage that the fund manager may receive, and the maximum wage which the trustee may receive, the maximum supplement that the fund manager may collect from a person who purchases units in the fund, as well as technical provisions pertaining to the operation of the fund. Units in mutual funds are offered in accordance with a "new fund prospectus" or in accordance with the prospectus of a fund manager and the funds that it manages. The prospectus is valid for one year from its date of publication. The fund's prospectus is prepared in accordance with the Joint Investment Trust (Particulars of Prospectus of Fund, Structure and Form) Regulations, 2009.

In December 2020, Harel Mutual Funds completed the process of replacing the operating services which had been provided by Leumi Capital Markets and the transition to operation by FIBI. FIBI’s operating services are provided by means of software which it has developed and which forms the core software for the activity of Harel Mutual Funds. In view of the termination of the agreement with Leumi Capital markets, the software developed by Leumi Capital Markets for Harel Mutual Funds were assimilated in the FIBI software and are updated, from time to time, at the request of Harel Mutual Funds.

Replacement of the operating company did not affect the normal course of business of Harel Mutual Funds.

2.5.9.3 Issue of marketable certificates of deposit (CDs)

During the course of 2019, Harel Exchange Traded Deposit issued Series 1 bonds backed by bank deposits deposited in banks with a high rating. The total assets managed in the Series, at December 31, 2021, including expansions performed at the beginning of 2020 and 2021 amount to NIS 0.7 billion.

In 2020, Harel Exchange Traded Deposit issued Series 2 bonds which are also backed by bank deposits deposited in banks with a high rating. The total AUM of the Series, at December 31, 2021, amount to NIS 0.1 billion.

2.5.9.4 Private equity funds

Harel Finance Alternative manages three foreign private equity funds. One, a real-estate investment fund (REIT), the second is a loan fund backed by real-estate assets in the US, and the third is a loan fund backed by real estate assets in Europe, which commenced operations in Q1 2022.

After the Reporting Period, a new company was established - Harel Investment Funds Ltd. ("Harel Investment Funds"), which is the general partner for three new investment funds established in the real-estate, non-marketable credit and technology sectors ("the Related Funds") in which the Company holds 50.1% and Harel Finance Alternative holds 49.9% of its shares. The funds are limited partnerships established in accordance with an investment agreement between the general partner (Harel Finance Alternative Ltd. or a company which it fully owns) and the limited partners in the partnership ("the Investment Agreement"). The Investment Agreement sets out the fund's investment policy and period of operation, determines the fee of the fund manager which is the general partner, defines the rights of the limited partners and general partner, an arrangement for allocation of the fund's expenses, as well as other provisions relating to the terms of investment in the fund. The REIT is a closed fund which does not raise additional capital and up to the date of its closure in November 2018 has raised USD 45 million. The loan fund backed by real estate assets in the US is an open fund that recruits investors and raises money during its period of operation, all under the conditions specified in the agreement. As at December 31, 2021, the fund has raised a total of SD 114 million. The loans backed by real-estate assets fund in Europe which is an open fund that began to recruit investors and raise funds after the Reporting Period, during the first quarter of 2022.

2.5.9.5 Forex consulting

Among other things, Harel Finance provides Forex consulting services for qualifying customers.

2.5.9.6 Activity in the Nostro account

Harel Strategies is engaged in activity for its Nostro account as well as for other Harel Finance subsidiaries engaged in the same activity for their own accounts. At December 31, 2021, the volume of these transactions amounted to NIS 3 billion.

2.5.10 Segmentation of income for products and services

Total comprehensive income of the capital market and financial services segment was NIS 254 million in 20210. Of this amount, income from the mutual funds (including market making) and investment portfolio activity was 90%; income from the other financial products accounted for 10%.

2.5.10.1 Movement in AUM and the average management rates in the financial services and capital market segment in NIS million:

Movement in asset (NIS thousand)	Mutual funds 2021	Mutual funds 2020	Mutual funds 2019	Portfolio management 2021	Portfolio management 2020	Portfolio management 2019
Opening balance	39,067	43,587	33,673	13,672	15,421	12,909
Net accrual	(1,237)	(4,401)	6,762	1,423	(1,315)	1,743
Income from management fees	(224)	(201)	(173)	(58)	(48)	(54)
Other changes	5,344	82	3,325	848	(386)	823
Closing balance	**42,950**	**39,067**	**43,587**	**15,885**	**13,672**	**15,421**
Average management fees	0.55%	0.49%	0.45%	0.24%	0.24%	0.24%

- The mutual fund assets acquired for customers as part of the investment portfolio activity appear in portfolio management activity and in mutual fund activity.
- Management fees in respect of the mutual fund assets acquired for customers as part of the investment portfolio activity are presented as part of the mutual fund activity.

2.5.11 New products

Harel Finance operates under variable market conditions and tailors its products to the changing needs of customers and market conditions. Harel Finance invests time in developing additional financial instruments in an effort to diversify the supply of investment channels for its customers.

In the Reporting Period, Harel Finance offered, through Harel Mutual Funds, 22 new mutual funds, merged 7 mutual funds and dissolved one mutual fund.

2.5.12 Customers

<u>Harel Investment Management</u>

The company has both private and corporate customers (private and public, some of which are financial institutions). Customers generally have on-going agreements with Harel Investment Management, but both parties may terminate the agreement at any time, in accordance with the terms of the agreement and the provisions of the Investment Advice Law.

<u>Harel Mutual Funds</u>

In mutual fund activity, the fund manager does not usually have information regarding the identity of the customers who hold the units in the fund that he manages, given that it is the TASE members which distribute the funds. Harel Finance believes that the mutual fund holders include private, corporate and institutional customers .

<u>Harel Exchange Traded Deposit</u>

The investors who purchase certificates of deposit issued by Harel Exchange Traded Deposit are mainly money market funds and financial institutions.

<u>Private equity funds</u>

The investors in the private equity funds are mainly individual classified investors who invest directly or through IRAs.

Market making

The sole customer of the market making company is Harel Mutual Funds for the ETFs that it manages.

Dependence on a single customer

In the financial services and capital market segment, the Group has no single customer which is not an affiliate, and whose revenues account for 10% or more of the Company's total revenues.

2.5.13 Marketing and distribution

2.5.13.1 Marketing and distribution methods

The Harel Finance companies have several marketing and distribution channels for their products and services, the most important of which are:

(a) Sales and marketing personnel who are employees of the Group.

(b) Investment advisors in the banks - this is the main channel for the distribution of mutual funds. Most of the activity in mutual funds in this channel is to bring the funds to the attention of the investment advisors and to provide them with information and marketing documents accordingly.

(c) Private portfolio managers and investment consultants.

(d) Holding professional / marketing gatherings.

(e) Advertising in the media and on the internet.

(f) Marketers who are not Group employees.

(g) Insurance agents who market Harel Group’s products.

2.5.13.2 Dependence on marketing channels

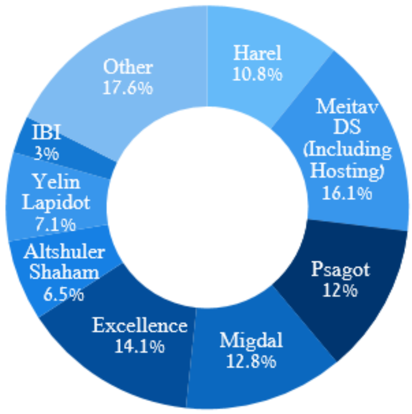
The Group is not dependent on any particular marketing channel.

2.5.14 Competition

2.5.14.1 Structure of competition in this segment and the applicable changes

The financial services and capital market sector is highly competitive, with competition from the banks and the non-bank entities, including subsidiaries of the insurance companies. The factors over which there is competition are the yield attained (relative to the risk level), level of management fees, level of commissions for the different categories of activity, variety of products and quality of service.

The following diagram shows market segments (in percentages) held by the mutual fund management companies at December 31, 2021:



2.5.14.2 Competitive conditions in the financial services and capital market segment

The Group's activity in the financial services and capital market segment is highly competitive, and this competition is ongoing despite the trend of consolidation among a number of players in the relevant markets.

In the past few years, the options for interchangeability among products in this sector have increased so that all products in this segment compete with and can be replaced by one another.

2.5.14.3 With respect to portfolio management and mutual fund management - the competition is against savings channels in financial institutions, including structured deposits, financial investment policies, foreign mutual funds or investment in securities by the investor without the assistance of a professional investment manager or advisor in the pension savings channel. Another competing factor is the possibility of investing in investment contract policies, investment funds or investment provident funds.

2.5.14.4 Key competitors in this segment

<u>Portfolio management</u>

The main competitors in this segment are portfolio management companies which are controlled by private entities and insurance companies, e.g. Psagot, Meitav Dash, IBI, Altshuler Shaham, Yelin Lapidot, Excellence, investment management companies held by the banks and other entities.

<u>Management of mutual funds</u>

The key competitors in this branch are: Meitav Dash, Psagot, KSM, Migdal, Yelin Lapidot, Mor, Altshuler Shaham, IBI and other entities. The key competitors in the mutual funds hosting model in this sector are: Ayalon, Sigma and KSM.

<u>Marketable deposits</u>

The only competitor of Harel Exchange Traded Deposit is Ella Deposits Ltd.

<u>Investment funds</u>

The principal competitors are REITs and private and public real-estate backed loan funds.

2.5.14.5 Methods of coping with the competition

The Group's principal methods of coping with the competition are:

(a) Use and retention of quality manpower.

(b) Providing customers with professional, reliable service.

(c) Increasing awareness of the performance and quality of companies within the Group, particularly among investment advisors in the banks.

(d) Advertising and marketing activity and enhancing the Group's brand in the media.

(e) Tailoring the basket of products offered to customer requirements and market conditions.

(f) Use of information systems that assist in investment management.

(g) Use of advanced digital platforms.

2.5.15 Seasonality

There are no seasonal influences in the financial services and capital market sector.

2.5.16 Service providers

2.5.16.1 The Group's companies which operate in the financial services and capital market sector have agreements with various service providers for their on-going activity, including for financial information, banks, foreign brokers who perform transactions in foreign securities, etc.

2.5.16.2 Harel Finance Group dependence on service providers:

- Inteli trade – the Inteli trade software program is used for transmitting quotes for ETFs. To the best of the Company’s knowledge, there are no other off-the-shelf software programs available on the market for ETF quotes.
- Danel – Harel Investment Management has an agreement with Danel for software services on which most of the activity of Harel Investment Management is based. Danel – a software program used by Harel Investment Management to manage and operate its customers’ investment portfolios, including investment analysis and Back Office. To the best of Company’s knowledge, most of the portfolio management companies in Israel are dependent on this supplier.
- A-Online - Harel Investment Management has an agreement with A-Online for the right to use the PAM investment control system.
- First International Bank of Israel Ltd. (FIBI) - Harel Mutual Funds receives operating services for the active and passive funds from FIBI. There are very few alternatives for the operation of mutual funds by entities in the market that provide this type of service.

2.5.17 Restrictions and supervision of this area of activity

Following is a concise summary of the statutory limitations and other legislative arrangements pertaining to the Group's activity in the financial services and capital market sector, changes which took place therein during the Reporting Period and new provisions of law which were enacted and/or published during the reporting year.

2.5.17.1 Investment management

2.5.17.1.1 Investment Advice Law

Activity in the investment management segment is regulated in the Investment Advice Law .

Under the provisions of the Investment Advice Law, activity in investment advice, in investment marketing and in portfolio management requires a license and this subject to several special exclusions which are specified in the Investment Advice Law .

Additionally, the Investment Advice Law stipulates that a portfolio manager who is associated with a financial institution - an insurer, management company or fund manager, may not engage in investment advice, but only in investment marketing. A portfolio manager which is an associate of a financial institution and engages in investment marketing, must disclose this information to the customer, and it must also disclose a list of the financial institutions with which it has a relationship. Furthermore, a portfolio manager who is associated with a financial institution and is engaged in the marketing of investments, may prefer a financial asset in which it has an interest over a similar financial asset in which it has no interest.

Additionally, the Investment Advice Law imposes certain obligations on portfolio managers, investment advisers and investment marketers, including a fidelity obligation towards the customer, duty of care towards the customer, confidentiality obligation, obligation to prepare a written agreement with the customer, obligation to provide minimum insurance and equity, and it also regulates the activity that the portfolio manager may perform for the customer and the ways in which it is to be carried out.

2.5.17.1.2 The Investment Advice, Investment Marketing and Portfolio Management (Shareholders Equity and Insurance) Regulations, 2000, prescribe a requirement to hold minimum equity.and to insure portfolio managers.

2.5.17.1.3 Anti-Money Laundering (Obligation for Portfolio Managers to Identify, Report and Keep Records) Order, 2010, regulates the obligations imposed on portfolio managers in relation to identifying the customer, knowing the customer (KYC), and reporting certain activities of the customer to the Anti-Money Laundering Authority.

2.5.17.1.4 The Regulation of Investment Advice, Investment Marketing, and Portfolio Management (Reports) Regulations, 2012, regulate a portfolio manager’s obligation to report to the customer and to the ISA.

2.5.17.2 Management of mutual funds

2.5.17.2.1 Joint Investment Trust Law

Mutual fund management activity is regulated in the Joint Investment Trust Law and subsequent regulation.

The Joint Investment Trust Law and its ensuing regulations regulate other matters as well, for example: (a) a requirement for the fund manager to hold minimum equity of an amount stipulated in the regulations; (b) regulation of the payment of distribution fees to distributors who are TASE members; (c) discrimination between fund managers is not permitted by the collection of differential distribution fees; (d) an obligation to take out professional liability insurance to cover the fund manager's liability on account of a negligent omission towards unit owners and to take out insurance to cover breach of trust by his employees and workers who are involved in the decision making process regarding management of the fund's investment portfolios, towards owners of the units.

In the Reporting Period, the provisions of a voluntary outline established between the Israel Securities Authority and the fund managers association were implemented, to reduce the number of mutual funds (active funds only) with similar investment policies. As part of the implementation of the outline, the Company changed typical headers for a significant part of the active funds, it made significant policy changes and mergers that were approved by the Israel Securities Authority.

2.5.17.3 Management of investment funds

2.5.17.3.1 Securities Law

The management of investment funds is regulated in the Securities Law and subsequent regulations. The law and the regulations regulate the subject of the offering of securities to the public. Additionally, the funds and the legal entities associated with the fund’s activity, all of which were established in the USA, are governed by regulatory obligations according to their state of incorporation.

2.5.17.4 Issue of marketable certificates of deposit

2.5.17.4.1 Securities Law

Activity relating to the issue of marketable CDs is regulated in the Securities Law and subsequent regulations. The law and the regulations regulate, *inter alia*, the subject of the offering of securities to the public and reporting to the Securities Authority.

2.5.18 Material agreements

The companies in the finance wing have no material agreements which are not part of the normal course of business, except the agreements set out in Section 2.5.16.2 above.

2.5.19 Joint ventures

At the date of this report, companies in the financial services wing are not party to significant strategic joint venture agreements with entities that are not part of Harel Group.

Section 2.5, including its subsections, concerning the structure of this area of activity and applicable changes, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The principal facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for this segment (such as sector-based economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates in the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company has no certainty that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

3. Information about the Group's overall operations

3.1 Restrictions and supervision which apply to the operations of the Group's companies

Following is a summary of the legislative arrangements and key provisions of law which significantly affect the Group's overall activity.

The activity of the Group and its financial institutions is subject to several laws, the most important of which are:

(a) The Securities Law - including subsequent regulations and ISA directives;

(b) The Companies Law - including subsequent regulations;

(c) The Supervision Law - including its subsequent regulations and circulars published by the Commissioner under his powers according to the Supervision Law.

(d) Contract (Insurance) Law, 1981 ("Insurance Contract Law").

(e) Joint Investment Trust Law.

(f) Investment Advice Law.

Furthermore, the activity of the Group’s companies is subject to additional laws, the most important of which are:

(a) Prohibition on Money Laundering Law, 2000 including the orders published by virtue of the law (mainly the Prohibition on Money Laundering (Duty of Insurers, Insurance Agents and Management Companies to Identify, Report and Keep Records to Prevent Money Laundering and Terror Financing) Order, 2017.

(b) Class Actions Law, 2006.

(c) Wage Protection Law, 1958 - provides protection for an employee if his employer does not transfer the provisions to a provident fund, according to its meaning in the Income Tax Ordinance.

(d) Protection of Privacy Law, 1981.

(e) Standard Contracts Law, 1982.

(f) Amendment to the Income Tax Ordinance (no. 227), Income Tax Regulations (Application of the FATCA Agreement), 2016, Income Tax Regulations (Application of a Common Reporting Standard and Due Diligence Regarding Information about Financial Accounts) Regulations, 2019.

In 2014 Israel and the US signed an agreement to improve international tax compliance and apply the Foreign Account Tax Compliance Act (“the FATCA Agreement”) and in 2015 the Commissioner published instructions for deployment to apply this agreement.

In July 2016, a law amending the Income Tax Ordinance (Amendment no. 227), 2016 (“Amendment 227”), entered into force, which anchored in Israeli law the key arrangements for implementation of the FATCA Agreement and established the key arrangements for the implementation of information exchange agreements that may be signed in the future, which are based on the OECD’s Standard for Automatic Exchange of Financial Account Information between countries in which foreign residents hold accounts (“Common

Reporting Standard" or "CRS").

Subsequently, in August 2016, the Income Tax (Application of the FATCA Agreement) Regulations, 2016, entered into force ("the Regulations"). The Regulations apply to certain categories of accounts and accordingly, financial institutions, among others, are obligated to conduct an identification process for account holders covered by the Regulations and to transfer information about reportable accounts to the Tax Authority for the purpose of forwarding the information to the USA.

A failure to comply with the Regulations could lead to a declaration of non-compliance with respect to the financial institution and also lead to the imposition of significant sanctions.

In July 2014, the OECD published a common standard for the automatic collection and exchange of information by financial institutions with respect to financial accounts of customers who are foreign residents in their countries of operation.

In February 2019, Income Tax (Application of a Common Reporting Standard for Automatic Exchange of Financial Account Information) Regulations were published regulating application of the multilateral convention for the automatic exchange of information - CRS. Accordingly, *inter alia*, financial institutions are obligated to identify the owners of accounts covered by the Regulations and to submit information about reportable accounts to the Tax Authority for the purpose of submitting the information to the relevant country.

In July 2019, draft Income Tax (Closure of Transitional Accounts under the FATCA Agreement) Regulations, 2019, were published. The draft regulations propose provisions for the procedure to close transitional accounts, as they are defined in the regulations, in cases where the relevant information necessary to identify the account owners has not been received.

3.1.1 In the life assurance and long-term savings segment

(a) Provident Funds Law – including regulations promulgated by virtue of this law and subsequent instructions published by the Commissioner under the Provident Funds Law;

(b) Pension Advice and Pension Marketing Law.

(c) The Supervision Law.

3.1.2 In the health insurance segment

National Health Insurance Law, 1994 - the law prescribes that all Israeli citizens are entitled to the healthcare services which are included in the health services basket provided by the HMO in which they are registered. The healthcare services included in the basket will be provided in Israel, except for exceptional cases where the insured may be entitled to payment for certain medical services overseas. An amendment to the National Health Law from 1998 determined that the HMOs are entitled to offer their members a plan for supplementary health services.

3.1.3 In the non-life insurance segment

<u>Compulsory motor and motor property</u>

(a) Supervision of Insurance Business (Conditions of a Contract to Insure a Private Vehicle) Regulations, 1986 - see Section 2.3.1.1(a) above.

(b) Law for the Compensation of Road Accident Victims (CRAV Law) and relevant regulations - see Section 2.3.1.2 above.

(c) Motor Vehicle Insurance Ordinance [New Version], 1970. Motor Vehicle Insurance (Setting up and Management of Databases) Regulations, 2004.

(d) Motor Vehicle Insurance (Deductible) (Temporary Provision) Regulations, 2008.

(e) Supervision of Financial Services (Insurance) (Conditions of a Contract for Compulsory Insurance of a Motor Vehicle) Regulations, 2010 - see Section 2.3.1.2.

<u>Property and other sectors</u>

(a) Supervision of Insurance Business (Conditions of a Contract to Insure Apartments and their Contents) Regulations, 1986 - see Section 2.3.1.4 above.

(b) Supervision of Financial Services (Insurance) (Maximum Commissions on Mortgage-related Structural Insurance) Regulations, 2012 - see Section 3.7.3.4.

(c) Life assurance and mortgage-related structural insurance for mortgage borrowers: the Commissioner of Insurance and the Supervisor of Banks published circulars the purpose of which is to create an arrangement in which the mortgage banks will not themselves sell life assurance and structural insurance for their mortgages, but such policies will only be sold by insurance agencies owned by the banks. These agencies may enter into agreement with a service provider to outsource the service and perform the agency's functions. An insurance agency which is wholly owned by the Group provides outsourcing services to these agencies.

3.1.4 In the insurance companies overseas segment

The insurance companies overseas are subject to laws and supervisory regulations that apply in the countries in which they operate (Greece and Turkey) and according to which they are required to hold a license to operate in non-life insurance and health insurance.

These laws also include regulations, inter alia, concerning the holding of the means of control in an insurer, transferring the means of control in an insurer, composition of the board of directors, minimum shareholders equity, the manner of investing the reserves, calculation of the reserves, and provisions concerning agreements with reinsurers.

3.1.5 Summary of the legislative arrangements and provisions of law

Following is a summary of the legislative arrangements and main provisions of law that were published during the reporting year - up to the publication date of this report:

General

3.1.5.1 Provisions of Law

3.1.5.1.1 On November 21, 2021, the Economic Plan (Legislative Amendments for the Implementation of Economic Policy for the 2021 and 2022 Budget Years) Law, 2021, was published, Chapter 16: Limiting Gender-based Gaps in the Labor Market and Raising the Retirement Age for Women, in which the Retirement Age Law 2004 was amended. Among other things, it was determined that the retirement age for women will gradually be raised over the next 11 years, according to year of birth, so that it will eventually be 65.

3.1.5.1.2 On November 15, 2021, the Economic Efficiency (Legislative Amendments to Achieve the Budgetary Targets for the 2021 and 2022 Budget Years) Law, 2021, was published, Chapter 3: Guaranteeing the Stability of Pension Fund Yields (in this instance "the Law"), which determined that the State will no longer provide new non-marketable Arad and Meron government bonds (in this instance "Designated Bonds") for the pension funds as of October 1, 2022. Instead a new mechanism was established for supplementing the yield in which the State will "top up" the yield for the pension funds by up to 5.15% for 30% of the pension fund's assets, net of the assets of the Designated Bonds should the pension funds fail to achieve this yield. According to the proposed mechanism, a review will be performed every 60 months according to which if the annual yield attained is less than 5.15% (CPI-linked), the State will pay the pension funds the difference, and if it is more than 5.15%, the pension funds will transfer to a fund to guarantee the yield, to be established for this purpose and which will be administered by the Ministry of Finance, a sum of money equal to the difference. To finance this fund, the State will transfer to the fund every year an amount in accordance with the annual rate stipulated in the Law.

After the law was published, several draft regulations and draft circulars were published which propose adjustments for its implementation: on March 2, 2022 and December 23, 2021, draft regulations were published which propose making adjustments to the Supervision of Financial Services (Provident Funds) (Investment Rules applicable to Financial Institutions) Regulations, 2012, the Supervision of Financial Services (Provident Funds) (Recognition of a new comprehensive pension fund yield) Regulations, 2017, and the Supervision of Financial Services (Provident Funds) (Transfer of Money between Provident Funds), 2008. On January 31, 2022, several draft pension circulars and drafts updating the Consolidated Circular were published, which, among other things, propose making various adjustments to the pension fund reports and reports to the Commissioner.

3.1.5.1.3 On November 14, 2021, a memorandum of the Contract (Insurance) Law (Amendment no. ___) (Prescription and Special Interest), 2021, was published. The memorandum proposes amending the Contract (Insurance) Law, 1981 and as part of the investigation of a complaint, also allowing the Commissioner to obligate insurers to pay special interest should he find that insurance benefits which are not in dispute were not paid in good faith. Additionally, in those cases where a complaint is submitted for investigation by the Commissioner, it is proposed extending the prescription period by up to one year from the date of submitting the complaint, but no more than four years from starting the count of the prescription period. Regarding life assurance, insurance for illness and hospitalization and long-term care insurance, up to no more than six years from starting the count of the prescription period.

3.1.5.2 Circulars

3.1.5.2.1 On February 17, 2022, a circular was published concerning an amendment to the provisions of the consolidated circular on the measurement of liability - illiquidity premium which prescribed a revised method of estimating the illiquidity premium to be used in calculating the LAT. This method will be based, with certain changes, on the methodology for calculating the Volatility Adjustment component which is currently applied within the framework of the Solvency II Economic Solvency Regime and will replace the QIS5 method which has been used until now.

3.1.5.2.2 On January 5, 2022, a letter of principles and an amendment to the Consolidated Circular were published on the subject of implementing an Own Risk and Solvency Assessment (ORSA) by insurance companies, which determined that insurance companies must report to the Commissioner about ORSA once a year, in the month of January. The application will be gradual starting on January 1, 2023, with supplements on January 1, 2024.

3.1.5.2.3 On January 2, 2022, the Commissioner published circulars concerning an amendment to the provisions of the circulars on the investigation of claims and handling public complaints; service for customers of financial institutions; enrollment in insurance; and regulation of the way in which supervised entities must conduct themselves with respect to the investigation of public complaints. The circulars regulate how service will be provided to senior citizens (aged 67 and above) and also prescribe provisions in addition to the issue of enrollment in the insurance for all candidates, including a requirement for a voice recording of every transaction with the candidate by phone.

3.1.5.2.4 In May 2021, the Commissioner published a circular 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.

3.1.5.2.5 On May 11, 2021, the Commissioner published a circular 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.

3.1.5.2.6 On June 22, 2021, the Commissioner published a circular concerning an amendment to the provisions of the Consolidated Circular - Chapter 4, Section 5 - Management of Investment Assets, regarding cooperation with a related fund. The circular defines the conditions for performing transactions to provide investment management services between insurers and groups of investors, including with an investment fund which is a related party.

3.1.5.2.7 In the Reporting Period, the Commissioner published several regulations, including adjustment of the regulatory provisions for this period due to the spread of COVID-19 which include extending the validity of the Commissioner’s position clarifying that the Authority will not take enforcement measures against banks that provide pension advice by digital methods or by phone to existing customers immediately prior to publication of the position, as well as draft regulations which propose extending the validity of the 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.

3.1.5.3 Draft circulars

On January 5, 2022, the Commissioner published several drafts on the method of adopting International Financial Reporting (IFRS) 17 in Israel ("the Standard" or "IFRS 17"), as follows:
A fifth draft of a circular concerning updates to the Consolidated Circular on Measurement - Professional issues in the application of IFRS 17, which proposes prescribing principles for application of the Standard, in part, by allocating insurance contracts into portfolios and classifying liabilities for insurance contracts in which payment of the claim is contingent on the presence of two insurance risks; a second draft updating the provisions of the Consolidated Circular on reporting to the public, which proposes provisions concerning the disclosure required in the annual financial reports of insurance companies from the date of application of the Standard; a draft updating the Roadmap for the Adoption of IFRS 17 regarding insurance contracts which proposes extending the application date of the Standard for Israel to quarterly and annual periods commencing January 1, 2024 and the transition date to January 1, 2023, as well as updating the deployment measures and time frames the purpose of which is to ensure that Israel's insurance companies are properly prepared for application of the Standard; a draft circular concerning an amendment to the provisions of the Consolidated Circular - Chapter 4, Section 5, Management of Investment Assets, on the management of investment assets for insurers applying the Standard which proposes provisions for defining categories of liability and the method of holding the investments to cover the liabilities.

On September 19, 2021, the Commissioner published a second draft for the questions and answers file for application of the Standard in Israel.

3.1.5.3.1 On June 7, 2021, the Commissioner published a draft circular amending the provisions of the Consolidated Circular - Chapter 4, Section 5 - Management of Investment Assets - concerning rules for investing the assets of insurance companies held to cover non-yield dependent liabilities. The amendment proposes prescribing provisions concerning the non-yield dependent liabilities of insurance companies, which are expected to replace some of the provisions prescribed in the Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions) Regulations, 2012, which propose, among other things, defining shareholders equity as capital as recorded in the insurance company's last financial statement and accordingly updating the investment limitations prescribed in these regulations.

3.1.5.4 Directives and clarifications

3.1.5.4.1 On January 31, 2022, a Commissioner's position was published for public comment on formulation of the desired policy regarding a members investment committee: functions and obligations of the committee, composition and appointments, which details the changes required in defining the goals, functions and activity of the members' investments committee, including that the focus of the committee's functions should be as a supervisory rather than an involved entity, and this in light of the changes which have taken place in the investment management arena in which Israel's financial institutions operate.

3.1.5.4.2 On January 9, 2022, the Commissioner published a policy paper on investing in insuretech corporations and investment corporations in the innovative financial technology sector. The paper sets out guidelines and conditions for the Commissioner to grant approval to requests from financial institutions under Regulation 33(B) of the Supervision of Financial Services (Provident Funds) (Investment Rules applicable to Financial Institutions) Regulations, 2012, for investing in companies that invest in insuretech ventures and companies whose objective is to invest in innovative financial technologies.

3.1.5.4.3 On July 13, 2021, the Commissioner published a letter for the insurance company managers concerning the principles of investing in insuretech in calculating the economic solvency ratio. The letter outlines the principles which will be considered by the Commissioner in applications to recognize an intangible asset on account of an investment in insuretech as part of the economic balance, and the process for approving such requests.

3.1.5.4.4 On January 14, 2021, the Commissioner published a position 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 will consider the independence required of an external auditor to have been prejudiced due to the provision of a related service by the auditor during the period of the audit, or in the previous year, when one of the following conditions, among others, is satisfied: 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 the service provided by the external auditor in deployment for the application of the Standard.

3.1.6 <u>Life assurance and long-term savings</u>

3.1.6.1 Provisions of law

3.1.6.1.1 On January 24, 2022, Supervision of Financial Services (Provident Funds) (Management Fees) (Amendment) Regulations, 2021, were published which prescribe placing a cap on management fees that will not exceed 0.3% per annum payable by annuity recipients in insurance policies to be sold after February 1, 2022, and by recipients of an annuity from a comprehensive or general pension fund who begin to receive their annuity from February 1, 2022.

3.1.6.1.2 On June 1, 2021, Supervision of Financial Services (Provident Funds) (Investment Rules applicable to Financial Institutions) (Amendment) Regulations, 2021, were published. These regulations amend the Supervision of Financial Services (Provident Funds) (Investment Rules applicable to Financial Institutions) Regulations, 2012, which, among other things, 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 is more than the said amount, whose activity was limited to the setting up and operation of a designated infrastructure project in Israel, or whose purpose is to raise capital for projects in this sector, where in August 2022 the Commissioner will report the scope of these investments to the Finance Committee and in August 2023 the Minister of Finance will report to the Committee whether he intends to change the scope of the financial institutions' investments. 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 investing in ETNs by financial institutions 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.

3.1.6.1.3 On February 4, 2021, draft Supervision of Financial Services (Provident Funds) (Withdrawal of Funds by Out-of-Work Self-Employed Members) (Temporary Order) Regulations, 2021, were published. The draft regulations propose establishing cumulative conditions whereby out-of-work 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 the Income Tax Order (Determining amounts paid from an annuity provident fund to a self-employed member who is unemployed as income with respect to tax withholding at source), 2021, in a circular concerning the rights and obligations of members in the articles of a new pension fund - temporary order, and in draft Income Tax (Deduction from Amounts paid from an Annuity Provident Fund to a Self-employed Member who is Unemployed) Regulations, 2021.

3.1.6.1.4 On July 1, 2021, draft Supervision of Financial Services (Provident Funds) (Direct Expenses for Performing Transactions) (Temporary Order) Regulations, 2021, were published. The draft regulations extend until January 6, 2022, the temporary order prescribed in Section 3A of the Regulations, which define additional categories of direct expenses for performing transactions in provident fund assets, exclude 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 purpose of the Temporary Order is to enable the committee appointed by the Commissioner for reviewing the direct expenses, to submit its recommendations ("the Committee's Report") prior to publication of the proposed wording of the regulations. On October 29, 2021, the Committee's Report was presented to the Commissioner. The Report recommends changes and improvements in Israel's long-term savings market, including changing the structure of management fees and moving over to single pricing for management fees which will be calculated as a percentage of the accrual only and will lead to cancellation of the ceiling in its current format.

3.1.6.2 Circulars

3.1.6.2.1 On January 19, June 13, and December 20, 2021, the Commissioner published updates to the circular on a standard format for transferring money and information in the pension savings market, which determine, among other things, an obligation to transfer money between provident funds through the pension clearing house, as well as provisions concerning the process of transferring information and money, including with respect to the allocation of monies between provident funds.

3.1.6.2.2 On October 21, 2021, the Commissioner published a circular concerning an amendment of the standard articles of savings provident funds which determines that on the subject of withdrawing money from the a, the provisions of the pension fund articles and those of the savings provident fund articles must be standardized by means of amending the provisions of the standard savings provident fund articles so that salaried members may only make withdrawals not in accordance with the law from the benefits components deposited for them by their employer if the employer-employee relationship between the salaried member and that employer has been severed or the salaried member has reached the minimum age of eligibility for old-age pension and he is entitled to the money under the legislative arrangement.

3.1.6.2.3 On August 4, 2021, the Commissioner published a circular updating the provisions for choosing a provident fund, together with a letter to managers of the new pension funds which concerns the process of determining selected funds, which determines, among other things, provisions for choosing the new pension funds to be selected by the Commissioner and which will form select default funds in the period from November 1, 2021 through October 31, 2024. Among other things, it was determined that the criteria for choosing a selected fund will be determined so as to provide an advantage to pension funds whose market segment accounts for 10% or less of all deposits in the new, comprehensive pension funds, while giving a stronger advantage to pension funds whose market segment accounts for 5% or less, in line with the mechanism to be determined in the process. Furthermore, provisions were determined concerning the management fees to be collected by the funds, which will not be less than 0.5% of the deposits and 0.15% of the accrued balance and will not be more than 1% of the deposits. The circular also sets out additional criteria according to which employers may conduct a competitive (tender) process for choosing a default fund, including updating the yield criteria and also allowing for the additional of criteria pertaining to the management fee rate proposed by the management company for new old-age annuity recipients

3.1.6.3 Draft Circulars

On March 20, 2022, the Commissioner published a draft circular concerning an amendment to the provisions of a circular on the procedure for locating members and beneficiaries. The draft circular proposes postponing by two years implementation of the obligation to report to the Guardian General the existence of the money of members which whom contact has been severed and of deceased members, so that the report will be sent at the beginning of the quarter after the quarter in which 11 years have passed since the date on which contact with the member was severed, provided that the member has reached the age of 70, or at the beginning of the quarter after the quarter in which 11 years have passed from the time that the financial institution was informed of the member's death, and the termination condition was not satisfied, according to its definition in the circular and in the Supervision of Financial Services (Provident Funds) (Locating Members and Beneficiaries) Regulations, 2012.

3.1.7 Health insurance

3.1.7.1 Draft circulars

On February 24, 2022, a second draft of the Supervision of Financial Services (Insurance) (Conditions in an Insurance Contract for a Basic Health Policy) Regulations, 2021, was published. The draft proposes updating the provisions of the basic health policy defined in the first draft (October 19, 2021) according to which this policy will comprise three standard policies: a policy for transplants and special treatment abroad, a policy for medications which are not in the health services basket, and a policy for surgery and non-surgical treatment abroad (hereinafter together: "Basic Health Policy"). The draft regulations also propose defining standard conditions for each policy and determining that insurers may only change the wording of the proposed conditions with the Commissioner's approval.

On the same date, the Commissioner published a second draft amendment to the provisions of the Consolidated Circular - Section 6, Part 3, Chapters 1, 2, 3, 4 and 6 "Drawing up a health insurance plan" which proposes updating the provisions prescribed in the first draft concerning a new format for health insurance the main points of which are, among others, that additional health coverages and riders may only be purchased after a basic health policy has been purchased in that company or in another company, as well as a definition of the content and names of the additional health products. The draft amendment also prescribes provisions concerning how to market a health policy and how to present the premium to the candidate for insurance; it prohibits the sale of double insurance in personal-lines indemnity policies and allows a discount on the premiums to be offered to the insured at a fixed rate only and for a period of at least ten years.

3.1.8 Non-life insurance

3.1.8.1 Provisions of law

3.1.8.1.1 On August 10, 2021, the Minister of Finance published a notice concerning the cost of services rendered under the Compensation of Road Accident Victims Law, 1975, and the Compensation for Road Accident Victims (Financing the Cost of Providing Services) Order, 2021. The notice and the Order stipulate 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.

3.1.8.1.2 On June 3, 2021, Supervision of Insurance Business (Conditions of an Insurance Contract for a Private Vehicle) (Amendment) Regulations, 2021, were published which prescribe provisions relating to motor property (CASCO) insurance. Among other things, the refund mechanism for a policy cancellation was amended so that the relative part of the premiums paid for the period following the entering into force of the cancellation will be refunded and it was determined that insurers will not be exempt of their obligation under the policy if the driver was in possession of a valid license at any time in the 120 months preceding the driving of the vehicle and if the driving license is not renewed due to the non-payment of a fee or on account of an Enforcement and Collection Authority debt.

3.1.8.1.3 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; the insurance companies will keep a copy of the insurance certificate for at least 25 years from the date on which the policy period ends; provisions were prescribed concerning the right of review and inspection and the categories of data that policyholders and other entities may receive in real time; and they eliminated the collection of expenses for issuing a new insurance certificate for 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.

3.1.8.1.4 On March 22, 2018, the Economic Efficiency (Legislative Amendments to Achieve Budget Targets for 2019) Law, 2018, (in this section: “The 2019 Economic Efficiency Law”) was published which changes the mechanism for the settlement of accounts between the NII and the insurance companies regarding road accidents. Given that in the absence of regulations concerning that amount to be transferred to the National Insurance Institute for the past (in this section: “the Regulations”), the mechanism noted in the 2019 Economic Efficiency Law did not enter into force, a consensual agreement was formulated according to which past events will be dealt with according to the mechanism for settlement of accounts which was in force prior to the 2019 Economic Efficiency Law, and that the insurance companies will pay an advance on account of past debts for insurance claims filed in the period 2014-2022 in the total amount of NIS 1 billion, of which the Company is expected to pay an advance of NIS 106,565 thousand by the end of the year.

On November 15, 2021, the Economic Efficiency (Legislative Amendments to Achieve the Budgetary Targets for the 2021 and 2022 Fiscal Years) Law, 2021, Chapter 6: National Insurance (Section B), was published. The law proposed amending the 2019 Economic Efficiency Law so that the requirement to promulgate the regulations will be nullified and instead it will determine that insurers, other than the Fund for the Compensation of Road Accident Victims which was established under the Compensation for Road Accident Victims Law, 1975 ("Karnit") will be obligated to transfer to Karnit on a monthly basis 10% of the premiums they collected in the previous month over a period from January 1, 2023 through December 31, 2024, and 10.95% of the premiums from January 1, 2025 and thereafter.

3.1.9 Financial services segment and activity in the capital market

On December 19, 2021, the amendment to the Regulation of Investment Advice. Investment Marketing and Portfolio Management (Equity and Insurance) Regulations, 2000, entered into force, regulating the insurance obligation for license holders that applies to the portfolio management companies: Harel Investment Management and Alfa Tech.

After the amendment, the strict amounts prescribed in the regulations as the minimum limits of liability required for a license holder were cancelled, and the discretion regarding the sums insured required of the license holder was transferred to the license holder's board of directors.

Additionally, in lieu of the exclusive condition that had been part of the regulations (which was insurance), the discretion was transferred to the license holder to choose the surety through which it will provide a safety net for its customers. The choice will be made between several options which are already included in the regulations, namely - insurance with an insurer, deposit, deposit of securities in a depositary or a bank guarantee.

Harel Finance Investment Management took out insurance in accordance with the Equity and Insurance Regulations and it is compliance at all times with these regulations and it has not adopted the ISA's relief on this matter.

3.2 Entry and exit barriers

3.2.1 Entry and exit barriers

The main existing entry barriers are: obtaining permits or licenses under the Supervision Law and/or the Provident Funds Law and/or the Joint Investment Trust Law and/or the Investment Advice Law, as applicable, and compliance with the minimum equity requirements prescribed by law.

3.2.1.1 Permits and licenses

The Commissioner has broad discretion regarding the granting of an insurer's license, corporate agent or management company license or permit for control of an insurer or management company. Among the considerations employed in granting a license to an insurer, company agent, permit to hold and permit to control, the Commissioner takes into account a broad range of considerations, including, inter alia, presentation of operative plans by the applicant, whether the company officers are suited to their positions, the monetary means, experience and business background of the entities applying for the license or permits, competition in the capital market, the government's economic policy, arrangements for reinsurance, the company's staff, etc.

In addition to the foregoing, pursuant to Section 32(C) of the Supervision Law, restrictions apply to a significant holding in the long-term savings sector. A significant holding is defined as the holding of a market segment of more than 15% of total long-term savings assets.

See Section 1.1.4 for the Company’s control structure.

The Company’s controlling shareholders hold a control permit from the Commissioner for their control in the Group’s various financial institutions and corporate agencies. The control permit prescribes restrictions on pledging means of control in the Company or in companies in the chain of control, limitations on the transfer of means of control and on maintaining the control core clear and free, and an undertaking by the Company to supplement the equity of financial institutions that it controls. For information about these commitments, see Note 9F(4) to the Financial Statements.

The Company's controlling shareholders hold a control permit from the Commissioner in respect of their control in Hamazpen. Among other things, the control permit prescribes limitations on changing the percentage holding of the controlling shareholder in Hamazpen, changing the agreements between the controlling shareholders with respect to control of Hamazpen and the agreement of the controlling shareholder to impose attachments or any other action that, in practice, might change the rights attached to the means of control.

The Company’s controlling shareholders hold a permit from the ISA to control the fund manager – Harel Mutual Funds. The control permit prescribes limitations on the transfer or pledging of the means of control in the fund manager. Harel Mutual Funds has a permit from the ISA to operate as a mutual fund manager. Harel Investment Management and Alfa Tech are licensed by the ISA to operate as a portfolio management company.

3.2.1.2 Equity

3.2.1.2.1 The regulatory capital requirements from subsidiaries that are insurers, particularly in long-term activity as well as the regulatory capital required in the Solvency regime, are a significant entry barrier to activity in the different insurance sectors in which the Company operates. On the capital requirements for subsidiaries that are insurers, see Note 9F to the Financial Statements.

3.2.1.2.2 Minimum equity is required to engage in providing investment management and marketing services for customers and to issue and manage mutual funds, as prescribed in the Investment Advice Law and its regulations and in the Joint Investment Trust Law and its regulations, respectively.

3.2.1.3 Expertise and experience

Activity in the Group's areas of activity requires professional knowledge, experience, and familiarity with the markets, including the reinsurance market. Specific knowledge is required particularly for actuarial work and risk management. Experience is particularly important for setting tariffs and for underwriting new business.

3.2.1.4 Volume of activity

The Group's operations entail a large number of fixed expenses, mainly in order to comply with the numerous regulatory requirements. Consequently, a large volume of activity is necessary to cover these fixed expenses.

3.2.1.5 Limit on market segment in the long-term savings sector

Pursuant to a circular published on January 2, 2022, a person will not be permitted to hold (where a holding is according to its meaning in Section 32(C1) of the Supervision Law) more than NIS 252.44 billion of the total value of all long-term savings assets. This amount comprises the total value of long-term assets managed by that person and by all the financial institutions which he controls. Concerning a person who controls such assets together with others, the entire value of the said assets will be attributed separately to each of the controlling entities.

3.2.2 Exit barriers

3.2.2.1 Insurance segment - the principal exit barriers in the insurance industry are the settlement of all the insurance obligations. The liquidation or dissolution of an insurer's insurance business is subject to the control of the Commissioner who may instruct an insurer to operate in a particular way when dissolving business or to apply to the courts for a liquidation order to be supervised by the court, and regarding insurance companies overseas - to the approval of the relevant regulator in each of the countries in which the overseas insurance companies operate. In life assurance business, as well as in non-life assurance business where claims are typically long-tail, including the activity of EMI, the termination of activity entails an arrangement to continue handling the exercising of all the rights of the policyholders or members.

3.2.2.2 Pension funds and provident funds - the principal exit barrier to pension fund and provident fund management is obtaining the Commissioner’s approval to transfer of management of the funds to other management companies, including to merge, split, discontinue management, or enter into voluntary liquidation of a management company.

3.2.2.3 Capital market - as a rule, there are no significant exit barriers in this sector. Nevertheless, a mutual fund may only be dissolved in accordance with the conditions of the fund's agreement or through the courts, and subject to the provisions of the Joint Investment Trust Law. Additionally, any sale or transfer of control or means of control of a particular rate of a fund manager requires the buyer to obtain a control permit from the ISA.

3.3 Critical success factors

The factors which are critical to the success of the Group's activity can be divided into general factors which affect all the Group's operating segments and factors which have a special impact on specific areas of the operations.

In recent years, one of the key success factors is the ability to develop digital, data-based tools.

3.3.1 General success factors

3.3.1.1 Changes in the state of the economy, the capital market and employment levels.

3.3.1.2 Regulatory changes, including price control. See Section 3.1.

3.3.1.3 Level of competition in the Group's operating segments. See Sections 2.1.3, 2.2.3, 2.3.3, 2.4.3 and 2.5.14.

3.3.1.4 Agreements with reinsurers.

3.3.1.5 Success in retaining customer portfolios.

3.3.1.6 Quality of investment management.

3.3.1.7 Quality of financial risk management.

3.3.1.8 Quality of computer and technology systems.

3.3.1.9 The development of service-oriented technology tools for customers and agents.

3.3.1.10 Integration of advanced digital methods for providing customized and optimum service for clients and agents.

3.3.1.11 Success of distribution channels, including distribution channels for increased demand and the creation of new markets. See Sections 2.5.13 and 3.7.

3.3.1.12 Quality of customer service (for policyholders, members of provident and pension funds, and other customers).

3.3.1.13 Quality of service to agents.

3.3.1.14 Creation of integrated solutions and the tailoring of new products to changing market demand.

3.3.1.15 Retention and development of human capital.

3.3.1.16 Effectiveness of the operating and marketing systems.

3.3.2 Success factors specific to the insurance and long-term savings wing

3.3.2.1 The level of management fees actually collected.

3.3.2.2 Underwriting methods.

3.3.2.3 Product Pricing.

3.3.2.4 The number of claims and catastrophes.

3.3.2.5 Advertising and branding.

3.3.2.6 Efficient customer service.

3.3.2.7 Agreements with service providers.

3.3.2.8 Changes in life expectancy.

3.3.2.9 Tax benefits for the different long-term savings products.

3.3.2.10 Quality of investment of the assets of the insureds and members.

3.3.3 Success factors specific to the health insurance segment

3.3.3.1 Quality of service to customers and agents.

3.3.3.2 Agreements with high quality service providers in Israel and abroad.

3.3.3.3 Development of new products that meet changing needs in the economy.

3.3.3.4 Prices of medical services.

3.3.3.5 Reliability and effectiveness of the underwriting processes.

3.3.4 Success factors specific to the non-life insurance segment

3.3.4.1 Correct costing of tariffs.

3.3.4.2 Mix of customers.

3.3.4.3 Reliability of the underwriting data.

3.3.4.4 Cost of operations and marketing.

3.3.4.5 Quality of investment management.

3.3.4.6 Effectiveness of claims management and the cost of settling claims.

3.3.4.7 The scope and prevention of fraud.

3.3.5 Factors specific to the success of the capital market and financial services segment

3.3.5.1 Quality investment management.

3.3.5.2 Advanced computer systems which support activity in the financial services sector and are capable of supporting new products and services in this area.

3.3.5.3 Quality manpower in the investments sector and marketing sector.

3.3.5.4 Providing customers with professional, reliable service.

3.3.5.5 Awareness of the performance and quality of companies within the Group, particularly among investment advisors in the banks, who form the main channel for marketing and distributing the mutual funds.

3.3.5.6 Adapting the basket of products offered to customers based on their needs and market conditions.

3.4 Investments

The Board of Directors of the Company outlines the Group's general economic policy on various subjects, including the work of the investment committee appointed by the Board. The board of directors of each subsidiary which is an insurer or provident fund management company, or pension fund management company or mutual fund management company, outlines the investment policy for its areas of activity. The investment committees which operate among the

Group's insurance companies, pension fund and provident fund management companies, and mutual fund management companies determine the specific investment policy of each of the Group's entities.

The investments are managed through the investment division of Harel Insurance which coordinates investment activity for the insurance companies, and the pension and provident funds managed by the Group. Management of the investment activity for the mutual funds managed by Harel Mutual Funds takes place through Harel Mutual Funds.

Assets under management (AUM) (NIS million) at December 31, 2021: [(1)]

Financial institution / subsidiary	Nostro funds	Members / clients funds (yield dependent liabilities and assets of provident and pension funds)	Total AUM
Harel Insurance	35,355	81,548	116,903
EMI	158	-	158
Interasco	151	-	151
Turk Nippon	206	-	206
Harel Pension & Provident	200	171,555	171,755
Tzva Hakeva Fund	20	6,333	6,353
LeAtid	15	1,477	1,492
Harel Finance Strategies	2,617	-	2,617
Harel Mutual Funds	20	42,950	42,970
Harel Finance Asset Management	5	15,443	15,448
Harel Finance Alternative	4	442	446
Harel Exchange Traded Deposit	774	-	774
Harel Index Trade	690	-	690
Harel Sal Currencies	274	-	274
Harel Sal Currencies Trade	268	-	268
Harel Investments	1,185	-	1,185
Other	648	-	648
Total	**42,590**	**319,748**	**362,338**

(1) The table describes only significant companies that are primarily engaged in money management.

3.4.1 Investment management policy

On January 27, 2021, the Board of Directors approved the investment policy of the Company for the Reporting Period, and on January 27, 2022, the investment policy of the Company was approved for 2022.

Pursuant to the Commissioner’s circular dated July 26, 2009 concerning a statement made in advance by a financial institution about its investment policy, the Company publishes information relating to the investment policy of the subsidiaries which manage pension funds, provident funds and yield-dependent obligations (for insurance companies) on its website, at these URLs:

(a) Harel Insurance:

https://www.harel-group.co.il/about/harel-group/harel/investor-relations/Pages/investment-policy.aspx

(b) Management of pension and provident funds:

https://www.harel-group.co.il/about/harel-group/harel-pensia-and-gemel/Pages/investment-policy.aspx

3.5 Reinsurance

Reinsurance is a measure designed to hedge the risks of the insurance companies. The insurance companies share their risks with other reinsurance companies through reinsurance, thus reducing their exposure.

Other purposes of purchasing reinsurance are to leverage the volume of insurance obligations which an insurance company may undertake, in view of the limitations regarding its equity as well as the purchase of insurance and actuarial knowledge based on the experience and broad scope of activity of reinsurers all over the world.

The Group spreads the risks through reinsurance treaties, transferring to the reinsurers part of the insurance risk which it undertakes (so that the reinsurers undertake to pay the insurance company their share of the loss towards the insured), in consideration of sharing part of the premium collected from the insured, and subject to agreements which are signed in advance .

The Group purchases protections against two main categories of risk - catastrophe and individual risks.

The reinsurance plan of Harel Insurance is approved each year by the Board of Directors of Harel Insurance and is reported to the Commissioner.

3.5.1 General explanation about the categories of reinsurance treaties

Treaty reinsurance - an annual agreement or multi-year agreement with several reinsurers, in which the reinsurers undertake to share the risks, usually in a particular sector. There are several types of reinsurance treaties:

Quota Share proportional treaties - a proportional reinsurance agreement, whereby the reinsurers who participate in the treaty agree to accept a fixed portion of the risk for all the insurance of a particular type that the direct insurers have undertaken. The reinsurers receive a proportionate share (quota) of the net premium received by the direct insurer, and they share payment of the insurance benefits and expenses when the insured event occurs, pro rata to the proportion stipulated in the reinsurance agreement.

Surplus proportional treaties - a reinsurance agreement in which the direct insurer bears the insurance risk up to a certain defined amount (on the first level - retention), or alternatively in a Quota Share treaty in which the direct insurer bears the risk up to the defined amount, and the reinsurer bears the risk above this level in portions, up to the capacity defined in the reinsurance treaty.

Excess of Loss treaties - a reinsurance treaty which defines the maximum loss that the direct insurer will bear in a particular branch, and the reinsurer will bear the loss over and above this amount, in return for a reinsurance premium which is agreed upon in advance. In Excess of Loss treaties, the insurer pays any claim up to the amount stipulated in the agreement (retention) and the reinsurer bears the costs over and above the defined amount. The direct insurer may also purchase Excess of Loss insurance for the participants in a Quota Share treaty and Excess of Loss treaty who wish to do so.

Facultative treaty - a reinsurance treaty for special businesses and insurance (usually for large business customers or those which entail special risks) in which the limits of liability exceed the amounts of the treaty agreement or where, for other reasons, it is not possible or there is no wish to include it as part of the treaty. In this case, separate reinsurance is purchased which is called facultative insurance.

Proportional treaties: these are found in the other property insurance sector (industry, businesses, household, etc.), life assurance (including work disability), as well as in health insurance (illness and hospitalization, long-term care and personal accident). In these treaties, the Group shares a proportion of the insurance risk which it undertakes with the reinsurers, for any amount of liability (Quota Share and/or Surplus) over and above the retention.

Excess of loss (non-proportional) treaties: these treaties are present in the liabilities insurance sector (third party, professional liability, etc.), in compulsory motor insurance and earthquake damages in the other motor property sector. In these contracts the Company uses reinsurance to protect itself above the amount of the loss which it has taken upon itself (retention). The premium paid to the reinsurer is not in proportion to the risk it bears, but is calculated according to a tariff defined and calculated based on the turnover of the premiums and/or the number of vehicles and/or sums insured which are protected by the treaty. Likewise, in addition to the ordinary reinsurance, there are forms of reinsurance which hedge the retention against catastrophes, particularly large amounts of cumulative losses from a single event, such as earthquake losses in other property insurance, other natural perils, and accidents with a large number of victims. These reinsurances are applied, where necessary, in addition to the proportional (quota share) reinsurance.

Furthermore, the Group sometimes enters into facultative agreements, which are reinsurance agreements relating to concrete policies for concrete businesses/sites, or specific insureds, where due to the scope of the required insurance cover and/or its complexity and/or the sums insured for risk, they are not included or the insurance companies in the group do not wish to include them in the Company's Quota Share and Excess of Loss treaties in facultative agreements. The reinsurer decides separately for each business whether it wishes to share the risk and at what percentage. In some cases, the customer has the right to know who the Company's reinsurers are and to contact the reinsurer directly when certain conditions are met (cut-through provision).

Regarding Quota Share and Surplus reinsurance treaties, the percentage commissions received in connection with the reinsurance treaties are from the net premium and they are mostly at a flat rate. Harel Insurance does not receive commissions for Excess of Loss reinsurance treaties. In facultative agreements, Harel Insurance receives a commission from the reinsurers as determined in separate negotiations for each transaction conducted with each of the reinsurers.

3.5.2 Life assurance and long-term savings

The Group purchases reinsurance for the risk component of life assurance policies (risk of death, critical illness, disability, and work disability). In this segment of operation, the Company has the following reinsurances: (a) surplus treaties; (b) Quota Share treaties; (c) Aggregate Excess of Loss treaties for catastrophes .

The Group enters into reinsurance treaties to cover catastrophic events. These contracts are designed to protect the Group against cumulative losses from a single event involving large amounts, such as an accident involving a large number of victims, and to protect the Group's total retention.

In addition to the treaties described above, the Group enters into individual reinsurance agreements - facultative agreements (generally for large sums insured or those that entail special risks).

In the proportional treaties and Excess of Loss treaties, the Group is entitled to two categories of commission: flat rate commissions as a percentage of the net reinsurance premiums (and in some cases an enlarged premium in the first year) and commissions which are set as a rate of the profits of the reinsurance transaction.

3.5.3 Health Insurance

The Group purchases reinsurance for the risk component of health insurance policies. In this segment of operation, the Group has the following categories of reinsurance: (a) Quota Share treaties; (b) Aggregate Excess of Loss treaties for catastrophes.

The Group enters into reinsurance treaties to cover catastrophic events. These contracts are designed to protect the Group against cumulative losses from a single event involving large amounts, such as an accident involving a large number of injured persons, and to protect the Group's total retention.

In the proportional treaties, the Group is entitled to two categories of commission: flat rate commissions as a percentage of the reinsurance premiums (and in some cases an enlarged premium in the first year) and commissions which are set as a rate of the profits of the reinsurance transaction.

The Group purchased reinsurance with the purpose of providing a partial hedge against a scenario of mass cancellations, as noted in Section 3.5.6

3.5.4 Non-life insurance

3.5.4.1 Motor property (CASCO)

Reinsurance treaties in this sub-segment provide Harel Insurance with protection against catastrophic events and they are Excess of Loss treaties. Additionally, Harel Insurance has a Quota Share treaty whereby the reinsurers participate in comprehensive motor property insurance with a high value, including luxury vehicles, trucks and buses.

Harel Insurance does not receive commissions for non-proportional treaties. In proportional treaties, Harel Insurance is entitled to commissions at a flat rate of the net reinsurance premiums.

Additionally, as noted in Section 1.1.7.14 above, on December 1, 2021, the insurance activity of Shirbit was transferred to Harel Insurance. Shirbit has a proportional reinsurance treaty in this sub-sector (Casco QS) which provides the Company with a variable rate of commission from the premium transferred to the reinsurers, based on profitability. The Company's retention and the share of the reinsurers are protected by an Excess of Loss treaty.

3.5.4.2 Compulsory motor

The reinsurance treaties in this sub-segment are Excess of Loss. A treaty of this type specifies the maximum loss to be borne by the insurer for any claim or for a single event (retention), and the reinsurer bears the costs over and above the amount stipulated in the treaty, up to a maximum amount specified and in consideration of reinsurance premiums agreed upon in advance.

Harel Insurance does not receive commissions for non-proportional treaties.

Additionally, as noted in Section 1.1.7.14 1.1.6.14 above, on December 1, 2021, the insurance activity of Shirbit was transferred to Harel Insurance. Shirbit has a proportional reinsurance treaty in this sub-sector (MBI QS) which provides the Company with a fixed rate of commission from the premium transferred to the reinsurers. The Company's retention and the share of the reinsurers are protected by an Excess of Loss treaty.

3.5.4.3 Other liabilities sectors

Most of the reinsurance for this area of activity takes the form of facultative agreements for specific business (mostly for large customers) and individually, and are on a Quota Share and/or Excess of Loss basis. The reinsurance treaties of Harel Insurance in this sub-sector of activity are Excess of Loss. A treaty of this type specifies the maximum loss to be borne by the insurer bears for any claim or for a single event (retention), and the reinsurer bears the costs over and above the amount stipulated in the treaty, up to a maximum amount specified and in consideration of reinsurance premiums agreed upon in advance.

Harel Insurance does not receive commissions for non-proportional treaties.

3.5.4.4 Property and other sectors

Harel Insurance's reinsurance treaties in this sub-segment are Quota Share, as well as Excess of Loss. Additionally, in this segment Harel Insurance enters into facultative agreements with the reinsurers. In most cases, the facultative agreements are on a Quota Share basis. Nevertheless, in some transactions the facultative agreement is on an Excess of Loss basis.

In proportional treaties, Harel Insurance is entitled to commissions which are mostly at a flat rate of the net reinsurance premiums. Regarding the Surety Business agreement, Harel Insurance is entitled to commissions at a flat rate of the net reinsurance premiums, and Harel Insurance also receives a profit fee from the reinsurers, which is calculated at the end of each calendar year.

3.5.4.5 Credit insurance for mortgages

EMI has no reinsurance arrangements.

3.5.5 Insurance companies overseas

3.5.5.1 Interasco

In compulsory motor insurance, the reinsurance treaties are Excess of Loss.

In the other property sectors, the reinsurance treaties are Quota Share. In addition, in this segment, Interasco has facultative agreements with reinsurers for insurance cover for specific businesses, both due to the capacity of the insurance contracts and due to the nature of the insured's activity. The facultative agreements are on a proportional basis.

Commissioner received in connection with the reinsurance treaties in the other property sectors are a percentage of the net premium. In the facultative agreements, Interasco receives a commission from the reinsurers as determined in the negotiations for each individual transaction.

Additionally, in other property sectors, the Excess of Loss treaties hedge the retention against catastrophes, which determine the maximum loss that the insurer bears for a single event, and the reinsurer bears the costs over and above the amount stipulated in the treaty and up to a maximum amount determined and in consideration of reinsurance premiums agreed upon in advance.

Proportional and Excess of Loss treaties are in place for liabilities sectors.

Health insurance: Interasco has an Excess of Loss treaty which defines the maximum loss that Interasco will bear in respect of a single event, and the reinsurer will be responsible for those costs over and above the amount prescribed in the treaty and up to the maximum amount stipulated, in consideration of reinsurance premiums agreed upon in advance.

3.5.5.2 Turk Nippon

In non-motor lines of business: Turk Nippon has a basket of reinsurance treaties comprising separate Quota Share and Surplus treaties for fire, engineering, liabilities and marine insurance. Additionally, Turk Nippon has three Quota Share treaties for personal accident passengers, personal accident for miners and personal accidents for travelers. The commissions received in connection with the reinsurance treaties are a percentage of the net premium on a flat rate basis. For the facultative agreements, Turk Nippon receives a commission from the reinsurers as determined in separate negotiations for each transaction.

Turk Nippon has two Excess of Loss reinsurance treaties apart from the motor sector. The most important one is CAT XoL reinsurance for cover against catastrophes that is not limited exclusively to earthquake, which is the most significant catastrophe event in Turkey. This treaty covers a catastrophe event for property, engineering, MOD and personal accident product lines up to a limit determined with the help of models. There is also a Risk XoL treaty which covers property for non-catastrophe risks, mainly fire.

3.5.6 Changes in reinsurance arrangements

There were no material changes in reinsurance arrangements in the Reporting Period in the non-life insurance, life assurance and long-term savings and insurance companies overseas segments.

In the health sector, Harel Insurance signed a reinsurance treaty with the purpose of providing a partial hedge against a scenario of mass cancellations. This treaty will improve the Company's economic solvency ratio subject to market conditions, the structure of the insurance portfolio, the actuarial assumptions and the capital requirements.

Changes in reinsurance arrangements after the Reporting Period

3.5.6.1 After the Reporting Period, there were no material changes in reinsurance arrangements in the non-life insurance segment other than the addition of Shirbit's reinsurance treaties that were renewed automatically by Shirbit.

3.5.6.2 After the Reporting Period there were no material changes in reinsurance arrangements in the life assurance and long-term savings segment, in health insurance, and insurance companies overseas.

3.5.7 Policy of exposure to reinsurers

<u>General</u>

Based on the provisions of the circular Board of Directors of a Financial Institution, the Company's Board of Directors is required to establish a policy for reinsurance, including setting a framework for the maximum exposure to a single reinsurer and group of reinsurers with a financial interest. Additionally, Insurance Circular 2003/17 concerning management of the exposure to reinsurers sets out provisions and guidelines on management of the exposure to reinsurers, a requirement to establish a policy and limits regarding exposure to reinsurers, and it also determines provisions for reporting to the Commissioner. In view of the foregoing, the policy of exposure to reinsurers and the Company's deployment for the management and control of the exposures is approved each year by the Company's Board of Directors.

The policy of the Group's insurance companies regarding their exposure to reinsurers is based on spreading the risks among a large number of financially robust, highly rated reinsurers, so that the participation rate of each reinsurer in the risk transferred to them is not large. This policy applies particularly to those sectors where the exposure transferred is for significant risks. The Company constantly tracks the rating of the reinsurers and of other information that provides an indication of the financial robustness of the reinsurers.

The need for the reinsurance, for both personal lines and group insurance, is determined by the Company's management, based on the risk appetite derived from the following parameters: probability of a large claim; probability of the accumulation of several claims to form a large amount stemming from a single event; cases where there is concern of a change in the claims trend; products where volatility may be high; a product or branch for which the accumulated insurance experience is inadequate; embarking on a new area of activity or new categories of cover, before the Company has sufficient experience to estimate the insurance cover at an adequate level of significance.

To reduce the risk entailed in exposure to the reinsurers, the Company operates according to the following principles:

A. Financial strength - the Company reviews the financial strength of the reinsurer as it is reflected in the credit rating and it applies the following policy:

- As a rule, the Company enters into agreement with reinsurers who are rated A- and higher only.
- Where reinsurance is required for a particular area of activity, in accordance with the procedure described above, but no reinsurers are available with the required rating for this activity, the Company may reach agreement with a reinsurer whose rating is less than A-, subject to approval in writing from the head of reinsurance in the relevant segment.
- The overall exposure to reinsurers with a rating of less than A- is limited to 5% of the recognized equity of Harel Insurance. At present, only a small number of the reinsurers have a rating of less than (A), although the volume of cover in these treaties is relatively low and in the short term.
- In those instances where, during the course of the agreement, the reinsurer's rating falls, causing a passive deviation from the foregoing conditions, the matter is submitted to the Company's management for a review of the agreement.
- The spread policy is also applied with respect to the exposure to earthquake risk. In this context, additional limitations were defined at the level of exposure to loss events on the basis of MPL to a single reinsurer. Consideration of the insurer's rating was weighted and from this the limit to the rate of exposure vis-a-vis the reinsurer was derived, from the total exposure to an earthquake event.

B. Spread of the exposure - spreading the risks among several financially robust reinsurers, so that the overall rate of exposure in the risk for each insurer is not high, where possible. To this end, it was determined that other than in special cases approved by the Board of Directors, the Company's policy will be as follows:

- Spread at premium level - the total premiums paid to a single reinsurer during the course of the year will not be more than 20% of all the premiums paid to reinsurers.
- Spread at level of exposure to a single reinsurer - limitations were determined, taking into account the insurer's financial robustness as reflected in the rating published by international rating companies (such as S&P and AM Best), and as a ratio of the recognized equity of Harel Insurance.
- At the level of exposure to a group of reinsurers - an exposure limit was set for the group at a level that does not exceed 15% of the recognized equity of Harel Insurance.

C. A first-time agreement with a reinsurer is based on the business potential inherent in the joint venture, the reinsurer's expertise in the relevant area of insurance, the scope of the reinsurer's relevant activity in Israel and abroad, and a review of its financial robustness and whether it meets the A rating limitation, as mentioned above. When certain conditions that have been defined in the Company's policy are satisfied, the Risk Management Department will also be asked for its expert opinion prior to the agreement.

D. Credit exposure to reinsurers is managed in accordance with the Company's procedures. Additionally, the Company monitors the balances and obligations of the reinsurers vis-à-vis the Company, and where necessary it makes provision for doubtful debts where relevant, on the basis of individual risk estimates and scope of the debt. Where the Company believes that there is a possible risk of insolvency on the part of the reinsurer, the share of the reinsurer that is in financial difficulty is computed according to the actuary's recommendation, which takes all the risk factors into account.

3.5.8 Life assurance and long-term savings

3.5.8.1 In 2020, reinsurance premiums in life assurance account for 2.7% of the Group's gross premium.

3.5.8.1.1 In Quota Share treaties there are no restrictions or limits to cover in respect of the reinsurer's participation in significant claims for the reporting period.

3.5.8.1.2 In Excess of Loss treaties for catastrophic events, the Group did not reach the limits set during the reporting periods, and it has no outstanding claims on a scale approaching the defined limits.

3.5.8.1.3 The Group has several reinsurers whose share of the reinsurance premiums in life assurance account for 10% or more, as specified below:

Name of the reinsurer	S&P rating at date of publication of the report	Premiums for the reinsurer (NIS million)	Percent of all premiums for the reinsurers
Swiss Re	AA-	101	55%
Munich Reinsurance	AA-	38	20%

3.5.9 Health insurance

3.5.9.1 In 2021, reinsurance premiums in health insurance account for 5.7% of the Group's gross premium.

3.5.9.2 In Quota Share treaties restrictions there are restrictions or limits to cover in respect of the reinsurer's participation in claims that are insignificant.

3.5.9.3 In Excess of Loss treaties for catastrophic events, the Group did not reach the limits set during the reporting periods, and it has no outstanding claims on a scale approaching the defined limits.

3.5.9.4 The Group has several reinsurers whose share of the reinsurance premiums in health insurance accounts for 10% or more, as specified below:

Name of the reinsurer	S&P rating at date of publication of the report	Premiums for the reinsurer (NIS million)	Percent of all premiums for the reinsurers
SCOR	AA-	180	59%
Swiss Re	AA-	68	22%

3.5.10 Non-life insurance

3.5.10.1 In 2021, reinsurance premiums in the Group's non-life insurance account for 36% of the gross premium.

3.5.10.2 The Group has a reinsurer whose share of the reinsurance premiums in non-life insurance accounts for 10% or more, as specified below:

Name of the reinsurer	S&P rating at date of publication of the report	Premiums for the reinsurer (NIS million)	Percent of all premiums for the reinsurers
Zurich Insurance Co	AA-	422	32%

3.5.10.3 In the other liabilities insurance sub-segment, the Company had a reinsurer in respect of periods prior to the Reporting Period, to which it transferred more than 10% of the total premiums of Harel Insurance. This relatively high level of exposure to the reinsurer can be attributed to a specific category of professional liability policy, and regarding these transactions Harel Insurance signed facultative treaties with two special reinsurers who specialize in and provide cover for this type of activity. In the previous reporting year, one reinsurer sold its share of the facultative treaties to another reinsurer.

3.5.10.4 In the motor property, compulsory motor and other liabilities sectors, Harel Insurance did not reach the maximum amounts determined in the reinsurance treaties during the Reporting Period and it has no outstanding claims of a scope close to the defined limits.

3.5.10.5 Property and other sectors:

(a) In the Quota Share and Surplus fire treaties there are limits to exposure for cover for earthquakes to a maximum of USD 50 billion and cover of a further 10% in addition to the above as necessary, automatically, subject to reporting to the reinsurers. Likewise, there is a limit to the cover for a single earthquake of an amount which is 5% of the above-mentioned exposure.

(b) In a treaty for terror risks pertaining to property (a Quota Share treaty and a Surplus treaty), there is a maximum limit of USD 100 million per event and USD 120 million per year.

3.5.11 Insurance companies overseas

3.5.11.1 Interasco

3.5.11.1.1 Interasco has no reinsurance agreement in which it transfers to a reinsurer more than 10% of all the premiums of Interasco.

3.5.11.1.2 Interasco did not reach the maximum amounts determined in the reinsurance treaties during the Reporting Period and it has no outstanding claims of a scope close to the limits defined in the Excess of Loss reinsurance treaty.

3.5.11.2 Turk Nippon:

3.5.11.2.1 At December 31, 2021, there is no reinsurance company with premiums of more than 10% of the total turnover of TNS.

3.5.11.2.2 Turk Nippon did not reach the maximum amounts determined in the reinsurance treaties during the Reporting Period and it has no outstanding claims of a scope approaching the limits defined in the Excess of Loss reinsurance treaty.

3.5.12 Exposure of the reinsurers to earthquakes

The Company’s policy of spreading the risks among a large number of reinsurers in those sectors where the exposure ceded to reinsurers is significant, so that each reinsurer has a relatively small share of the risk, is also applied to earthquake risks. The average Maximum Probable Loss rate ("MPL") (which represents the estimated maximum loss which may be incurred from an earthquake) is 2.40% before the deductible. When making decisions regarding the amounts of reinsurance cover for catastrophic losses, the Company relies on the results of a risk analysis which has been prepared for it several times in the past by Risk Management Services (RMS), an international company with experience in assessing earthquake risks, and Air Worldwide Corporation, which is another international company experienced in this field. The Company purchased Air Worldwide Corporation’s software program and its estimates are also based on the results of a risk analysis conducted independently by the Company’s actuary department using this model.

The reinsurers' exposure to earthquake risks: as noted above, the Company's policy regarding reinsurance is to spread the risks among as many reinsurers as possible, each with low participation rates. This policy is also applied to the reinsurers' exposure to earthquake risks. The reinsurers share the earthquake risks proportionally and non-proportionally, as follows: Quota Share treaty for property (a combined Quota Share and Surplus treaty) which as part of the property cover insurance, also includes cover for earthquake risks at the same rate, and in addition a facultative agreement for property transactions (mainly agreements on a proportional basis) which includes cover for earthquake risks in proportion to and at the same rate as the participation for the property risks. Likewise, the Company purchases an Excess of Loss treaty for earthquake risks for property only, which protects the Company's retention. This treaty was not renewed. The ratings of most reinsurers for earthquake risks are A- or higher, and are rated by S&P and AM Best. When computing the MPL used by the Company, which as noted above is on average more than about 2.50% before the deductible, the sums insured at December 31, 2021 for the exposure of the proportional reinsurers for earthquakes are NIS 14,807 million and for non-proportional reinsurance (Excess of Loss) is NIS 1,673 million. Each reinsurer calculates its own MPL and bases its estimate on the professional tools available to it, and also uses companies which specialize in estimating earthquake risks all over the world. The Swiss reinsurer, Zurich, which has an AA- rating, is exposed to earthquake risks, in terms of MPL, at a rate of 27% of the total exposure to earthquakes for the MPL calculation.

3.5.13 Additional information

For additional information about reinsurance. See Note 37I to the Financial Statements.

3.5.14 Reinsurance results in non-life insurance (NIS million) (1)

2021 (NIS million)	**Sub-segments:**				
	Compulsory motor	**Motor property**	**Property and other**	**Other liabilities**	**Total**
Total premiums (2)	19	19	881	412	1,331
Profit (loss) (3)(4)	**-**	**(4)**	**305**	**(151)**	**150**

2020 (NIS million)	**Sub-segments:**

	Compulsory motor	Motor property	Property and other	Other liabilities	Total
Total premiums	7	13	803	343	1,166
Profit (loss)[(4)]	**13**	**1**	**170**	**(7)**	**177**

2019 (NIS million)	**Sub-segments:**				
	Compulsory motor	**Motor property**	**Property and other**	**Other liabilities**	**Total**
Total premiums	7	13	755	316	1,091
Profit (loss) [(4)]	**16**	**(3)**	**240**	**(5)**	**248**

(1) The reinsurance results are calculated as noted in Note 37I to the Financial Statements. The data are computed mainly according to reinsurance premiums, net of the reinsurers' share of the claims (including reserves). Accordingly, the results of the reinsurers' activity did not take into account their investment revenues, which account for a significant component of their final performance, particularly in the liabilities sectors where there are significant amounts of reserves and claims are generally long tail.

(2) The increase in reinsurance premiums in 2021 is mainly attributable to the growth of activity in the liabilities sectors and property and other sectors.

(3) The increase in the reinsurers' loss in the liabilities sectors in 2021 compared with previous years is mainly attributed to the professional liability sector in respect of the negative development of claims for previous years and the effect of the Best Practice.

(4) The decreased profit of the reinsurers in the property and others sectors in 2020 as against 2021 and 2019 is mainly attributable to the property loss, homeowners and mortgage sector which was affected in the previous year by winter losses in the first and fourth quarters.

The results of the reinsurers' activity in the liabilities sector can be attributed, largely, to the professional liability branch and particularly medical malpractice insurance. The reinsurers' profits arise mainly from cover for earthquakes, in the form of catastrophe insurance and as a component of property and other insurance.

Property and others sub-segment	**2021**	**2020**	**2019**
Premium in respect of proportional reinsurance	565	507	478
Premium in respect of non-proportional reinsurance	19	24	35
Premium in respect of earthquakes	297	272	243
Total	**881**	**803**	**756**

3.5.15 Reinsurance results in the insurance companies overseas segment

	2021	**2020**	**2019**
Total premiums	89	96	106
Profit	**25**	**12**	**5**

3.6 Human Capital

The Company's management believes that its employees are its most important strategic asset. Despite the size of the Company, management does everything possible to instill in its employees the atmosphere of a family company. The Company invests considerably in its human capital and provides employees with a warm home.

Regarding the Group's organizational structure - see Section 1.1.8 above.

The Group's workforce:

At December 31, 2021, the Group (including companies which are directly or indirectly controlled by Harel Investments) had a staff of about 4,940 filling some 4,446 positions. The Group employs staff who work in a specific operating segment, and employees who provide services to more than one operating segment. For example, the Finance Division employees provide services to more than one operating segment.

On the effect of the COVID-19 crisis on the Group's workforce in the Reporting Period, see Section 2.2 in the Board of Directors Report.

The Group's workforce at December 31, 2021, is as follows:

Company / Division / Department	Number of employees
Harel Investments	**3**
Harel Insurance	
Management / HQ / Other	82
Non-life insurance	559
Long-term savings	377
Health and life	1006
Investments	85
Finance and resources	364
Actuary	23
Human Resources	56
Legal Department	25
Digital and Service Department	379
Direct Activity and Joint Ventures	31
Direct and cooperation department	583
Total Harel Insurance (including Harel Pension and Provident)	**3,570**
Harel Finance	**157**
Harel Hamishmar Computers	**339**
Controlled insurance agencies	**676**
Interasco	**62**
Turk Nippon	**128**
EMI	**5**
Total Group	**4,940**

Changes in the workforce compared with the corresponding period last year are attributable, in part, to restructuring performed by the Group in 2021. For additional information – see Sections 1.1.2, 1.1.7.12, 1.1.7.13, 1.1.7.14.

The Group's workforce at December 31, 2020, was as follows:

Company / Division / Department	Number of employees
Harel Investments	**3**
Harel Insurance	
Management / HQ / Other	44
Non-life insurance	272
Long-term savings	537
Health insurance	368
HQ	974
Investments	82
Finance & Resources	368
Actuary and Risk management	34
Human Resources	52
Dikla, Long-term care claims, Life claims and Personal accident claims	176
Legal and Service Department	370
Digital Strategy Division	30
Total Harel Insurance (including Harel Pension and Provident)	**3,307**
Harel Finance	**150**
Harel Hamishmar Computers	**358**
Controlled insurance agencies	**637**
Interasco	**61**
Turk Nippon	**113**
EMI	**6**
Total Group	**4,635**

3.6.1 Material changes in the list of senior officers

There were no significant changes in the list of Company officers in the Reporting Period.

3.6.2 Terms of engagement with employees

All the Group's employees are employed under personal agreements or contracts rather than collective labor agreements. The wage and terms of employment of each employee are determined in his/her personal employment agreement. The compensation under these agreements is mainly based on a fixed wage, and in marketing and retention positions, there may also be a performance-based component. In the capital market and financial services sectors, some employees have a basic salary plus compensation derived from activity in their area of business. Based on their employment agreements, employees are entitled to pension insurance on a track of their choice (insurance, pension fund, combination of the two, etc.). Additionally, most of the employees are entitled to Company contributions to an education fund. The advance notice period given for dismissal or resignation is usually no more than 30 days, although with respect to senior management a longer advance notice period is defined.

Personal employment agreements specify, *inter alia*, the number of vacation days to which each employee is entitled (in any event, the number of days will not be less than the minimum prescribed by law). Employees are entitled to additional social benefits, in line with Israeli law: convalescence pay and sick pay.

Senior employees are entitled to a basic wage plus fringe benefits such as a company car, refund of expenses, per diem expenses, etc. Additionally, they are entitled to an annual bonus, pursuant to the policy approved by the Company's Board of Directors regarding compensation for senior officers and officeholders engaged in investment management - see details below.

In addition to the aforementioned conditions, the Group's employees enjoy several other benefits: (1) Group health insurance for the Group's employees, without payment of a premium (the employee only pays the tax in respect of the benefit); (2) An option for members of the employee's family to join the group health insurance; (3) Group dental insurance for the Group's employees (the employee and family members) paid for by the employee.

3.6.3 Information about directors and officers

For information about directors and officers, see Regulations 26 and 26A in Chapter 5 of the Periodic Report – Additional Information about the Company.

On the compensation policy for senior officers – see Regulation 21(A)(1) in Chapter 5 – Additional Information About the Company. Additionally, the Company publishes information on the subject on its website, at the following URL:

https://www.harel-group.co.il/about/harel-group/investor-relations/Pages/remuneration-policy.aspx

For information about compensation paid to directors and officers, see Regulation 21 in Chapter 5 of the Periodic Report – Additional Information about the Company.

For information about indemnification and insurance, see Regulation 22 in Chapter 5 of the Periodic Report – Additional Information about the Company.

For information about indemnification and insurance, see Regulation 21 in Chapter 5 of the Periodic Report – Additional Information about the Company.

3.6.4 Employee training

Harel Insurance runs a training department for the Group companies which holds company-wide training programs in addition to courseware solutions that are customized to the needs of the business units. Every year, Harel Insurance formulates an annual training plan, derived from the work plan for that year and the business targets outlined by the Company's management. This plan includes courseware for employee development, such as: getting to know new products, regulations in various sectors, familiarity with new / changing work processes, training to use the core systems, workshops to improve the skills required to fulfill the tasks, management development workshops, etc. Tools are also developed for training new employees, which include courseware and courses to improve familiarity with the organization.

Concurrent with the training activity which is derived from these business needs, the Company holds company-wide activities offered to employees for personal enrichment and development. Harel Insurance also cooperates with colleges and academic institutions for training employees through insurance-related courses and seminars as well as studies towards a BA in insurance.

In the wake of the global COVID-19 crisis, which occurred in the Reporting Period, the organizational training network was adapted to provide a rapid response to the new challenges. At the same time, frontal training sessions were converted to the virtual space, workshops were held for training employees and managers for online teaching and training and digital learning solutions were enhanced to allow for distance learning. Additionally, adjustments were made in training content and methods for organization-based personal development.

3.6.5 Code of Conduct for the Group's employees

The Group's management supports a fair business culture among its employees and managers (including its directors) for fulfillment of their duties. Accordingly, the Company adopted an ethical code. Each employee recruited by the Company signs a document confirming that he has read the ethical code and that he undertakes to act accordingly.

3.7 Marketing and distribution

3.7.1 Life assurance and long-term savings

Insurance and long-term savings products are mostly distributed and marketed through agents and agencies and through direct sales to customers, in part using digital methods. In the provident funds and pension funds, distribution activity also takes place through the pension advice system in the various banks which with the management companies have signed distribution agreements. With the exception of a small number of agencies, the Company does not own the agencies which sell the Group's products. The Group has nationwide distribution via a professional, skilled network of about 5,864 agents who operate through the Group's regions and sectors, and provide personal service to the highest standard for all customers. The Group takes the view that its network of agents is a strategic asset, which is an inseparable part of its operations.

3.7.1.1 Life assurance

At the reporting date, the Group operates through 3,939 agents.

The Company has marketing agreements with banking insurance agencies for the sale of mortgage-related life assurance.

The Company has no single agent whose rate of new sales in the life assurance branch in 2021 accounts for more than 10% of total sales in the long-term savings sector.

The rate of commissions paid to agents is determined in individual agreements signed with them.

The Company pays on-going commissions throughout the life of the policy. In some instances, advance payments for various periods are made on account of these commissions. Advance payments which do not comply with certain rules prescribed in the Commissioner's circular are "an unrecognized asset", which lead to an increase in the minimum required equity. Additionally, the Company pays commissions to its agents which are set in line with the volume of sales of new policies. Likewise, from time to time, the Company holds marketing campaigns in which agents receive benefits in money or the equivalent. Some of these commissions are recorded as deferred acquisition costs.

In 2021, the percentage of commissions in life assurance is 12.6% of all premiums in this operating segment, compared with 11.5% in 2020 and 11.2% in 2019.

The average rate of the commission from the new annualized premium sold in 2021 is 39.2%, as against 41.3% in 2020 and 30.7% in 2019 and 27.9% of the new annualized premium that was sold in 2019.

3.7.1.2 Pension funds

The Group markets the pension funds mainly through insurance agents and agencies, directly, through the marketing units of Harel Insurance. Additionally, pension funds are also distributed through pension advisors in the different banks.

On the selected default option funds for pension, see Section 2.1.1.2.

There is fierce competition in the pensions sector between the pension fund management companies. This competition is reflected, principally, in the percentage discount on the management fees.

At the date of the report, Harel Pension and Provident maintains distribution agreements with most of the commercial banks.

Commissions in respect of the sale of pension products are generally paid to insurance agents as a percentage of the contributions, based on an individual agreement between the agent and the Company. From time to time, the Company holds marketing campaigns in which agents receive benefits in money or the equivalent. Some of these commissions are recorded as deferred acquisition costs.

The rate of distribution fees paid to banks and the average agents fees in the pension funds for the reporting period stood was 0.07% of the total assets under management in this sector.

3.7.1.3 Provident funds

The Group markets its provident funds through insurance agents and agencies, through direct activity with various entities and companies in the economy, via the marketing units of Harel Insurance and by distribution through pension agents in the banks.

The Supervision of Financial Services (Provident Funds) (Distribution Fees) Regulations, 2006, stipulate that management companies may pay distribution fees at a monthly rate which is no more than one twelfth of 0.25% of the total amounts which the customer has to his credit in his provident fund account on the last day of business of each month.

Harel Pension and Provident has distribution agreements for the provident funds with most of the banks.

Commissions paid to insurance agents for the sale of provident products are paid as a percentage of the accrual of the agent's customers. From time to time, the Company holds marketing campaigns in which agents receive benefits in money or the equivalent.

The rate of distribution fees paid to banks and the average agents' fees in the provident funds, for the Reporting Period, was 0.14% of the total assets under management in this sector.

3.7.2 Health Insurance

The Group markets and distributes its personal lines policies in the health insurance sector mainly through insurance agents and agencies which sell the Group's products, in part using digital methods. The Group insurance is sold through insurance agents and agencies and directly to the relevant organizations.

In long-term care insurance, Harel has an agreement with Clalit Health Services for marketing long-term care insurance to members of the Clalit Health Fund, as part of a group policy called "Supplementary Plus Long-term Care". Dikla provides Harel Insurance with policy marketing services, claims settlement services and customer service in connection with the Supplementary Plus LTC policy.

The rate of commissions which the Group's companies pay agents for selling the policies is determined in individual agreements signed with them.

Payment of commissions on health insurance policies is spread over the life of the policy, unless another arrangement has been defined. In some instances, advance payments for various periods are made on account of these commissions. Additionally, from time to time, the Group’s companies organize marketing campaigns in which, subject to meeting targets, the agents receive money or money equivalent benefits. Some of these commissions are recorded as deferred acquisition costs.

In 2021, the average rate of commissions from premiums in the health insurance segment was 13% of the total premium, as against 14.6% in 2020 and 16.1% in 2019.

3.7.3 Non-life insurance

3.7.3.1 Motor property

Harel Insurance markets its products in this sub-segment mainly through insurance agents and agencies as well as through digital methods. Most of the non-life insurance agents of Harel Insurance operate in the motor-property sub-sector. Harel Insurance is also active in this area using the brand name "Upgrade", “Switch” and Shirbit, which is part of Harel Insurance Company.

The policies available on this track are for insureds with certain driving specifications, which based on the experience of Harel Insurance are defined as having a lower than average risk, and they are offered a more attractive price and broader coverage. The policies on this track are sold through a call center, through which insurance proposals may be received and, where necessary, policies can be issued after professional underwriting. Customers are referred to the call center by agents of Harel Insurance and by advertisements.

Additionally, motor property policies are sold directly to a limited number of business customers who wish enter into a direct agreement, without an intermediate entity, including through tenders.

For brokering motor property insurance transactions, the Group pays the agents a commission, in money and/or money equivalent. The commission is usually set as a percentage of the premiums, and in part is dependent on the volume of activity and/or profit of the insurance sold through the agent.

The average commission rate in the motor property sub-segment was 15.8% in 2021, compared with 15.3% in 2020, and 15.5% in 2019.

Harel Insurance has no single agent whose activity in the motor property and compulsory motor sub-segment accounts for 10% or more of the volume of the Group's activity in this segment.

3.7.3.2 Compulsory motor

Harel Insurance markets its products in this sub-sector mainly through insurance agents and agencies, as well as through digital methods, in the same way as it markets products in the motor property sector (for details about the method of marketing through insurance agents and agencies - see Section 3.7.3.1 above).

Compulsory motor insurance is marketed to large groups by participating in tenders published by organized entities (e.g. the Accountant General on behalf of the state employees).

Commissions paid to insurance agents for the sale of motor property policies are mostly set as a rate of the premium. Due to the complexity of this insurance, Harel Insurance does not usually pay profit commissions in this sector, but in certain cases it pays a volume commission for a particularly large volume of activity.

The average commission rate in the compulsory motor sub-segment was 4.8% in 2021, as against 4.9% in 2020, and 5.2% in 2019.

Harel Insurance has no single agent whose activity accounts for 10% or more of the volume of activity in the compulsory motor and motor property sub-segments.

3.7.3.3 Other liabilities sectors

Harel Insurance markets its products in the other liabilities sub-sector through insurance agents and agencies as well as directly, in part by participating in tenders published by business entities, and by digital methods. The direct activity is mainly in policies for particularly large enterprises. Harel Insurance has a separate department ("region") defined as the Industry Region and a designated department for special insurance risks, specializing in providing insurance solutions for large, complex enterprises with respect to the scope and class of coverages required by the customer or its advisors, as well as providing solutions for companies with international operations, and this, inter alia, by collaborating with reinsurers and foreign insurers which the Group represents in Israel, including the Swiss company Zurich.

Agents' fees are paid in money and/or money equivalent. The agents' fees are often affected by the rate of fees added to a policy and, in some instances, by the profitability of the agent's portfolio.

The average commission rate in the other liabilities sub-sector was 11.2% in 2021, as against 11.3% in 2020, and 11.6% in 2019.

About 32.2% of total premiums in the other liabilities sectors are marketed through one agent, which is an associate of the Company. The loss of premiums marketed through this agency will not significantly affect profits in this sector.

3.7.3.4 Property and other sectors

Harel Insurance markets its products in this sub-segment through insurance agents and agencies as well as directly, in part by participating in business tenders and through digital methods. Direct activity is mostly with large business customers where the composition of the policies is usually more complex. Harel Insurance has a separate department ("region") which is defined as the Industry Region as well as a designated department specializing in providing insurance solutions for large, complex enterprises with respect to the scope and class of coverages required by the customer or its advisors, as well as providing solutions for companies with international operations, and this, inter alia, by collaborating with reinsurers and foreign insurers which the Group represents in Israel, including the Swiss company Zurich. Mortgage-related structural insurance is usually sold by the mortgage banks, through designated insurance agencies, which have agreements with Harel Insurance, and in a small number of cases through insurance agents. The fee paid to agents for brokering transactions in the property and other insurance sub-sector is determined principally as a percentage of the net premium and in some cases is conditional on the volume of the agent's sales. Pursuant to the Supervision of Financial Services (Insurance) (Maximum Commissions on Mortgage-related Structural Insurance) Regulations, 2012, from January 1, 2013, a limit was set of 20% (including VAT) of the premiums that the insurer collects from the insured, on the commissions for brokering mortgage-related structural insurance policies.

The average commission rate in the property and other sub-segments was in 2021 was 13.4%. The commission rate in other business property loss (excluding the homeowners branch, including mortgages) is 11.6% of the premiums and the commission rate in the comprehensive homeowners branch, including mortgages, is 17.4% of the premiums in this line of business, as against 18.7% last year and 19.7% in 2019.

3.7.3.5 Mortgage insurance

As described in Section 1.2.3.5 above, due to Bank of Israel regulatory provisions, no new policies were sold in this segment during the Reporting Period.

3.7.4 Insurance companies overseas

Interasco and Turk Nippon distribute their various insurance products mainly through insurance agents and brokers. The companies do not have exclusivity agreements with any distribution channels.

Turk Nippon is the representative of Royal & Sun Alliance Insurance PLC, so that its customers in Turkey are served by Turk Nippon. This agreement has a positive impact on the volume of activity of Turk Nippon.

3.7.5 Material changes in laws relating to distribution channels that were published during the Reporting Period

There were no material changes in the laws relating to the distribution channels during the Reporting Period.

3.7.6 Key agencies controlled by the Group

The key agencies controlled by the Group are: Dikla which operate mainly in the health insurance segment; Veritas Insurance Agencies Ltd. and Yedidim Pension Arrangements, which operate in all the operating segments in which the Company is active; and Tichnun Mitkadem (Advance Planning) - Pension Insurance Agency (2013) Ltd., which operates in the long-term savings sectors.

3.7.7 Dependence on a marketing factor

The Group is not dependent on any of its marketing entities in any of its areas of activity, so that the loss of an entity is unlikely to significantly and adversely affect any particular area of activity or cause the Company significant additional costs as a result of the need to replace them.

3.8 Suppliers and service providers

3.8.1 Life assurance and long-term savings

In the life assurance and long-term savings segment, the Group has numerous agreements with service providers in connection with this area of activity. The principal agreements are with suppliers for the payment of annuities and service providers that operate the main provident funds.

The Group companies are not dependent on any of these service providers. Regarding most of the services required by the Company in this area of activity, the Company has agreements with several service providers thus providing operational flexibility. The fact that substitute service providers are available for most of the services listed above, means that the Company is not dependent on any particular service provider.

3.8.2 Health Insurance

In the health insurance segment, the Group has agreements with a large number of suppliers in connection with the coverages included in the policies in this area of activity. The most important agreements are with private hospitals, doctors and medical service providers, and the suppliers of service notes.

The Group's companies are not dependent on any of the above-mentioned service providers. The Company has agreements with several suppliers for most of the services which it requires in this area of activity, providing it with operating flexibility. Substitute suppliers are available for most of the services listed above so that the Company is not dependent on any one supplier.

3.8.3 Non-life insurance

3.8.3.1 Motor property

The main agreements are with car repair service providers, spare parts suppliers and service providers for service notes.

Harel Insurance is not dependent on the aforementioned service providers, as there are other suppliers in the market with which it can reach agreement within a reasonable time, taking into account the nature of the different agreements, and given that in most cases, Harel Insurance has agreements with more than one service provider. In view of the competition between the aforementioned service providers, a change in the identity of any one of the suppliers is not expected to have a negative impact on performance in the motor property sub-sector.

3.8.3.2 Compulsory motor

To streamline the process of claims settlement in compulsory insurance, utilizing economies of scale and its desire to provide quality, professional service, as well as to reduce the expenses entailed in settling the claims while paying proper compensation, Harel Insurance has agreements with service providers who include lawyers, doctors and private investigators.

Harel Insurance is not dependent on any particular supplier thanks to its agreements with a variety of suppliers all over the country.

3.8.3.3 Other liabilities sectors

To streamline claims settlement process in the liabilities insurance sub-segment, Harel Insurance entered into agreements with a long list of suppliers, including, among others, attorneys, assessors, medical institutions, private investigators, etc. Claims in respect of medical malpractice policies are handled mainly through MCI, a company fully controlled by Madanes Insurance Agency Ltd. (in which the Company has a 25% holding) and by VECTIS, which is owned jointly by Harel (5%) and the reinsurance company Swiss Re. Harel Insurance has a certain dependence on MCI, nonetheless, Harel Insurance has sufficient knowledge and experience to undertake the handling of these claims independently, within a relatively short time frame. Performance in this sub-sector is not expected to be negatively impacted by changes in the agreements with these or any other service providers, due to the fact that there are other service providers with which agreement can be reached within a reasonable time frame and at similar costs (and this in view of the competition between the different service providers in the relevant sectors).

3.8.3.4 Property and other sectors

In the household insurance sector, Harel Insurance markets various riders to the standard policy, through service agreements with different suppliers. Harel Insurance has signed agreements with suppliers and service providers, inter alia, in the following areas: plumbers and companies that manage a call center for the management of claims due to water damage.

Harel Insurance is not dependent on the service providers mentioned in this section, as there are other suppliers in the market with which it can reach agreement within a reasonable time, taking into account the nature of the different agreements. In view of the prevailing competition between the aforementioned service providers, a change in the identity of any one of the suppliers is not expected to have a negative impact on performance in the other property sub-segment, including in the household and mortgage line of business.

Following is information about other suppliers and service providers:

3.8.4 Computer and software services

Most of the Group's companies receive computer and software services from Harel Hamishmar Computers, a wholly owned subsidiary of the Company which is responsible for providing the various automation services, and where necessary, it operates software companies and providers for the computer services which it renders to the Group's companies

3.8.5 Dependence on suppliers

Except for the service providers listed in Section 2.5.16.2 above, regarding financial services, and a certain dependence on MCI and the joint company in the liabilities and other sub-segment (see Section 3.8.3.33.8.3.3), the Group's companies are not dependent on any of their suppliers, and the Group is able to find alternative suppliers or solutions for each supplier, without this creating a significant additional cost.

3.9 Fixed assets

3.9.1 Offices and real estate assets

The Group's head offices are located in Harel House and *M.E.H House*, which are in the Diamond Exchange compound on the Ramat Gan – Tel Aviv border. Additionally, the Group has offices (in real estate assets which it owns and are owned by its wholly owned subsidiaries) in Harel House in Jerusalem, Tel Aviv, Haifa, Petach Tikva (where the logistics center of the Group's insurance companies is located) and in other locations around the country.

In addition to these offices, the Company has additional real-estate assets in different parts of the country. Furthermore, the Company owns 55% of the rights in a 120,000 sq. m. site in the Rothschild area which is slated for the construction of residential, office and commercial premises.

The outstanding amortized cost of these real-estate assets, which serve the Group companies, at the reporting date is NIS 1,220 million compared with NIS 1,217 million at December 31, 2020. The Group companies also rent parking space in the vicinity of Harel House and office space in various cities in Israel.

3.9.2 Computer and IT systems

The subsidiary Harel Hamishmar Computers Ltd. ("HHC") is responsible for providing the various automation services, and where necessary, it operates software companies and suppliers for the computer services which it provides for the Group's companies. In the past few years, Harel Hamishmar Computers has been intensively involved in the implementation of the Company's strategic plan, *Recalculating the Route*. For information about the Group's business targets and strategy, see Chapter 2, Section 8 in the Periodic Report (Board of Directors' Report).

The Group attributes considerable importance to its technology capabilities, enabling it to support the Group's goals, and it has set itself a target of being a leader in the use of advanced systems in its different areas of activity. Pursuant to the foregoing, in the Reporting Period the Company invested in technology tools and products which will enable the Group to develop new business capabilities relating to digital and innovation worlds (e.g. Salesforce, cloud infrastructure, etc.). The Group also continues to invest heavily in technology and cyber infrastructures, all in addition to upgrading the core systems which constitute the foundations for implementing its advanced capabilities.

The Group invested about NIS 301 million in computer equipment and software in 2021, compared with NIS 299 million in 2020.

3.10 Seasonality

There are no significant seasonal on profitability in any of the Company's areas of activity. Nevertheless, for insignificant seasonal effects in the different operating segments, see details below:

3.10.1 Life assurance and long-term savings

In life assurance and long-term savings, there is a marked increase in the pace of sales towards the end of the year due to the purchase of products that provide tax benefits and deposits in these products.

3.10.2 Health insurance

As a rule, in health insurance, there is a seasonal increase in the number of policies sold to overseas travelers during the summer months and holiday season. Nonetheless, in the Reporting Period, there was no seasonality in this sector due to the COVID-19 pandemic.

3.10.3 Non-life insurance

3.10.3.1 The turnover of premiums in the non-life insurance sectors is greater at the beginning of each calendar year, due to renewals of a large number of annual insurance contracts at the beginning of the year. This seasonality does not affect profits, given that it is regulated by changes in the reserve for unexpired risks.

3.10.3.2 In compulsory motor and motor property insurance, there is an increase in the volume of claims during the winter months, due to a larger number or road accidents, and weather-related damage.

3.10.3.3 In other property insurance, there is an increase in the volume of claims during the winter months, due to weather-related damage.

Distribution of premiums earned in the sectors of insurance, management fees from provident and pension funds, and total revenues from the capital market and financial services segment, by quarter for the last three years (NIS million):

	2021 (NIS million)			
Operating segment	**Q1**	**Q2**	**Q3**	**Q4**
Life assurance & long-term savings				
Life assurance	1,446	1,512	1,412	1,517
Provident funds & pension funds	146	149	154	183
Health	1,282	1,315	1,368	1,399
Compulsory motor	132	132	150	177
Motor property	210	230	238	264
Other liabilities sectors	227	235	238	258
Other property sectors	255	257	282	294
Mortgage insurance	2	-	1	2
Capital market & financial services	58	62	63	71
Insurance companies overseas	118	111	114	98

	2020 (NIS million)			
Operating segment	**Q1**	**Q2**	**Q3**	**Q4**
Life assurance & long-term savings				
Life assurance & long-term saving	1,714	1,259	1,476	1,667
Provident funds & pension funds	144	140	146	150
Health	1,247	1,213	1,232	1,261
Compulsory motor	157	137	134	131
Motor property	210	210	221	220
Other liabilities sectors	242	241	242	254
Other property sectors	241	240	245	257
Mortgage insurance	3	1	3	2
Capital market & financial services	66	48	54	52
Insurance companies overseas	134	123	122	116

	2019 (NIS million)			
Operating segment	**Q1**	**Q2**	**Q3**	**Q4**
Life assurance & long-term savings				
Life assurance & long-term saving	1,548	1,482	1,772	1,453
Provident funds & pension funds	143	144	149	152
Health	1,195	1,213	1,256	1,258
Compulsory motor	151	159	156	155
Motor property	193	205	210	214
Other liabilities sectors	237	241	241	248
Other property sectors	241	241	248	256
Mortgage insurance	3	1	3	2
Capital market & financial services	48	49	53	57
Insurance companies overseas	129	125	130	142

3.11 Intangible assets

Trademarks / logo

The Group companies own the trademark on the logo with the name “Harel Insurance and Finance” which is registered in the Register of Trademarks. Harel also has several brands, registered and unregistered, which benefit from the goodwill forged by the Company over the years in the insurance and finance market, such as Upgrade, Harel Switch, “Harel Insurance and Finance for your Peace of Mind”, and more.

EMI owns 5 trademarks relating to the company’s commercial name - “EMI”, the “EMI” logo and the company’s method - “EMI Method”.

Databases

The Group administers databases which are critical to management of the Company’s business in accordance with the Protection of Privacy Law, 1981.

Software and domain addresses

For the purpose of their activity, the Group companies use software programs owned by the Group companies and/or software whose licenses were purchased for their use. Additionally, the Company develops, through its employees and through various service providers, software programs for its own use in which it has copyright.

The domain address of Harel Group’s website is owned by the Group.

Licenses

The Group has licenses and permits to operate as an insurer, management company and corporate agent, as applicable, in accordance with the provisions of any law.

For information about intangible assets - see Note 6 to the Financial Statements.

3.12 Risk factors

Table of risk factors

The following table shows the Group's risk factors by quality and their possible impact, in the opinion of the Group's management, on its business:

Risk category	Risk factors	Extent of the risk factor's impact on the Company		
		Strong influence	Moderate influence	Small influence
Macro risks	Economic slowdown in Israel	✓		
	Market risks	✓		
	• Interest rate risk	✓		
	• Credit spread risk	✓		
	• Inflation risk		✓	
	• Exchange rate risk		✓	
	• Share prices risk	✓		
	• Prices of other assets risk		✓	
	Credit risks	✓		
Sectoral risks	Insurance risks including longer life expectancy and morbidity	✓		
	Strategic risks, including changes in the competition environment, in the level of portfolio retention, in the public's risk appetite and technology innovation threats	✓		
	Negative changes in the reinsurance market worldwide		✓	
	Catastrophe risks:			
	• Pandemic	✓		
	• Terrorism or war		✓	
	• Earthquake or other large-scale natural disaster in Israel	✓		
	Regulatory changes	✓		
	Legal precedents	✓		

Special risks facing the Company	Operating risks		✓	
	Cyber and data security risk	✓		
	Information technology risks	✓		
	Outsourcing risks		✓	
	Liquidity risks			✓
	Mismatch between assets and liabilities		✓	
	Class actions and significant legal proceedings	✓		
	Compliance risks		✓	
	Collapse of one of the Company's reinsurers		✓	
	Goodwill / reputation risk		✓	

Attributing the extent of the impact of the aforementioned risk factors to the Group is based on a quality, subjective assessment prepared by the Group's management, taking into account the volume and nature of its activity at the date of this report. The impact of each of the aforementioned risk factors may be affected by changes that occur in the characteristics of the Group's activity or in market conditions after the date of this report.

For additional information about risk management, see Note 37 to the Financial Statements.

3.13 Material agreements and Cooperation agreements

On material agreements and cooperation agreements in the capital market and financial services segment – see Section 2.5.16.2 above.

3.14 Goals and Business Strategies

For information about the business strategy and objectives – see Chapter 2, Section 8 of the Periodic Report (Board of Directors Report).

4. Corporate governance

4.1 External directors

The external directors serving at the date of publication of the report are: Ms. Hava Friedman Shapira, Mr. Naim Najjar and Ms. Efrat Yavetz.

For information about the Company's external directors – see Regulation 26 in Chapter 5 of the Periodic Report – Additional Information about the Company.

<u>Changes in the Company's external directors in 2021 and up to the date of publication of this report</u>

Ms. Efrat Yavetz was appointed as an external director in the Company effective from January 7, 2021.

On January 17, 2021, Mr. Israel Gilad completed a nine-year term as an external director in the Company.

4.2 Internal auditor

4.2.1 Information about the internal auditor and commencement of his term of office:

On December 24, 2013, the Board of Directors appointed Ms. Osnat Manor Zisman as the Company's Internal Auditor and she began to serve on February 1, 2014.

The Internal Auditor satisfies the provisions of Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law, 1992.

The internal auditor is an employee of Harel Insurance and also serves as internal auditor of Harel Investments. The internal audit work is performed by employees in the Company's internal audit department, as well as through outsourced services. The Internal Auditor is accountable to the Chairman of the Company's Board of Directors.

The Company's internal auditor also serves as internal auditor for two subsidiaries of the Group (Harel Insurance and EMI). The following comments on the activity of the Company's internal auditor (unless specified otherwise) therefore address the activity of the internal auditor with respect to the Company's affairs as well as to the affairs of the subsidiaries as noted.

Other subsidiaries are served by other internal auditors. Thus, for example, companies in the Harel Group which are involved in the capital market and financial services sector (Harel Finance and its subsidiaries), are served by the internal auditor Linor Dloomy CPA from Deloitte. Shai Loterbach CPA serves as the internal auditor of Harel Pension and Provident, Tzva Hakeva and LeAtid. Some of the audits for these companies are performed by the employees in the Company's internal audit department.

Some of the subsidiaries are required by law to appoint an internal auditor, even though they are not public companies. Thus, for example, insurance companies and provident fund and pension fund management companies must appoint an internal auditor and an audit committee to discuss the internal auditor's reports. Consequently, the internal auditors who serve most of the Company's subsidiaries operate in accordance with and subject to decisions made by the audit committees of those subsidiaries.

4.2.2 The audit plan

The audit plan is an annual plan, derived from the multiyear audit plan. The series of audits which are the subject of the multiyear plan are designed to ensure that over the course of four years, all subjects relevant to the Company's operations are audited. The content of the work plan is determined, among other things, on the basis of a preliminary study and findings regarding the controls in place in the procedures and based on regulatory changes.

4.2.3 Professional practices

The generally accepted professional standards applied by the internal auditor in conducting the audit, as noted in Section 4(b) of the Internal Audit Law, are as defined by the International Institute of Internal Auditors (IIA) and adopted by the Israel Institute of Internal Auditors – ILA Israel.

4.2.4 Scope of employment

The scope of the internal audit is determined at the beginning of the year, when the audit plan is approved. In 2021, the Group performed 36,676 hours of audit (in 2020, 36,660 hours of auditing were performed). The volume of auditing hours is defined based on a four-year plan in which context all the subjects pertaining to the operations of the Company and its subsidiaries are to be audited, as noted above. The multi-year plan forms the basis for the annual audit plan, and accordingly the number of hours required for performing it.

Information about the number of hours of auditing for the Company and its investees:

The Company	Hours invested
Harel Insurance	24,150
Pension and provident companies*	6,040
EMI	200
Total for financial institutions	30,390
Harel Finance and subsidiaries	2,570
Turk Nippon & Interasco	3,216
Harel Investments	500
Total	36,676

* Harel Pension and Provident, Tzva Hakeva, and LeAtid

4.2.5 Compensation

The internal auditor is an employee of Harel Insurance.

The internal auditor's salary is defined in his employment agreement, in a manner that does not prejudice his professional discretion or independence.

4.2.6 Access to information

All the relevant documents requested were presented to the Internal Auditor, including constant, unmediated access to the Company's information systems and to any other information, and including financial data.

4.2.7 The Internal Auditor's report

All the Internal Auditor's reports were submitted in writing. Each report was submitted to the chain of audited entities up to the CEO and chairman of the audit committee of the audited company's board of directors. A meeting of the audit committee was held with the audited entities regarding the findings and the response of the audited entities was submitted in writing.

In all, 4 audit reports were submitted to the Company in the Reporting Period, and they were all discussed by the Audit Committee which convened close to their submittal date.

4.2.8 Board of Directors assessment of the Internal Auditor's work

The Board of Directors believes that the scope of the Company's internal audit, the nature and continuity and work plan of the internal auditor, are adequate under the circumstances and they are capable of achieving the objectives of the internal audit.

4.3 External Auditor

4.3.1 Particulars of the external auditor

4.3.1.1 Name: KPMG Somekh Chaikin

Service commenced: 1999

4.3.1.2 Name of the partner responsible for auditing the Company (since January 2022):

Ms. Hagit Keren, CPA.

4.3.2 Disclosure concerning the fee paid to the auditors

Details of the fee paid to the CPA (excluding VAT) for services rendered during the period 2020-2021:

	2021			
	Fee (NIS thousand) excl. VAT			
	Auditing services	Other	Special tax services	Total
The Company [1]	526	111	15	652
Harel Insurance [1]	*4,649	623	424	5,696
Harel Finance [2]	475	2	112	589
Other companies [1]	753	-	99	852
Total	**6,403**	**736**	**650**	**7,789**

	2020			
	Fee (NIS thousand) excl. VAT			
	Auditing services	Other	Special tax services	Total
The Company [1]	499	82	35	616
Harel Insurance [1]	* 4,559	111	726	5,396
Harel Finance [2]	445	111	75	631
Other companies [1]	559	-	96	655
Total	**6,062**	**304**	**932**	**7,298**

(1) KMPG Somekh Chaikin – (most of the amount).

(2) Kost Forer Gabbay – Ernst & Young (most of the amount).

* The amount includes an audit in respect of Solvency.

4.3.3 Disclosure concerning the process of application and assimilation of IFRS 17, Insurance Contracts (“IFRS 17” or “the Standard”)

In March 2020, the Company entered into agreement with Ernst & Young Canada, which will support the Company as an external consultant in the process of implementing and assimilating IFRS 17. This stage is expected to continue until the commencement date of the Standard on January 1, 2024. During this stage, with the assistance of the aforementioned external consulting company, the Company will conduct an individual review of each of its products and make a final choice regarding its accounting policy with respect to key issues in the Standard and assimilating them in the system, make the necessary adjustments in relation to the accounts and main ledger, and it will also perform an assessment of the system, including a parallel run.

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

For additional information about the effectiveness of internal control over financial reporting and disclosure - see Chapter 6 of the Periodic Report.

4.5 Information about progress on the deployment for Solvency II

For further information about progress made on the deployment of Solvency II, see Note 9F(1) to the Financial Statements.

Yair Hamburger Chairman of the Board	Michel Siboni CEO

March 28, 2022

Harel Insurance Investments and Financial Services Ltd.

Chapter 2

Board of Directors Report

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Harel Insurance Investments and Financial Services Ltd.

Board of Directors' Report for 2021

The Board of Directors' Report in this chapter of the Periodic 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.

The Board of Directors' Report at December 31, 2021, reflects the principal changes in the business position of Harel Insurance Investments and Financial Services Ltd. ("Harel Investments" or "the Company") in 2021. The Board of Directors' Report is an inseparable part of the Periodic Report in its entirety, and the entire Periodic Report should be read as a single document.

1 Description of the Company

1.1 General

Harel Insurance Investments and Financial Services Ltd. ("Harel Investments" or "the Company") 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 different insurance sectors, 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%) operating in non-life insurance in Greece; Turk Nippon (fully controlled) operating in Turkey; ICIC -Israel Credit Insurance Company Ltd. (with a 50% holding) ("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 control) ("Tzva Hakeva Saving Fund - Provident Funds Management Company Ltd. (fully controlled) ("Tzva Hakeva") which manages an education fund for IDF career soldiers and pensioners; LeAtid Pension Funds Management Company Ltd. (in which the Company holds 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 Holdings Ltd. ("Harel Finance") (fully controlled by the

[1] For additional information about completion of the restructuring of the Group in which the holding in EMI was transferred from Harel Insurance to the Company, see Section 1.3.1 below.

Company) and its principal 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 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 credit sector- through the subsidiary Hamazpen Shutaphim Laderech Ltd. (in which the Company holds 70%) ("Hamazpen") which creates innovative financing solutions for quality entrepreneurs providing credit to small and medium businesses, including the provision of mezzanine loans; through a company fully owned by Harel Insurance, Harel 60+ Ltd. ("Harel 60+"), which provides reverse mortgage loans. The loans are provided to borrowers aged 60 or more in the form of a lien on their homes; and also within the framework of sale guarantee activity in Harel Insurance.

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.

For more information about the Group's operating segments, see Section 1.2 in Chapter 1 of the Periodic Report - Description of Company Operations.

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 46.94% 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.

1.3 Restructuring and the acquisition of activity in the Group

1.3.1 Restructuring - EMI

On July 1, 2021, the restructuring entered into force, in which all the holdings of Harel Insurance in Mortgage Holdings Israel Ltd. ("EMI Holdings"), which holds all the share capital of the insurance company EMI, were transferred to the Company ("the Restructuring"). The transfer of these holdings in EMI Holdings from Harel Insurance to the Company as part of the Restructuring was accounted for as a dividend in kind from Harel Insurance to the Company, from distributable profits. The Restructuring took 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. Upon completion of the Restructuring, the Company is able to receive an ongoing annual dividend from the current activities of EMI. Additionally, on August 26, 2021, the Company received a dividend of NIS 310 million from EMI Holdings. It is emphasized that the Restructuring which is included in the solvency ratio calculations of Harel Insurance as at December 31, 2020, reduced the economic capital surplus of Harel Insurance by NIS 605 million. It is stipulated that the Restructuring did not result in any change in the Company's accounting equity on a consolidated basis.

1.3.2 Purchase of the management rights for provident funds and pension funds from Psagot Provident and Pension Funds Ltd. ("Psagot")

On September 30, 2021, when all the suspensive conditions had been satisfied, the agreement was completed according to which Harel Pension & Provident acquired from Psagot the management rights of several provident funds and pension funds ("the Management Rights"), in consideration of NIS 185 million. These Management Rights include management of the pension funds of Psagot, including the old HAL (National Labor Federation) pension fund, the investment provident fund of Psagot and the long-term savings provident funds for children, as well as central severance pay funds. Commencing October 1, 2021, these funds will be managed by Harel Pension & Provident.

1.3.3 Acquisition of the insurance activity of Shirbit Insurance Company Ltd. ("Shirbit").

On November 30, 2021, when all the relevant suspensive conditions had been satisfied, the transaction was completed according to which Harel Insurance acquired the insurance activity of Shirbit in consideration of NIS 111 million. From the date of completion of the transaction, all the customers of Shirbit became customers of Harel Insurance. The insurance activity of Shirbit was included in the consolidated financial statements from December 1, 2021.

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 comprehensive income according to its annual consolidated financial statements.

Additionally, 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.

2 Financial position and results of operations, liquidity and sources of finance

2.1 Principal changes regarding the Company's business

On material transactions and other changes which took place in the Reporting Period – see Section 1.1.7 in Chapter 1 of the Periodic Report – Description of Company Operations.

On changes that took place after the Reporting Period - see Section 1.1.8 in Chapter 1 of the Periodic Report - Description of Company Operations.

2.2 Effects of the COVID-19 pandemic on the Group's activity

Due to the outbreak of the COVID-19 pandemic at the beginning of 2020 (COVID-19 Crisis) and its global spread, Israel included, governments around the world imposed various limitations in an effort to halt the spread of the virus and reduce the number of people ill. These measures included, among others, a drastic reduction of business and leisure activity, isolation of those suspected of being infected with the virus, public transport cutbacks and the closure of borders, restrictions on gatherings and other limitations. In Q4 2020 many countries, including Israel, began to approve the use of vaccinations against the virus and launched campaigns to vaccinate the population.

In the Reporting Period, as a result of the rapid vaccination of Israel's population, morbidity declined significantly and accordingly, the restrictions which had been imposed were almost entirely lifted. Nonetheless, during the course of 2021 additional waves of the COVID-19 virus spread and morbidity increased periodically, which was accompanied by the imposition of restrictions on large gatherings and travel to and from different countries. Towards the end of 2021, there was another wave of morbidity due to the spread of the Omicron variant. Despite the extensive morbidity which triggered widespread quarantining, at the date of the report no significant restrictions have been imposed on economic activity in Israel.

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.

2.3 Developments in the macroeconomic environment of the Group

The Group's performance is significantly affected by the yields attained in the capital market and by the economic, political and security situation in Israel and worldwide. Following are the key factors in the macroeconomic environment that affect the Group's activity:

2.3.1 General

The global economy continued to recover in Q4 2021 as well, although at the end of the quarter there was increased uncertainty due to the spread of the Omicron variant. The growth forecast for most of the key economic blocks remained almost unchanged.

The volume of global trade remains high. There was no significant change in the price of oil and other commodities although this was after an increase in the previous quarters. The price of natural gas in Europe fluctuated due to supply problems.

The inflation environment around the world continues to increase and in most countries the inflation indices rose to levels higher than the targets of the central banks. Problems in the global production chain, high energy prices and wage increases intensify the existing inflation risks. More central banks therefore reduced their bond-purchasing plans, raised the interest rate or indicated their intention to increase the interest rate.

The central banks of the UK and Norway raised the interest rate, in the US the Federal Reserve left the interest rate unchanged but it doubled the pace of reducing the bond-purchasing programs. In the Eurozone, the ECB left the interest rate unchanged but announced its intention to extend one of the bond-purchasing programs only. In contrast with the global trend, China's central bank intensified the expansionary monetary policy in view of the slowdown of economic activity.

2.3.2 Developments in the Israeli economy

According to initial estimates, in the last quarter of 2021 GDP rose by an annual rate of 16.6%. GDP grew 8.1% in 2021, the fastest annual rate since 2000.

2.3.3 Stock market

Q4 2021 concluded with an 8% increase in the MSCI World Index (gross in dollar terms). The corresponding emerging markets index was 1% down. In Israel, the TA-125 Index rose by 11% during the period.

2021 was one of the best years ever in most of the world's stock markets (other than in the emerging markets, with the emphasis on China). The vaccination campaigns together with expansionary monetary policy, particularly in the US and Europe, alongside exceptional fiscal expansion led by the US, contributed to this strong performance. 2021 concluded with the MSCI World Index 22% up and the corresponding MSCI Emerging Markets Index 2% down. In Israel, the TA-125 Index rose by 31% in the same period.

2.3.4 Bond market

At the end of Q4 2021, the general bond index was 1.3% up, while the government shekel bond index was up 0.9% and the linked government bond index rose by 3.1%. The corporate bond index rose 1.2% during the period.

At the end of 2021, the general bond index was 3.9% up. In view of the sharp increase in inflation (and in the expectations for inflation), the shekel government bond index was down 0.8% and the linked government bond index rose by 7.4%. The corporate bond index rose 7.2% during the period.

2.3.5 Mutual funds

The mutual funds concluded Q4 2021 with net raisings of NIS 6.4 billion. There were favorable capital raisings of NIS 6 billion in the funds specializing in bonds, compared with net redemptions of NIS 1 billion in the money market funds. The mutual funds concluded

2021 with net raisings of NIS 31 billion, but this was after redemptions of NIS 21 billion in 2020.

2.3.6 ETFs

The ETFs raised a net NIS 0.6 billion in Q4 2021. In 2021 there were net redemptions of NIS 3.2 billion in the ETFs.

2.3.7 Foreign exchange market

At the end of Q4 2021, the shekel was 5.6% stronger against the Bank of Israel’s basket of currencies; with appreciation of 3.7% against the US dollar and 5.8% against the Euro.

In 2021 overall, the shekel was 7.9% stronger against the Bank of Israel’s basket of currencies; with appreciation of 3.3% against the US dollar and 10.8% against the Euro. The sharp increases in the capital markets, rapid growth in the export of services, acquisitions and flotations of hi-tech companies all contributed to the stronger shekel in 2021. This is despite the Bank of Israel’s foreign exchange purchases which amounted to USD 35 billion.

2.3.8 Inflation

According to the last known index at the end of 2021 (November), the CPI rose by 0.2% in Q4 2021 (September - November).

Inflation in the last 12 months until November (the last CPI published in 2021) was 2.4%. Housing, transportation and food were the main contributors to inflation in the Reporting Period, and these were partially offset by clothing-shoes (apparel).

2.3.9 Bank of Israel interest

In the last quarter of 2021, the Bank of Israel left the interest rate unchanged at 0.1%, it purchased USD 6.5 billion and government bonds in the amount of NIS 8.1 billion. The Bank announced that the loan and purchase programs would end at the of 2021.

During the course of 2021, the Bank left the interest rate unchanged at 0.1%, it purchased USD 35 billion, government bonds for NIS 39 billion, it gave NIS 21 billion in loans to the banking system for the purpose of increasing credit to businesses, but it did not purchase any corporate bonds.

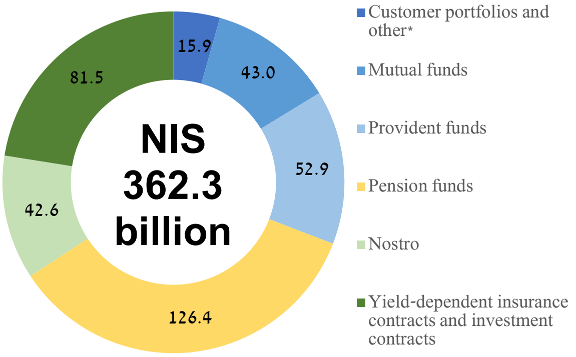
2.3.10 Events after the reporting date

Government bond yields worldwide rose rapidly at the beginning of the year in light of rising inflation and the expectation that the US Federal Reserve would raise the interest rate more quickly than expected.

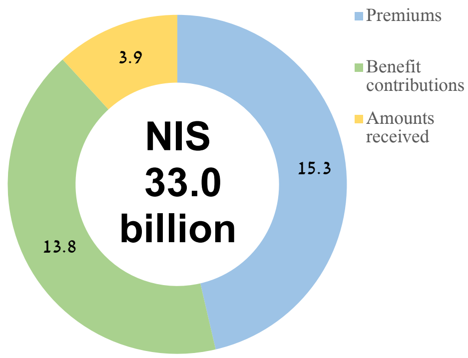
<u>The Russia - Ukraine war</u>: Months of rising tension came to an end when Russia invaded Ukraine. In response, the US, Europe and several other countries imposed severe economic sanctions on Russia. Russia’s importance as a provider of oil, gas and other raw materials triggered exceptional increases in commodities prices. The war will cause a faster increase in inflation worldwide and will affect global economic growth, with particular emphasis on Russia and Europe.

2.4 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 3.9 billion, compared with NIS 2.5 billion in the corresponding period last year.

2.4.1 Comprehensive income by segment (NIS million):

		For the year ended December 31			For the three months ended December 31		For the year ended December 31
	Notes	**2021**	**2020**	change in %	**2021**	**2020**	**2019**
Life assurance and long-term savings							
Life assurance	A	750	417	80	319	184	419
Pension	B	91	68	34	28	18	74
Provident	B	68	57	19	20	18	60
Total life assurance and long-term savings segment		**909**	**542**	68	**367**	**220**	**553**
Non-life insurance	C						
Compulsory motor		(69)	88	-	(27)	25	190
Motor property		(61)	88	-	(37)	9	159
Property and other branches		119	93	28	36	30	113
Other liabilities branches		69	21	-	16	8	28
Mortgage insurance		53	53	-	17	20	68
Total non-life insurance segment		**111**	**343**	(68)	**5**	**92**	**558**
Health insurance	D	535	77	-	244	39	(262)
Insurance companies overseas	E	(68)	(3)	-	(53)	-	19
Financial services	F	78	40	95	24	7	29
Not attributed to segments of operation		598	209	-	242	262	468
Total before tax		**2,163**	**1,208**	79	**829**	**620**	**1,365**
Tax expenses		642	374	72	250	193	387
Other comprehensive income after tax		**1,521**	**834**	82	**579**	**427**	**978**
Return on Equity in annual terms		18%	11%		27%	23%	15%

The Group's activity and results are significantly affected by the capital market, changes in the risk-free interest rate curve, changes in the difference between the fair value and book value of the non-marketable assets, and by actuarial studies.

Results in the Reporting Period and in the fourth quarter were affected by capital market yields in the Nostro portfolio which were higher than in the corresponding period and corresponding quarter last year.

Similarly, results in the Reporting Period and in the fourth quarter were affected by a sharp 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. This was partially offset by the application of a circular published on February 17, 2022 on a revised formula for calculating the illiquidity premium added to the risk-free interest rate curve. The provisions of the Circular were applied from the financial reports at December 31, 2021 as a change in the accounting estimate in accordance with International Accounting Standard (IAS) 8.

Results in the corresponding period last year were affected by 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. This effect was partially offset as a result of the application of the circular on revised liquidity premium rates added to the risk-free interest rate curve and application of the a circular on the method of allocating assets not at their fair value when assessing the adequacy of the reserve (LAT) (the circulars were applied in the second quarter last year).

For additional information, see Section 2.4.2 (E) and (I).

As noted in Section 1.3.2 above, on September 30, 2021, when all the relevant suspensive conditions had been satisfied, the agreement was completed in which context Harel Pension & Provident acquired from Psagot the management rights of several provident funds and pension funds. Commencing October 1, 2021, these funds will be managed by Harel Pension & Provident.

As noted in Section 1.3.3, on November 30, 2021, when all the relevant suspensive conditions had been satisfied, the transaction was completed in which Harel Insurance acquired the insurance activity of Shirbit. From the date of completion of the transaction, all the customers of Shirbit became customers of Harel Insurance. The insurance activity of Shirbit was included in the consolidated financial statements from December 1, 2021 and its contribution to the Group’s performance in the Reporting Period and in the fourth quarter is negligible.

After the Reporting Period, against the backdrop of the conflict which broke out between Russia and Ukraine, prices on the stock markets dropped which in turn adversely affected the Company’s results. For further information, see Note 41 in the Financial Statements.

For additional information in connection with other special effects on comprehensive income, see Section 2.4.2.

A. Life assurance - the results were affected by capital market yields as described above. Income from management fees in the Reporting Period and fourth quarter amounted to NIS 916 million and NIS 290 million, respectively, compared with NIS 599 million and NIS 270 million in the corresponding period and corresponding quarter last year, respectively. The increase in management fees is attributable mainly to variable management fees, which in the Reporting Period and fourth quarter amounted to NIS 416 million and NIS 159 million, respectively, compared with NIS 156 million in the corresponding period and corresponding quarter last year. The variable management fees in the corresponding quarter last year are after making up for a shortfall of NIS 36 million in respect of investment losses accrued for the insureds in the first three quarters of 2020, due t negative real yields in profit-sharing policies that were sold between 1991-2003.

   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, an update of the interest rate applied in calculating the supplementary reserve for annuity, a revised study of the age of retirement and the proportion of insureds expected to exercise their entitlement to annuity (take-up rate). The overall effect of these updates was to reduce the insurance liabilities. For additional information, see Section 2.4.2 (A) and (B).

   Additionally, results in the corresponding period last year were influenced by a deterioration of underwriting in the cover for work disability insurance due to an increase in the number of claims.

B. Pension and provident - the results were affected by capital market yields as described above and by the increase in the asset portfolio, in part due to completion of the Psagot transaction mentioned above.

Results in the corresponding period last year were affected by lower income from management fees as a consequence of the decrease in the average management fee rate.

C. Non-life insurance:

1. Compulsory motor and liabilities sectors - the results were affected by capital market yields as described above.

   Results in the Reporting Period and in the fourth quarter were affected by a sharp 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. This effect was partially offset as a result of the application of a circular on the updated formula for calculating the illiquidity premium added to the risk-free interest rate curve. The overall effect of the foregoing was to increase the insurance liabilities.

   Results in the corresponding period last year were 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 and application of the circular on revised liquidity premium rates added to the risk-free interest rate curve. The overall effect of the foregoing was to decrease the insurance liabilities. Results in the corresponding quarter last year were affected by a decrease in the risk-free interest rate curve and by changes in the difference between the fair value and book value of the non-marketable assets, which led increased the insurance liabilities. For additional information, see Section 2.4.2 (I).

   Additionally, in the compulsory motor sector, results in the Reporting Period were affected by a deterioration of underwriting due to an increase in the cost of claims. In the liabilities sectors, results in the Reporting Period and fourth quarter were affected by a deterioration of underwriting due to an increase in the cost of claims and an increase in the number of claims reported for previous years.

   Results in the corresponding period last year were affected by the Supreme Court ruling regarding the discounting interest rate which will apply to the National Insurance Institute in subrogation claims and which reduced the insurance liabilities. For additional information, see Section 2.4.2 (J).

2. Motor property (CASCO), property and other sectors - the results were affected by capital market yields as described above.

   Motor property (CASCO) - results in the Reporting Period and fourth quarter were affected by a decrease of the average premium which led to the recording of a premium deficiency and by an increase in the number of claims compared with the corresponding period last year, during which the frequency of claims decreased due to the reduced volume of traffic and travel resulting from the COVID-19 crisis.

   Results in the corresponding period and corresponding quarter last year were affected by poor underwriting due to a decrease of the average premium and increase in the number of claims on account of winter losses in the first and fourth quarters.

   Property and other branches - results in the corresponding period last year were affected by winter losses in the first and fourth quarters.

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

1. Personal lines long-term care - results were affected by changes in the LAT reserve. The change in the LAT reserve is attributable, among other things, to changes in the risk-free

interest rate curve, changes in the difference between the fair value and book value of the non-marketable assets, and other changes.

In the Reporting Period and fourth quarter, the change in the LAT reserve was also affected, in addition to the foregoing, by the application of a circular on the updated formula for calculating the illiquidity premium added to the risk-free interest rate curve. The overall effect of the foregoing was to increase the insurance liabilities. In the corresponding period last year, the change in the LAT reserve was affected, in addition to the foregoing, by the application of the provisions of a circular on revised illiquidity premium rates added to the risk-free interest rate curve and application of the circular on the method of allocating assets not at their fair value when assessing the adequacy of the reserve (LAT). For additional information, see Section 2.4.2 (E).

Results in the corresponding period and corresponding quarter last year were affected by improved underwriting due to streamlining processes and a change in the structure of costs which led, among other things, to a reduction of the level of expenditure applied in calculating the insurance reserves. The improved underwriting was partially offset by an increase in the number of claims.

2. Results in the Reporting Period were affected by completion of a study relating to the cost of claims in the personal lines health sector For additional information, see Section 2.4.2 (F). Similarly, expenses in the Reporting Period and fourth quarter were influenced by a deterioration of underwriting due to an increase in the number of claims in the cover for surgery and medications.
3. Results in the corresponding period and corresponding quarter last year were affected by improved underwriting due to a restructuring of costs and to streamlining processes which led, among other things, to a reduction of the level of expenditure applied in calculating the insurance reserves in the personal lines health sector and to improved profitability in the group health sector. The underwriting improvement was partially offset by lower premiums in the travel insurance sector due to the almost total cessation of foreign travel in part of the corresponding period last year, following the outbreak of the COVID-19 pandemic.

E. Insurance companies overseas - the results were affected by capital market yields as described above.

Turk Nippon - results are significantly influenced by macroeconomic factors that affect the Turkish economy, mainly Turkey’s rapidly rising inflation which reached an annual rate of 36% in the Reporting Period (the highest for 19 years), as well as the continuing erosion of the Turkish lira exchange rate (in 2021 the Turkish lira weakened 44% against the dollar and 46% against the shekel), in part in light of a decision by Turkey’s central bank to lower the interest by a substantial 5% from September 2021, in an effort to boost the Turkish economy. The rising inflation also led to an increase in the minimum wage and is also expected to lead to an increase in the cost of bodily injury clams which are paid on the basis of the minimum wage. The Turkish regulator therefore instructed the insurance companies, including Turk Nippon, to increase their insurance liabilities by significant amounts in the fourth quarter. Furthermore, in the Reporting Period and fourth quarter, the cost of claims increased due to an increase in the volume of traffic and travel.

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 2.4.2 (K).

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

	Notes	For the year ended December 31 2021	For the year ended December 31 2020	Change	For the three months ended December 31 2021	For the three months ended December 31 2020	For the year ended December 31 2019
Comprehensive income for the period as published in the financial statement		1,521	834	687	579	427	978
Life assurance and long-term savings							
Effects of the interest rate	A	-	(61)	61	-	(31)	(120)
Revised TUR assumptions	B	-	217	(217)	-	-	-
Application of a circular on revised mortality tables	C	-	-	-	-	-	(91)
Revised cancellation assumptions	D	-	-	-	-	-	(27)
Health insurance							
LAT and effects of the interest rate - personal lines long-term care	E, H	(157)	*(181)	24	59	*(48)	(926)
Completion of a study relating to the cost of claims in personal lines health	F	300	-	300	-	-	-
Revised assumptions - personal lines health	G	-	(30)	30	-	(30)	112
Revised assumptions - personal lines LTC	H	-	*(57)	57	-	*(57)	-
Application of a circular on revised mortality tables	C	-	-	-	-	-	70
Non-life insurance							
Effects of the interest rate	I	(202)	45	(247)	(37)	(52)	(183)
Effect of the Supreme Court ruling on the discounting rate	J	-	80	(80)	-	-	260
Financial services segment							
Write-down of value of mutual fund activity	K	-	(10)	10	-	-	-
Total effects, before tax		(59)	3	(62)	22	(218)	(905)
Effect of tax		(19)	-	(19)	8	(75)	(309)
Total effects, after tax		(40)	3	(43)	14	(143)	(596)
Total comprehensive income after adjustment for special effects		1,561	831	730	565	570	1,574

* Restated

A. In the corresponding period last year, the insurance liabilities increased by NIS 61 million before tax due to an update of the interest rate applied in calculating the reserve for annuity 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 including 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).

In the corresponding quarter last year, an increase of NIS 31 million before tax for the insurance liabilities was recorded due to an update of the interest rate applied in calculating the supplementary reserve for annuity for policies that include a savings component until 1990.

In 2019, an increase of NIS 120 million before tax was recorded in the insurance liabilities, mainly due to an update of the interest rate applied in calculating the reserve for annuities in payment.

B. In the corresponding period last year, 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 37E to the Financial Statements.

C. The results for 2019 were influenced by the implementation of an insurance circular on “Amendment of the Provisions of the Consolidated Circular on the Measurement of Liability - Update of the demographic assumptions in life assurance and updated model for mortality improvements for insurance companies and pension funds” (“the Circular”). Following implementation of the Circular, an increase of NIS 91 million before tax was recorded in the life assurance and long-term savings segment, and the insurance liabilities in the health insurance segment decreased by NIS 70 million before tax.

D. The results for 2019 were affected by a revised study in connection with the rate of cancellations for insureds who are expected to exercise their entitlement to an annuity (take-up rate). Due to this revision, an increase of NIS 27 million before tax was recorded in the insurance liabilities.

E. Health segment - personal lines long-term care - as described above, the results were affected by changes in the LAT reserve.

The change in the LAT reserve in the Reporting Period and in the fourth quarter was affected, in part, by a sharp 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. This effect was partially offset by the application of a circular on the updated formula for calculating the illiquidity premium added to the risk-free interest rate curve. For additional information, see Note 3C(1)(G)(5) to the Financial Statements.

The change in the LAT reserve in the corresponding period last year was affected by changes in the risk-free interest rate curve and changes in the difference between the fair value and book value of non-marketable assets. This was partially offset as a result of the application of the circular on revised illiquidity premium rates added to the risk-free interest rate curve and application of a circular on the method of allocating assets not at their fair value when calculating the LAT reserve (the circulars were applied in the second quarter last year, for additional information, see Note 3C(1)(g)(3) and (4) to the Financial Statements) and by actuarial studies.

The change in the LAT reserve in the corresponding quarter last year was affected by changes in the risk-free interest rate curve and changes in the difference between the fair value and book value of non-marketable assets and by actuarial studies.

The change in the LAT reserve in 2019 was affected, in part, by a sharp 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. This was partially offset by the application of a circular on the method of determining the risk-free interest-rate curve applied in calculating the LAT reserve (the circular was applied in Q4 2019). For additional information, see Note 3C(1)(G)(1) to the Financial Statements.

See the information in the following table:

	For the year ended December 31		For the three months ended December 31		For the year ended December 31
	2021	2020	2021	2020	2019
Increase (decrease) in the LAT reserve and effects of interest	157	181	(59)	48	926
The change in the reserve also includes the following effects:					
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.	936	898	813	222	1,496
Effect of implementation of circulars	(863)	(549)	(863)	-	(570)
Studies (see Section H below)	-	(76)	-	(76)	-

F. In the Reporting Period, a study relating to the cost of claims in the personal lines health sector was completed. The effect of the foregoing led to a reduction of the insurance liabilities by NIS 300 million before tax (the study was completed in the third quarter).

G. In the corresponding period and corresponding quarter last year, a study was conducted of the share 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.

In 2019, several studies were completed in connection with the cost of claims in the personal lines health sector on coverages for medications, ambulatory care and surgery. Due to these revisions, a decrease of NIS 112 million before tax was recorded in the insurance liabilities.

H. In the corresponding period and corresponding quarter last year, a study was conducted of the share of cancellations in the personal lines LTC 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 paragraph E above). The overall effect of the foregoing is a reduction of the insurance liabilities by NIS 19 million before tax.

I. Non-life segment, compulsory motor and liabilities sectors - results in the Reporting Period and in the fourth quarter were affected by a sharp 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. This effect was partially offset as a result of the application of a circular on the updated formula for calculating the illiquidity premium added to the risk-free interest rate curve. For additional information, see Note 3C(1)(g)(5) to the Financial Statements.

Results in the corresponding period last year were 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 and application of the circular on revised illiquidity premium rates added to the risk-free interest rate curve (the circular was applied in the second quarter last year). For additional information, see Note 3C(1)(g)(3) to the Financial Statements.

Results in the corresponding quarter last year were affected by changes in the risk-free interest rate curve and changes in the difference between the fair value and book value of non-marketable assets.

See the information in the following table, by sector:

	For the year ended December 31		For the three months ended December 31		For the year ended December 31
	2021	**2020**	**2021**	**2020**	**2019**
Increase (decrease) in the insurance liabilities	**202**	**(45)**	**37**	**52**	**183**
Compulsory motor:					
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.	111	(5)	34	23	56
Effect of application of circulars	(21)	(14)	(21)	-	-
Total compulsory motor	**90**	**(19)**	**13**	**23**	**56**
Labilities sectors:					
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.	151	-	63	29	127
Effect of application of circulars	(39)	(26)	(39)	-	-
Total labilities sectors	**112**	**(26)**	**24**	**29**	**127**

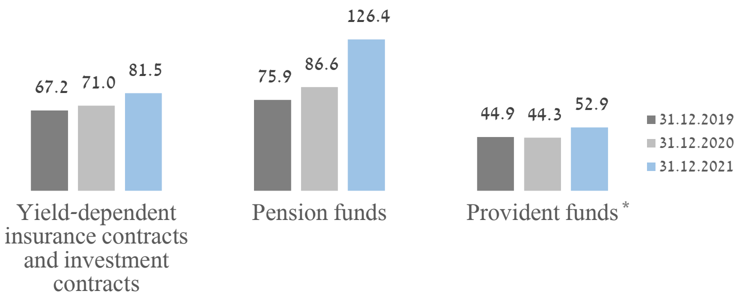
J. Results in the corresponding period last year were affected by the Supreme Court ruling regarding the discounting interest rate which will apply to the National Insurance Institute in subrogation claims. As a result of the court's decision, in the corresponding period last year, the insurance liabilities 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 sectors).

Results for 2019 were affected by the Supreme Court decision concerning the discounting interest rate for compensation on account of personal injury in torts. As a result of the court's decision, a decrease of the insurance liabilities of NIS 260 million before tax was recorded (NIS 158 million before tax in the compulsory motor sector and NIS 102 million before tax in the other liabilities sector).

K. Results in the corresponding period last year were affected by a reduction in the value of portfolio management activity of NIS 10 million before tax.

2.5 Other key information and effects by segment

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

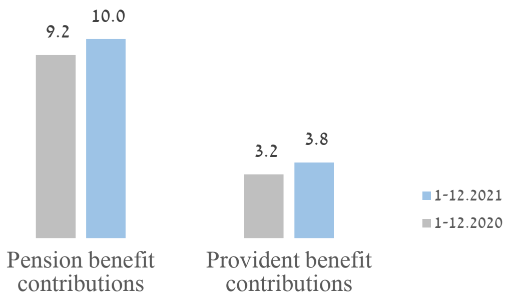


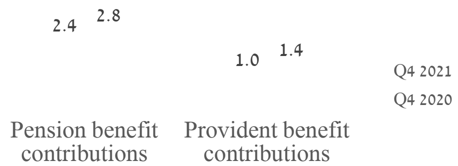
The assets managed by the provident funds and pension funds are not included in the Company's consolidated financial statements.

Commencing October 1, 2021, with the completion of the Psagot transaction, the assets managed by the pension and provident funds increased by NIS 26 billion. For additional information see Section 1.3.2

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

2.5.2 Data about benefit contributions (NIS billion):





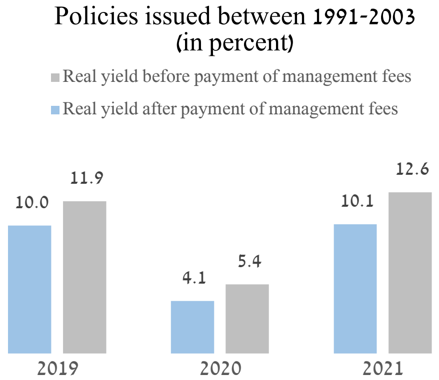
The benefit contributions in the provident funds and pension funds are not included in the Company's consolidated financial statements.

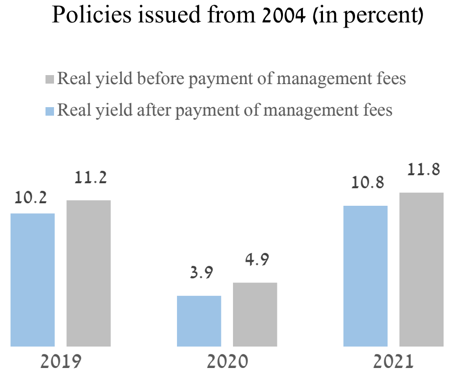
2.5.3 Life assurance:

Redemptions as a percentage of the average reserve in the Reporting Period amounted to 4.3%, compared with 3.5% in the corresponding period last year.

Redemptions from the average reserve in the fourth quarter amounted to 4.4%, compared with 4.1% in the corresponding quarter last year.

Yield-dependent policies:





Following is the estimated amount of investment profit 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 year ended December 31		
	2021	**2020**	**2019**
Profit after management fees	7,860	1,870	5,292
Total management fees	916	599	693

2.5.4 Pension funds:

Income from management fees collected from the pension funds managed by the Group amounted to NIS 372 million in the Reporting Period, compared with NIS 333 million in the corresponding period last year.

Income from management fees collected by the pension funds managed by the Group amounted to NIS 109 million in the fourth quarter, compared with NIS 87 million in the corresponding quarter last year.

2.5.5 Provident funds:

Income from management fees collected from the provident funds managed by the Group amounted to NIS 260 million in the Reporting Period, compared with NIS 247 million in the corresponding period last year.

Income from management fees collected from the provident funds managed by the Group amounted to NIS 74 million in the fourth quarter, compared with NIS 63 million in the corresponding quarter last year.

2.5.6 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 Insurance 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.

2.5.7 Non-life insurance:

For information about additional financial data relating to the non-life insurance segment, by sector, see Note 4B to the Financial Statements. For information about a change in the mechanism for the settlement of accounts between the National Insurance Institute ("NII") and the insurance companies regarding road accidents, see Note 3C(2)(j) to the Financial Statements.

Change in the quantity of policies in terms of exposure:

	For the year ended December 31		
	2021	**2020**	**2019**
Compulsory motor	14%	4%	(14%)
Motor property (CASCO)	13%	10%	3%
Property and other lines of business	10%	2%	3%
Other liabilities lines of business	5%	(4%)	2%

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.

2.5.7.1 Compulsory motor

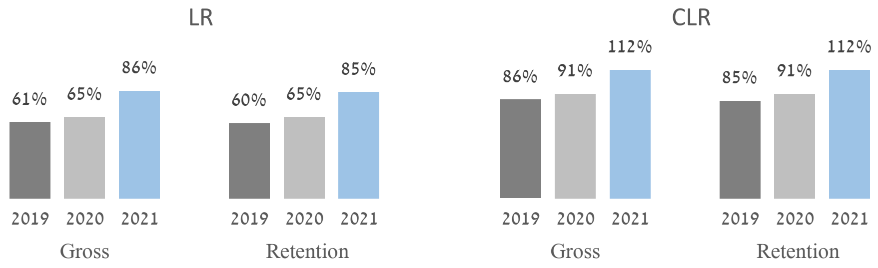
For additional information about the results for compulsory motor insurance, see Sections 2.4.1 and 2.4.2 above.

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 temporary share of Harel Insurance in the net premiums for 2021 (including the temporary share of Shirbit) at 13.58% (compared with 10.61% which was the Company's final share for 2020).

2.5.7.2 Motor property

For additional information about results for the motor property sector, see Section 2.4.1 above.

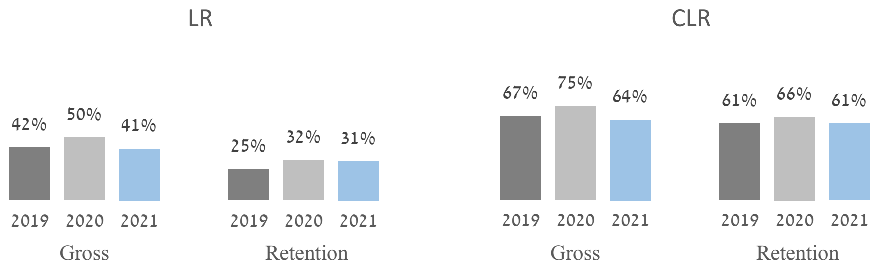
Loss ratio (LR) and combined loss ratio (CLR) in motor property insurance:



2.5.7.3 Property and other lines of business

For additional information about results for the motor property and other lines of business, see Section 2.4.1 above.

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



2.5.7.4 Other liabilities lines of business

For information about the results for other liabilities sectors, see Sections 2.4.1 and 2.4.2 above.

2.5.7.5 Credit insurance for residential mortgages

For information about completion of the restructuring of the Group - EMI, see Section 1.3.1 above.

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.

2.5.8 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.

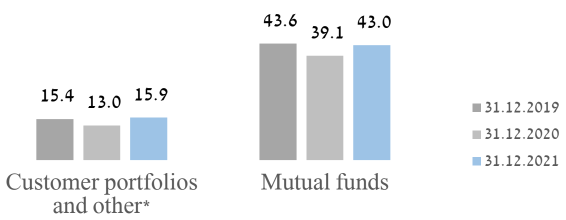
According to an indicative calculation prepared by Turk Nippon, its solvency ratio at December 31, 2021 is 16%. On March 20, 2022, the Company's Board of Directors approved an injection of capital into Turk Nippon of an insignificant amount of NIS 10 million, to enable it to reach a solvency ratio of 33%, which is the minimum solvency ratio required for preventing active management intervention by the Turkish regulator. It is emphasized that an additional capital injection for Turk Nippon to reach a solvency ratio of 100%, which as noted is not required at this moment in time, is expected to amount at most to an insignificant amount of tens of millions of shekels. It is also noted that the raising of the interest rate by Turkey's central bank, in an effort to address the high inflation rate, is expected to have a positive effect on the solvency ratio.

2.5.9 Credit sector

AUM at December 31, 2021, and December 31, 2020, in relation to the credit sector, amount to NIS 2.16 billion and NIS 1.45 billion, respectively.

2.5.10 Capital market and financial services

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



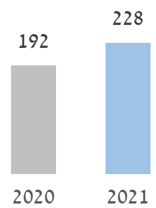
AUM in customer portfolios include financial assets that were issued by the Group and are managed in the portfolios.

Revenues in the capital market and financial services segment amounted to NIS 254 million in the Reporting Period, compared with NIS 220 million in the corresponding period last year.

AUM 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):



2.6 Liquidity and sources of financing

2.6.1 Cash flows

Net cash flows provided by operating activities were NIS 1,191 billion in the Reporting Period. Net cash flows used in investment activity amounted to NIS 632 million. Net cash flows provided by financing activity were NIS 581 million. The fluctuating exchange rates had a positive impact of NIS 124 million on the cash balances. The outcome of all the above activity is an increase of NIS 1,264 million in the cash balances.

2.6.2 Liquidity and 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.

2.7 Dividend

For information about a decision from January 27, 2021, concerning a dividend distribution in the amount of NIS 107 million, that was paid on February 11, 2021, see Note 16D to the Financial Statements.

For information about a decision from March 21, 2021, concerning a dividend distribution in the amount of NIS 150 million, that was paid on April 20, 2021, see Note 16D to the Financial Statements.

For information about a decision from November 29, 2021, concerning a dividend distribution in the amount of NIS 100 million, that was paid on January 3, 2022, see Note 16D to the Financial Statements.

For information about a decision from March 28, 2022, concerning a dividend distribution in the amount of NIS 300 million, see Note 16D to the Financial Statements.

For information about the dividend distribution policy, see Section 1.4 above.

On the repurchase of shares which took place during and after the Reporting Period, see Note 16B to the Financial Statements.

3 Market risks - exposure and management

3.1 General

The following report on risk management relates to the investments of the Company and its subsidiaries, excluding the Group's insurers, in accordance with the Securities (Periodic and Immediate Reports) Regulations, 1970, in relation to reporting on exposure to and management of market risks.

For information about risk management in the Company and its subsidiaries, including subsidiaries which are an insurer, see Note 37 to the Financial Statements.

Market risks are risks to the Company's revenues and equity resulting from changes in the prices of securities, real estate prices, interest rates, credit margins, exchange rates and inflation.

For additional information about the Group's credit and interest-rate risks, see Note 37G to the Financial Statements.

3.2 Head of market risk management in the Company

The head of market risk management in the Company is Ms. Adva Inbar, Harel Group’s risk manager.

3.3 Description of the market risks

Market risks are risks to the Company's revenues and equity resulting from changes in prices in the financial markets.

The principal market risks to which the Company is exposed are:

Interest rate risk – a loss which might be incurred due to the possible effect of changes in the interest rate curves in Israel and abroad on the fair value or cash flows from assets and liabilities.

Currency risks – the risk of a loss arising from changes in the foreign exchange rates which affect foreign currency exposure in the Company's investment portfolio.

Share price risk – the Company is exposed to a decline in the prices of shares traded in Israel and overseas.

Inflation risks – the Company is exposed to a loss resulting from changes in the Consumer Price Index. The Company holds non-linked financial instruments the value of which may be eroded due to rising inflation.

Credit spread risk – a possible loss due to the credit margins expanding above the risk-free interest rate on debt assets revalued at fair value.

Real-estate prices risk – a risk of possible loss due to an erosion of real-estate prices.

3.4 Harel Investments market risk management policy and oversight of its implementation

The Group's policy on investments and risk management, the scope and composition of its investments, are set by the appropriate organs of each of the Group's companies. Various forums meet on a regular basis and receive on-going reports and forecasts, and they define the rates of exposure to the various investment channels accordingly.

Different companies in the capital market and financial services arm have established a policy for the management of market risk and exposure limits for the management of their liquid asset balances.

3.5 Report on linkage bases at December 31, 2021

Data concerning linkage bases - see Note 37J to the Financial Statements

3.6 Oversight and implementation of market risk management policy

On the oversight of risk management by the subsidiaries which are an insurer, see Note 37 to the Financial Statements.

The managers of the various activities in the capital market and financial services arm are responsible for monitoring activity that takes place in the units under their responsibility.

Harel Finance has a control and risk management department which provides a second line of defense and conducts timely and voluntary tests based on a plan approved by the various boards of directors and in line with events taking place within the companies, including compliance with procedures which have been set on market risks. The control department regularly reports to the

Company's CEO and to the relevant boards of directors and audit committees concerning relevant findings, in accordance with the requirements of the TASE Regulations.

Mutual fund activity is monitored by means of an internal control system consisting of software that limits the ability of the investment personnel to perform unusual transactions, and this taking into account the amount of the transaction, price differences between the price of the transaction and the theoretical price and the last trade price, the quantity acquired, etc. Transactions performed by all the investment personnel are also monitored.

The boards of directors of different companies within Harel Finance Group receive periodic updates regarding significant changes in exposure to market risks for the relevant company.

Notably, the activity of Harel Finance has expanded compared with last year. Additionally, in light of the restructuring, the management company Harel Pension & Provident is now included in the results for Harel Investments.

3.7 Material Events in the Reporting Period

The growth rate in 2021 was volatile due to coping with the COVID-19 pandemic, with considerable variance between the different market sectors. Nonetheless, and against the backdrop of the expansionary monetary policy in 2021, prices in the stock markets and bond markets rose as the shekel gained strength. In contrast, disruptions in the supply chain and high energy prices contributed to rising inflation in Israel and around the world. Towards the end of 2021, central banks worldwide began to indicate their intention to increase the interest rate and taper the expansionary programs. This led to sales in the stock market, particularly in the technology sector.

3.8 Sensitivity tests

Pursuant to the directives of the Israel Securities Authority (ISA), the Company performed tests of sensitivity to key market risk factors. The risk factors and financial assets and liabilities were tested in accordance with the instructions and based on materiality. The sensitivity tests cover the Group's companies, excluding the Group's insurance companies.

The sensitivity tests tested changes in the risk factor by 5% and 10% (proportionate). In calculating the sensitivity to financial instrument and foreign currency risk factors, the maximum daily change in its absolute value was also tested, over the 10 years preceding the Reporting Period.

In light of the events of 2020, exposures to share indices in which the maximum daily scenario increased by more than 10% were also recorded. Nonetheless, in an aggregate calculation of the sensitivity to all the capital instruments, the weighted result was less than 10% and we therefore chose not to present it. No daily change of more than 10% was found in the currency risk factor and relevant exchange rates. The sensitivity analyses presented are therefore for a relative change of 5% and 10% only.

Since the onset of the global financial crisis and the fact that some interest rates dropped to almost zero, situations have arisen in which a negligible daily difference in the relevant interest rate produced an exceptionally large daily change. Consequently, according to the clarification regarding sensitivity tests which are required under Section 2F of the Second Schedule to the Securities (Periodic and Immediate Reports) Regulations, 1970, in addition to the scenarios defined in the Regulations, an extreme scenario of an absolute 2% change was also applied to the interest risk factor.

Results of analyses of sensitivity to key risk factors (NIS thousand):

3.8.1 "Capital instruments" sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Shares in Israel	41,014	20,507	410,144	(20,507)	(41,014)
Shares abroad	7,966	3,983	79,660	(3,983)	(7,966)
Dual-listed shares	1,814	907	18,141	(907)	(1,814)
Options on shares	(24,635)	(12,447)	(15,387)	12,283	23,811
PE funds	1,870	935	18,705	(935)	(1,870)
Total	**28,029**	**13,885**	**511,263**	**(14,049)**	**(28,853)**

3.8.2 Real Estate sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Real estate	9,770	4,885	97,697	(4,885)	(9,770)
Total	**9,770**	**4,885**	**97,697**	**(4,885)**	**(9,770)**

3.8.3 CPI Base sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Receivables	39	20	392	(20)	(39)
Payables	(283)	(141)	(2,825)	141	283
Government bonds	(196,328)	(98,164)	(1,963,281)	98,164	196,328
Corporate bonds	19,683	9,841	196,825	(9,841)	(19,683)
Loans provided	35,860	17,930	358,605	(17,930)	(35,860)
Deposits	205,827	102,914	2,126,539	(102,914)	(205,827)
Total	**64,798**	**32,400**	**716,255**	**(32,400)**	**(64,798)**

3.8.4 US Dollar Base sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Cash	733	366	7,328	(366)	(733)
Foreign government bonds	(19,590)	(9,795)	(195,903)	9,795	19,590
Corporate bonds	131	66	1,332	(66)	(131)
Shares in Israel	4,019	2,010	40,193	(2,010)	(4,019)
Shares abroad	7,819	3,910	78,192	(3,910)	(7,819)
Dual-listed shares	1,808	904	18,076	(904)	(1,808)
Options on foreign currency	(96)	(36)	(10)	(33)	(86)
Futures contracts	7,521	3,760	75,258	(3,760)	(7,521)
PE funds	1,870	935	18,705	(935)	(1,870)
Loans provided	467	233	4,665	(233)	(467)
Deposits	327	164	3,271	(164)	(327)
Real estate	7,217	3,608	72,167	(3,608)	(7,217)
Total	**12,226**	**6,125**	**123,274**	**(6,194)**	**(12,408)**

3.8.5 Euro Base sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Cash	295	148	2,950	(148)	(295)
Deposits	20	10	203	(10)	(20)
Futures contracts	(5,182)	(2,591)	(51,772)	2,591	5,182
Total	**(4,867)**	**(2,433)**	**(48,619)**	**2,433**	**4,867**

3.8.6 GBP Base sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Cash	660	330	6,604	(330)	(660)
Receivables	1,738	869	17,376	(869)	(1,738)
Payables	(2,255)	(1,127)	(22,550)	1,127	2,255
Corporate bonds	-	-	(3)	-	-
Total	**143**	**72**	**1,427**	**(72)**	**(143)**

3.8.7 Other Base sensitivity

Sensitive instrument	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Deposits	22	11	224	(11)	(22)
Total	**22**	**11**	**224**	**(11)**	**(22)**

3.8.8 Shekel Interest sensitivity

Sensitive instrument	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
Government bonds	48,114	817	408	(752,253)	(408)	(817)	(52,767)
Corporate bonds	(11,345)	(324)	(162)	153,575	163	326	12,782
Loans received	72,086	4,099	2,057	(808,253)	(2,073)	(4,163)	(86,762)
Deposits	(56,118)	(1,020)	(510)	1,099,391	511	1,023	61,628
Futures contracts	(522)	(1)	(1)	59,574	1	1	539
Interest rate derivatives	(53,563)	(1,038)	(519)	744,768	520	1,041	59,118
Total	**(1,348)**	**2,533**	**1,273**	**496,802**	**(1,286)**	**(2,589)**	**(5,462)**

3.8.9 Index-linked Interest Rate sensitivity

Sensitive instrument	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
Government bonds	128,849	(15,544)	(7,751)	(1,963,281)	7,709	15,375	(141,228)
Corporate bonds	(19,880)	1,869	932	194,963	(926)	(1,846)	23,477
Loans provided	(18,028)	2,281	1,138	358,605	(1,133)	(2,261)	19,404
Deposits	(110,818)	13,577	6,771	2,057,231	(6,736)	(13,438)	121,848
Total	**(19,877)**	**2,183**	**1,090**	**647,518**	**(1,086)**	**(2,170)**	**23,501**

3.8.10 “Dollar interest rate” sensitivity

Sensitive instrument	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
Foreign government bonds	233	(3,109)	(1,554)	(31,088)	1,554	3,109	(240)
Corporate bonds	(14)	131	66	1,332	(66)	(131)	15
Loans provided	(294)	467	233	4,665	(233)	(467)	320
Futures contracts	514	(5,875)	(2,938)	(58,616)	2,938	5,875	(530)
Total	**439**	**(8,386)**	**(4,193)**	**(83,707)**	**4,193**	**8,386**	**(435)**

3.8.11 GBP interest sensitivity

Sensitive instrument	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
Corporate bonds	-	-	-	(3)	-	-	-
Total	**-**	**-**	**-**	**(3)**	**-**	**-**	**-**

3.9 Assumptions underlying the calculations

The following details the assumptions in applying the sensitivity tests and in calculating the fair value of sensitive instruments:

3.9.1 Instruments with less than three months to redemption are assets with a relatively low level of exposure to changes in interest rates. Their sensitivity is therefore only measured to changes in the linkage base (CPI and/or foreign exchange) and they were not included in the calculations of sensitivity to interest rates.

3.9.2 The fair value of debt assets was calculated using a model for discounting the cash-flows provided by those assets, while applying the appropriate interest rate for the cash flow period. The discounting interest rate was calculated based according to market interest for the period of the cash flows, plus the appropriate risk premium for the borrower or issuing entity.

3.9.3 The fair value of share options was calculated using the B&S model, based on market data. The calculated change is reported in terms of the effect on the value of the instrument and not in terms of exposure.

3.9.4 The fair value of convertible bonds was calculated by breaking down the value of the bonds into two components: (a) the bond component (which was costed according to Section 3.9.2 above); (b) the option component which was based on the binomial model for pricing options.

3.9.5 The fair value of marketable shares was taken as the market value of those shares. The linkage base of dual-listed shares is determined in accordance with the trading arena (Israel or abroad) in which most of the trade in the share takes place.

3.9.6 Regarding changes in interest-based risk factors, for changes of 5% or 10%, the pro-rata change of all the interest rates along the curve was assumed.

3.9.7 A change of 5% or 10% in the risk factors for capital instruments (including shares) was calculated as a change of 5% or 10% in the value of the asset (the same as the assumption for a 5% or 10% change in the relevant share index and sensitivity of the share relative to the relevant share index (beta) equal to 1).

3.9.8 The fair value of forward contract transactions in currencies was calculated as the difference between the fair value of a bond that does not bear a specified interest rate in the denominated currency of the contract, and the fair value of a bond which does not bear a specified interest rate in the original currency.

3.10 Board of Directors explanations

The Company is exposed directly to market risks through its own investments and indirectly through the investments of the subsidiaries and financial institutions that it holds and manages. Taking into account the volume of the Company's own investments and their low-risk nature, the Board of Directors believes that the Company's exposure to market risks is insignificant and that the actual risk management is consistent with the market risk management policy.

3.11 Results of an analysis of the exposure to and management of market risks

Pursuant to the instructions of the Israel Securities Authority (ISA), the Company tested sensitivity to key market risk factors. The sensitivity tests cover the Group's companies, excluding the Group's insurance companies.

Summary of tests of sensitivity to market risks (NIS thousand):

Sensitivity to market risk factors:

Risk factor	Absolute increase of 2% in market factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor	Absolute decrease of 2% in market factor
USD base	-	12,226	6,125	123,274	(6,194)	(12,408)	-
Euro base	-	(4,867)	(2,433)	(48,619)	2,433	4,867	-
GBP base	-	143	72	1,427	(72)	(143)	-
Other base	-	22	11	224	(11)	(22)	-
CPI	-	64,798	32,400	716,255	(32,400)	(64,798)	-
Shekel interest	(1,348)	2,533	1,273	496,802	(1,286)	(2,589)	(5,462)
Index-linked interest	(19,877)	2,183	1,090	647,518	(1,086)	(2,170)	23,501
Dollar interest	439	(8,386)	(4,193)	(83,707)	4,193	8,386	(435)
GBP interest	-	-	-	(3)	-	-	-

Risk factor	10% increase in market factor	5% increase in market factor	Fair value	5% decrease in market factor	10% decrease in market factor
Financial instruments	28,029	13,885	511,263	(14,049)	(28,853)
Real estate	9,770	4,885	97,697	(4,885)	(9,770)

Taking into account the volume of the Company's investments and their low-risk nature, the Board of Directors believes that the Company's exposure to market risks is not significant. The Board of Directors therefore believes that its market risk management policy is consistent with actual risk management.

4 Aspects of corporate responsibility

4.1 Corporate Social Responsibility

The Company’s Board of Directors and the management and employees of the Group, believe that corporate social responsibility (CSR) is an integral part of the Group’s management approach and core values, and they attribute considerable importance to the integration of corporate responsibility in all levels of activity, based on the recognition that values and ethical and proper management go hand in hand with business success and leadership, while creating added value for all the principal shareholders.

This is reflected in the fact that in 2021, for the sixth time in a row, the Group was awarded the Platinum Plus Ranking, the highest award given by Maala, which rates 150 of the largest companies in the economy for CSR.

In 2021, the Group published its fifth CSR report, relating to 2019-2020. Publication of the report reflects the ongoing commitment of the Group’s management and Board of Directors to promoting an approach that underscores the integration between business management and corporate responsibility, allowing the Group to present its activity transparently and credibly (The report appears on the Company’s website).

4.2 Community involvement - sponsorships, contributing to the wider community and voluntary activity by employees

In 2021, the Company continued to expand its community involvement projects and to deepen its ties with organizations that work for the community and society in a range of areas. 27% of the Group's employees took part in voluntary activity during the course of the year, in accordance with the policy of Harel Group:

4.2.1 The COVID-19 crisis which continued into 2021 led the Company to adapt its social activity to the needs and circumstances of the time. Throughout, the Company was attentive to the changing needs of the wider community and it redoubled its efforts to respond to the new reality.

4.2.2 Long-term strategic partnerships based on monetary donations and employee involvement. In this context, a variety of collaborative projects took place, including: a joint project with United Hatzalah, collaboration on distributing food and promoting the education of children and teens together with Leket Israel; Nevet (Sandwich for Every Child), Lasova, Pitchon-Lev (Breaking the cycle of poverty), The Jaffa Institute (multi-service social agency in Jaffa); Or Shalom, activity on behalf of soldiers which includes the adoption of two IDF transport battalions as part of the Adopt a Fighter program run by YAHAD - United for Israel's Soldiers; as well as support in schools and after-school clubs for children from low socio-economic backgrounds - these collaborative projects grow from year to year.

4.2.3 In 2021, donations made by the Group to charitable associations and organizations for the benefit of the community amounted to about NIS 10.7 million, compared with NIS 9.5 million in 2020 and NIS 9.8 million in 2019. Of these amounts, about NIS 7.5 million, NIS 7.1 million and NIS 6.7 million, respectively, were donated through the M.E.H. Foundation (Keren HaMeah - in memory of the late Margot and Ernst Hamburger), which is a public benefit company and is authorized by the tax authorities to accept donations from various entities and to distribute them among needy entities at the discretion of the management of M.E.H. Foundation whose members are principal shareholders in the Company.

4.2.4 The policy of the management of M.E.H. Foundation is to contribute mainly to the following: organizations: charitable associations that provide medical assistance to the needy and for exceptional cases; organizations which support people with special needs children such as Beit Noam - a home for severely disabled adults; support for institutions of higher education by promoting science and research in Israel through the Weizmann Institute, Tel Aviv University and Bar Ilan University which are supported by Harel through the adoption of returning scientists, patrons of the arts and culture, such as the Philharmonic Orchestra. Harel also supports the activity of World Maccabi to enhance Zionist identity among Diaspora Jewry; it supports the activity of Educating for Excellence (e4e) which strives to reduce socioeconomic disparity in Israeli by assisting children and youth from the social periphery, and contributes to encouraging the acquisition of insurance knowledge in Israel. Other donations were made directly by the Group's companies, and these too consistent with the aforesaid policy.

4.2.5 In 2021, money equivalent donations, reflecting hours of volunteering by the Company's employees at the expense of work hours, contributions through the use of Company facilities on behalf of the activity of the various charitable organizations and donations of equipment to the Company's employees or to charitable organizations, amounted to NIS 400,000.

4.2.6 This year, the Company continued to involve organizations that provide employment for people with disabilities in corporate events and purchasing (e.g.: Ofek Lavan, Zipor HaNefesh, and & Joy).

4.3 Sustainability (environmental responsibility)

Like other leading insurance companies around the world, Harel Group also operates in managing the subject of environmental risks. While doing so, it performed an analysis of the exposure to environmental risks the results of which were presented to the Board of Directors' risk management committee.

Furthermore, in 2021 as well, Harel Group continued to voluntarily report on its carbon footprint to the Ministry of the Environment and it took action among its employees and managers to conserve energy, encourage the use of public transport and move over to using green vehicles. Further to measures to reduce paper consumption in offices in recent years, the Group introduced the use of recycled paper in office printers. Additionally, in 2021, the Company continued to integrate environmental considerations in the procurement processes and in investment decision making processes.

Additionally, Harel is working to extend its activity with respect to sustainability. For example, Harel also addresses ESG considerations in the investment decision-making process, as part of the investment process. Additionally, Harel's investment portfolio is broad and diverse and it also includes a large number of environmental projects such as renewable energy companies, the desalination plant at Palmachim, and more. Harel also invests in the development of insurance and financial products with added environmental value, such as Harel Switch, which encourages less car use, the Upgrade 10,000 policy which offers a discount on comprehensive insurance to car owners who travel less than 10,000 kilometers a year, as well as the Adira Green policy which insures domestic installations for generating electricity from solar energy. Harel also works to advance environmental goals through its business activity. Harel Finance was the first company to inaugurate two mutual funds in Israel which operate in accordance with the most advanced, stringent ESG criteria: a Green Environment Fund and ESG fund.

4.4 Ethical conduct

Maintaining a proper business culture based on ethical conduct is the cornerstone of Harel's activity and decision making. The Group's Code of Conduct reflects the significant core values that guide the Group. During the course of 2021, surveys were sent to Company suppliers to assess the ethical aspects of Harel's business practices with these groups.

The head of the ethics department works to assimilate the Code of Conduct among new employees and is available to the employees, including by means of a discrete channel of communication.

4.5 Work environment

As a financial services group, the Company's employees are its most important resource, the source and strength of the organization and the key to its success. Harel Group's employees are therefore the focal point of the organization and it invests in their professional development and wellbeing, guaranteeing a pleasant, caring and facilitative environment. Harel currently has approximately 5,000 employees from all over the country, of all ages and from all sectors of the population, including employees with disabilities. The considerable importance that Harel attributes to its employees is also reflected in its salary and compensation policy. For example, in 2016 the Group's minimum starting salary was increased to NIS 6,000, and at December 2021, this wage is 13.2% higher than the minimum wage in the economy.

During the COVID-19 pandemic, everything possible was done to comply with the official government guidelines, out of a sense of responsibility for ensuring the health and wellbeing of the employees, who were immediately transferred to working from home with support provided to all employees. Additionally, a hotline was set up for employees to call HR anonymously, psychological help and tools for coping with the situation were provided, and training was provided on the development of future skills and abilities, and more.

4.6 The Group's Corporate Social Responsibility (CSR)

The Board of Directors functions include receiving ongoing reports from Ms. Liora Kavoras Hadar about performance relating to the Group's corporate CSR. In 2011, the Board of Directors appointed Liora Kavoras Hadar to promote and develop corporate responsibility within Harel. Accordingly, in the reporting years, Ms. Kavoras Hadar met regularly with Mr. Doron Ginat (who was the Company's Deputy CEO and head of the Long-term Savings Division in Harel Insurance) and who was replaced by Mr. Adam Polachek as the Commissioner's management representative for corporate governance, and with Ms. Merav Ratan-Beit Dagan, who was head of Communications and Customer Relations in the Group, as well as with other officials involved in the Company's corporate responsibility activity, to receive reports from them on the Group's activity in this area and help advance the subject. The CSR forum, which includes the Group's Chairman and CEO, also meets periodically. These meetings included status reports on the Group's activities based on the existing social and environmental responsibility plans as well as a discussion of future plans of action in this field and their approval.

5 Corporate governance

5.1 Directors with accounting and financial expertise

In accordance with Section 92(A)(12) of the Companies Law, 1999 (in this section: "the Law"), the Board of Directors determined,, that taking into account the category of company, its size, volume and complexity of its operations, the Company must have at least four directors with accounting and financial expertise under Section 240 of the Law. For information about serving directors in the Company who the Board of Directors has recognized as having accounting and financial expertise, see Chapter 5, Regulation 26, - Additional Information about the Company.

5.2 External Directors

For information about the Company's external directors, see Chapter 5, Regulation 26 - Additional Information About the Company.

5.3 Internal Auditor

For information about the Company's Internal Auditor, see Section 4.2 in Chapter 1 of the Periodic Report - Description of Company Operations.

5.4 External Auditors

For information about the Company's External Auditors, see Section 4.3 in Chapter 1 of the Periodic Report - Description of Company Operations.

5.5 Material changes in the list of senior officers

For information about material changes in the list of senior officers, see Section 3.6.1 in Chapter 1 of the Periodic Report - Description of Company Operations.

5.6 Disclosure about cyber risks

For information about the Company’s deployment for cyber risks, see Note 37A to the Financial Statements.

6 Disclosure instructions in relation to the Company’s financial reporting

6.1 Report on critical accounting estimates

Regarding critical accounting estimates, the use of which and/or a reasonable change therein might significantly affect the Group’s financial position and/or results of its operations, see Note 2D to the Financial Statements.

The foregoing does not refer to subsidiaries that are an insurer, including their consolidated data.

7 Disclosure concerning the economic solvency ratio

Provisions concerning application of an economic solvency regime:

An economic solvency regime based on Solvency II applies to Harel Insurance, and this pursuant to the implementation provisions published in June 2017 and revised in October 2020 (“Provisions of the Economic Solvency Regime”).

The provisions of the economic solvency regime include transitional provisions which allow the reserves to in respect of long-term insurance products that were sold in the past, to be increased gradually until 2032. Based on the 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 a rate of 0% on the calculation of the insurance reserves at December 31, 2032. Additionally, in the transitional period a reduced capital requirement will be calculated which will gradually increase until 2023, for certain categories of investments, and a higher maximum recognition limitation will apply to Tier-2 capital.

On June 30, 2021, Harel Insurance published on its website a report on its economic solvency ratio in respect of data at December 31, 2020: https://www.harel-group.co.il/about/harel-group/harel/investor-relations/Pages/repayment-ability.aspx .

Based on the transitional provisions, the capital surplus of Harel Insurance at December 31, 2020, is NIS 5,761 million. In accordance with the directives, the economic solvency report as at December 31, 2020 was published on June 30, 2021. The capital surplus of Harel Insurance as at December 31, 2020, before the transitional provisions (in terms of 100% SCR), is NIS 623 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.

Economic solvency ratio and MCR:

Following is information about the solvency ratio and minimum capital requirement (MCR) at December 31, 2020, in accordance with the provisions of the economic solvency regime. The economic solvency ratio is calculated in accordance with the transitional provisions which prescribe the transitional period.

A. Economic solvency ratio

	As at December 31	
	2020	**2019**
	(Audited)	
	NIS million	
Equity for the purpose of SCR	**15,478**	15,370
Solvency capital requirement (SCR)	**9,717**	9,061
Surplus	**5,761**	6,309
Economic solvency ratio	**159%**	170%
Effect of material capital transactions that took place in the period between the date of the calculation and the publication date of the solvency ratio report:		
Redemption of capital (*)	**(46)**	-
Equity for the purpose of SCR	**15,432**	15,370
Capital surplus	**5,715**	6,309
Economic solvency ratio	**159%**	170%

(*) In May 2021, early redemption of Series 5 bonds was performed in the amount of NIS 435 million. This redemption reduces the recognized tier-2 capital by just NIS 46 million, and at December 31, 2020 there is an unutilized tier-2 balance of NIS 389 million over and above the limitation for tier-2 capital.

The capital position of Harel Insurance is influenced by its ongoing business development, changes in market variables, revised demographic and operating assumptions, continuous updates of models and capital transactions. For information about key changes which took place in 2020 in contrast with comparison figures, see Section 2 in the Economic Solvency Report.

This information concerning the solvency ratio, taking into account the capital activity, as specified above, does not include the effect of the business activity of Harel Insurance after December 31, 2020, changes in the mix and size of the insurance investments and liabilities, exogenous effects and regulatory changes which affect the business environment.

According to an internal calculation of the solvency ratio prepared by Harel Insurance at June 30, 2021, Harel Insurance has a significant capital surplus, taking the transitional provisions into account It is emphasized that this internal calculation has not been reviewed or audited by the external auditors.

B. Minimum Capital Requirement (MCR)

	As at December 31	
	2020	**2019**
	(Audited)	
	NIS million	
MCR	**2,429**	2,272
Own funds for the purpose of MCR	**11,105**	11,294

C. Limitations on the distribution of dividends

According to the letter published by the Commissioner in October 2017 ("the Letter"), insurance companies may distribute a dividend only if after the distribution is made, the company has a solvency ratio, based on the economic solvency regime, at a rate of at least 100%, which is calculated without taking the transitional provisions into account and subject to the solvency ratio target set by the Company's Board of Directors. This ratio will be calculated without providing any relief in respect of the original difference attributed to the purchase of provident fund activity and management companies.

It is the policy of Harel Insurance to hold a robust capital base so as to secure its solvency and ability to meet its liabilities to insureds, to maintain its ability to continue its business activity and so that it is able to produce a yield for its shareholders. Harel Insurance is subject to the capital requirements and defined regulations with respect to the distribution of dividends.

On November 30, 2020, the Board of Directors of Harel Insurance approved the revised capital management plan and at this stage, threshold conditions were determined for the distribution of a dividend, 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%.

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 comprehensive income according to its annual consolidated financial statements. Additionally, on February 28, 2021, the board of directors of Harel Insurance approved a dividend distribution policy in which the Company will distribute a dividend of at least 35% of 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.

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 is not intended to ensure that Harel Insurance will remain in compliance with the threshold conditions determined at all times.

D. Solvency ratio without application of the transitional provisions to the transitional period and without adjustment for equity risk:

Information about the economic solvency ratio of Harel Insurance, calculated without the transitional provisions and based on the solvency target determined by the board of directors of Harel Insurance with reference to the solvency ratio calculated without taking the provisions in the transitional period into account and after adjustment for equity risk, as required in the letter. This ratio is in compliance with the solvency ratio required according to the letter.

	As at December 31	
	2020	**2019**
	(Audited)	
	NIS million	
Equity for the purpose of SCR	**12,206**	12,423
Solvency capital requirement (SCR)	**11,583**	10,976
Surplus	**623**	1,447
Solvency ratio (in percent)	**105%**	113%
Effect of material capital transactions that took place in the period between the date of the calculation and the publication date of the solvency ratio report:		
Raising (redemption) of capital instruments (*)	**-**	-
Equity for the purpose of SCR	**12,206**	12,423
Surplus	**623**	1,447
Solvency ratio (in percent)	**105%**	113%
Status of capital after capital transactions in relation to the Board of Directors target:		
Economic solvency ratio target set by the Board of Directors	**105%**	11,839
Capital surplus in relation to the target (NIS million)	**44**	584

(*) In May 2021, early redemption of Series 5 bonds was performed in the amount of NIS 435 million. This redemption does not affect the recognized tier-2 capital.

E. In December 2021, Harel Insurance drew up a reinsurance agreement with the purpose of providing partial protection against a scenario of mass cancellations of health insurance transactions. According to an estimate prepared by Harel Insurance, this transaction will improve the solvency ratio by a small percent subject to market conditions, the structure of the insurance portfolio, the actuarial assumptions and the capital requirements. Notably, beyond the foregoing, this transaction will not significantly affect the Company's financial results.

F. On February 17, 2022, a circular was published updating the formula for calculating the illiquidity premium which is added to the risk-free interest rate curve ("the Circular"). The provisions of the Circular were applied from the financial reports at December 31, 2021 as a change in the accounting estimate in accordance with International Accounting Standard (IAS) 8. The effect of implementation of the Circular on the Company's financial results was to reduce the insurance liabilities by approximately NIS 923 million before tax. The Circular is not expected to affect the solvency ratio (without taking into account the transitional provisions) of Harel Insurance. Nonetheless, according to an estimate prepared by Harel Insurance, the effect of application of the Circular without taking other additional effects into account (such as: market conditions, structure of the insurance portfolio, actuarial assumptions, etc.) might improve the solvency ratio by few percent (calculated in accordance with the transitional provisions, in which framework the transitional period was determined). It is stipulated that the aforementioned estimate is considered “forward looking information” according to its definition in Section 32A of 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 at the date of the report. Actual performance may differ substantially from the results estimated or inferred from this information.

8 Business strategy and objectives

Section 8 on business strategy and objectives, also includes forecasts, evaluations, estimates and other information relating to future events and affairs, the materialization of which is uncertain and is not within the Company's exclusive control (forward-looking information). The key facts and data which formed the basis for this information are those pertaining to the Company's present position and its business in this area of activity (such as the volume of sales, profit rates, manpower, business agreements, etc.), facts and data pertaining to the current situation in Israel and worldwide for the areas of activity in which the Company operates (such as sectoral economic developments, regulatory environment, competitors, technology developments, reinsurance market, etc.), and macro-economic facts and data (such as the economic situation in Israel and worldwide, yield rates on the capital markets, political and social developments, etc.), as they are known to the Company at the time of this report. The forward-looking information contained above in this section is based significantly, in addition to the information available to the Company, on current expectations and estimates of the Company regarding future developments in each of the aforementioned parameters, and the extent to which these developments are interconnected. The Company cannot be certain that its expectations and estimates will in fact materialize, and the Company's performance may differ significantly from the estimated or inferred performance noted above, in part due to changes in any of the above-mentioned factors.

8.1 The Company believes that the challenging business and regulatory environment requires its business strategy and conduct to be constantly adapted in order to maintain its position in the market and sustain the impressive growth it has demonstrated in recent years. The Company will make every effort to continue to be a leading, dominant player in its diverse areas of activity, at the same time preserving the Company's values as reflected in its motto:

Reliability, Customer Service, Human Capital, a Warm Home and Leadership

8.2 The business, economic and social situation in Israel, together with the prevailing interest-rate environment in the capital markets in Israel and abroad, constantly force the Group to reconsider and adjust its business strategy to changing circumstances.

8.3 The Group applies a strategy of developing non-insurance activity alongside stable insurance activity.

8.4 Within the framework of its non-insurance activity, the Group concentrates different activities under the Company umbrella which provide it with a regular flow of income which is not dependent on the Group's main insurance activity. In this context, the Group's financial services activity (Harel Finance and its subsidiaries) is concentrated directly under the Company, as is the activity of EMI. Additionally, the Company develops activity directly under it, such as credit activity (through the subsidiary Hamazpen which provides credit to small and medium businesses, including the provision of mezzanine loans; through Harel 60+ which provides reverse mortgage loans; and in the framework of sale guarantee activity), as well as other investment activity. This regular flow of income to the Company, through these activities, serves to contribute to the Company's stability and its ability to distribute dividends to its shareholders on a regular basis on the one hand, while strengthening the Company's ability to support the activity of Harel Insurance, should such support be necessary in the future.

8.5 As part of Company's insurance activity, its strategy is the growth of the Group's insurance activity, by expanding sales to new customers and by making additional sales to the Group's more than 3 million existing customers, as well as expanding the Company's basket of products, emphasizing activity which is customized to the customers' requirements, such as advanced savings products, products for the Third Age population such as "reverse mortgage" which enables senior citizens who own a residential property to take a secure loan on their home which will not have to be repaid while they are alive.

8.6 As a result of the foregoing, five years ago the Group formulated a new strategy called Recalculating the Route, according to which to support further growth of the Company, investment is required in the following four aspects:

(1) **Goodwill** - Harel has excellent goodwill in its different areas of activity thanks to which it is branded in different surveys as the insurance company which the public has greatest awareness of from among the competing insurance companies, in most of the segments in which the Company operates. At image level too - Harel stands out far above its competitors and is positioned as the professional, expert and reliable entity in the health insurance sector, and also as a digitally advanced insurance company.

(2) **Customized value propositions** - significant financial and human resources have been and are being invested in the development of data and digital infrastructures with the purpose of ensuring that the Company's operations are consistent with the digital era, providing the Group with better operating efficiency, all through the following:

(a) Improved underwriting - through a "know your customer" (KYC) process, including specific customer characteristics and needs and the use of big data. This change will be a tie-breaker, allowing service, product and price to be tailored to the specific requirements of each customer.

(b) Reducing operating costs - by streamlining technology and the transfer of significant processes from manual to digital operations. Technological improvements help provide faster and better and sometimes even immediate service, to the customer, allowing customers and agents to perform "self-service" in areas such as: the purchase of products, filing of claims, and obtaining information on line. The Company has also invested resources in software development so that claims can be filed digitally, and can be paid immediately, claims for surgery can be filed directly by the surgeon, thus saving the customer the procedure involved in the filing of claims.

(c) The development and accessibility of technology-based tools for agents, enabling them to help their customers purchase suitable products quickly and simply (one-click digital sales). These technology-based tools will help save time and costs, so that agents will be able to devote their time to serving the customer and providing them with professional advice.

Thus, the Company's strategy is to utilize the underwriting improvement and streamlining of operations resulting from the digital operations to improve the value propositions to the customer and generate greater growth.

(3) **Targeted marketing** - the Company works to reach customers with the product best suited to them, at the most appropriate time, by various methods and means. The Group is therefore at an advanced stage of assimilating Salesforce systems acquired, the purpose of which is to assimilate marketing systems in the various digital channels as well as CRM systems, which start with the digital and frontal channels and use the Company's existing data to learn the customer's requirements and operate accordingly. This is the first Salesforce project of its kind and scope in Israel. Salesforce is handling the assimilation and is treating the project as a strategic project, investing considerable resources in it to ensure it success and turning it into its flagship project.

(4) **The human element** - utilizing the human element, as necessary - (a) in closing transactions - whether regarding the Group's representatives or its agents - making digital tools accessible, as well as developing and making a range of digital capabilities accessible, such as EasySend and Surfly, which enable agents to make "smart sales", particularly in these challenging times when the possibility of meeting customers physically is limited; and (b) in the service provided to customers after a transaction has been closed.

8.7 The Group believes that it has attained its position in the insurance and long-term savings market, as well as in the financial services market, thanks to the special service that it provides for its customers and agents. The Group will continue to provide such service, taking a long-term view of the good of the customer, and in the belief that claims filed by policyholders should not only be paid, but that they deserve to receive added value in the form of assistance and support in times of crisis. The Group's implementation of the new strategy will deepen its long-term relationships with customers and allow it to provide a service tailored to the requirements of each and every customer. It is these relationships that will continue to provide the Group with stability, offering growth engines by marketing the entire range of the Group's products to its loyal customers.

8.8 The Company also provides its customers with services in all areas via text-based chatbot and through customer service representatives on WhatsApp. Additionally, in the past year the Company launched a voice bot which routes incoming calls through an artificial intelligence (AI)-based system, allowing callers to navigate the system using intuitive, natural language without the need to type any text.

The Company operates to assimilate the most up-to-date technology developments in order to improve service to customers and to agents and also to bolster information security about its customers and protect their rights. In this context, the Company began to use Scanovate's facial recognition system which identifies customers before they certain actions are performed.

8.9 The Group will continue to ensure that its business expands in all the operating segments in which it is involved - in insurance and finance - taking advantage of available business opportunities and after a careful examination of the anticipated profit and growth from the new business over time.

8.10 The Group will continue its policy of the effective management of regulatory capital required of its subsidiaries, including reviewing transactions that will take into account the anticipated return on equity required in respect of such transactions. The Group will attempt to focus on attractive investments which are not influenced by the capital market, such as real-estate infrastructures in Israel and abroad, and investments in real, profit-making companies.

8.11 The Group will work consistently to improve and increase controls and management of the various risks in an effort to reduce the exposures entailed in its activity. Likewise, the Group will continue to ensure that it complies with the regulatory provisions, and to this end it will strive to further assimilate the enforcement plan that it adopted during the Reporting Period.

8.12 Alongside the expansion of its business activity, the Group will continue its social involvement and assistance for the community at large. This activity will be expanded so that in addition to further monetary contributions, the Group's employees will actually be involved in the community activities that it decides to support, as it has done so far.

8.13 The Group provides a warm home for its employees, and despite its size it has managed to preserve a unique family atmosphere. The Group's management will continue to preserve this special atmosphere through a variety of measures, based on the understanding that its quality human capital is one of the Group's most distinct advantages and which is critical to its ongoing success.

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

March 28, 2022

HAREL INSURANCE INVESTMENTS AND FINANCIAL SERVICES LTD.

Chapter 3

Financial Statements

Financial Statements as at December 31, 2021

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Consolidated Statements of Financial Position as at December 31

	Note	2021 NIS million	2020 NIS million
Assets			
Intangible assets	6	**2,244**	1,810
Deferred tax assets	35	**18**	9
Deferred Acquisition Costs	7	**2,667**	2,513
Fixed assets	8	**1,380**	1,380
Investments in equity accounted investees	9	**1,385**	1,245
Investment property for yield-dependent contracts	10	**1,963**	1,802
Other investment property	10	**2,269**	2,060
Reinsurance assets		**5,242**	4,340
Current tax assets	35	**2**	6
Trade and other receivables	11	**1,251**	1,246
Premium due	12	**1,452**	1,345
Financial investments for yield-dependent contracts	13	**73,850**	64,607
Other financial investments			
Marketable debt assets	14D	**13,579**	11,067
Non-marketable debt assets	14E	**16,629**	15,075
Shares	14H	**2,508**	1,630
Other	14I	**3,595**	3,238
Total other financial investments		**36,311**	31,010
Cash and cash equivalents for yield-dependent contracts	15A	**5,012**	3,452
Other cash and cash equivalents	15B	**2,625**	2,921
Total assets		**137,671**	119,746
Total assets for yield-dependent contracts	13	**81,548**	71,009

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Financial Position as at December 31

	Note	2021 NIS million	2020 NIS million
Equity and liabilities			
Equity	16		
Share capital and share premium		**359**	359
Treasury stock		**(163)**	(123)
Capital reserves		**1,373**	1,061
Retained earnings		**7,292**	6,438
Total equity attributed to shareholders of the Company		**8,861**	7,735
Non-controlling interests		**32**	19
Total equity		**8,893**	7,754
Liabilities			
Liabilities for non yield-dependent insurance contracts and investment contracts	17	**31,127**	28,886*
Liabilities for yield-dependent insurance contracts and investment contracts	18	**80,516**	69,833*
Deferred tax liabilities	35	**1,450**	1,200
Liabilities for employee benefits, net	23	**301**	265
Current tax liabilities	35	**46**	99
Trade and other payables	24	**4,893**	3,915
Financial liabilities	25	**10,445**	7,794
Total liabilities		**128,778**	111,992
Total equity and liabilities		**137,671**	119,746

* Reclassified

Yair Hamburger Chairman of the Board of Directors	Michel Siboni CEO	Arik Peretz Chief Financial Officer

Date of Approval of the Financial Statements: March 28, 2022

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Income for the Year Ended December 31

	Note	2021 NIS million	2020 NIS million	2019 NIS million
Premiums earned, gross		**15,272**	14,951	15,104
Premiums earned by reinsurers		**1,858**	1,675	1,745
Earned premiums in retention	26	**13,414**	13,276	13,359
Profit from investments, net, and financing income	27	**11,912**	3,725	7,921
Income from management fees	28	**1,790**	1,384	1,487
Income from commissions	29	**347**	312	358
Other income		**11**	-	-
Total income		**27,474**	18,697	23,125
Payments and changes in liabilities for insurance contracts and investment contracts, gross		**23,127**	14,916	19,834
Reinsurers' share of payments and change in liabilities for insurance contracts		**1,507**	1,312	1,229
Payments and changes in liabilities for insurance contracts and investment contracts in retention	30	**21,620**	13,604	18,605
Commissions, marketing expenses and other acquisition costs	31	**2,731**	2,685	2,729
General and administrative expenses	32	**1,310**	1,206	1,211
Other expenses	33	**14**	25	16
Financing expenses, net	34	**281**	169	163
Total expenses		**25,956**	17,689	22,724
Company's share of profits of equity accounted investees		**180**	13	160
Profit before taxes on income		**1,698**	1,021	561
Income tax		**486**	296	104
Profit for year		**1,212**	725	457
Attributed to:				
Shareholders of the Company		**1,209**	724	457
Non-controlling interests		**3**	1	-*
Profit for year		**1,212**	725	457
Basic and diluted earnings per share attributed to the Company's shareholders (NIS)	6	**5.65**	3.38	2.13

* Less than NIS 1 million.

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	2021	2020	2019
	NIS million	NIS million	NIS million
Profit for the year	**1,212**	725	457
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	**920**	356	950
Net change in fair value of financial assets classified as available-for-sale transferred to income statement	**(461)**	(297)	(127)
Loss from impairment of available-for-sale financial assets transferred to income statement	**51**	148	31
Foreign currency translation differences for foreign activity	**(77)**	(61)	(69)
Tax benefit (income tax) attributable to available-for-sale financial assets	**(166)**	(79)	(291)
Tax benefit for other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss	**19**	12	13
Total other comprehensive income for the year that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	**286**	79	507
Other items of comprehensive income that will not be transferred to profit or loss			
Revaluation reserve for fixed asset items	**29**	34	26
Re-measurement of a defined benefit plan	**3**	7	(7)
Taxes on income for other items of comprehensive income that will not be transferred to profit or loss	**(9)**	(11)	(5)
Other comprehensive income for the year that will not be transferred to profit or loss, net of tax	**23**	30	14
Total other comprehensive income for year	**309**	109	521
Total comprehensive income for year	**1,521**	834	978
Attributed to:			
Shareholders of the Company	**1,518**	833	978
Non-controlling interests	**3**	1	-*
Total comprehensive income for year	**1,521**	834	978

* Less than NIS 1 million.

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Changes in Equity for the Year Ended December 31

	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
Balance as at January 1, 2021	359	1,003	(194)	1	(123)	(49)	300	6,438	7,735	19	7,754
Total comprehensive income (loss) for year											
Profit for year	-	-	-	-	-	-	-	1,209	1,209	3	1,212
Total other comprehensive income (loss)	-	344	(58)	-	-	-	21	2	309	-	309
Total comprehensive income (loss) for year	-	344	(58)	-	-	-	21	1,211	1,518	3	1,521
Transactions with shareholders recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(357)	(357)	-	(357)
Share-based payment	-	-	-	5	-	-	-	-	5	-	5
Purchase of Treasury stock	-	-	-	-	(40)	-	-	-	(40)	-	(40)
Non-controlling interests in a newly established consolidated subsidiary (see Note 38F)	-	-	-	-	-	-	-	-	-	11	11
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(1)	(1)
Balance as at December 31, 2021	359	1,347	(252)	6	(163)	(49)	321	7,292	8,861	32	8,893

* For additional information, see Note 16.

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Changes in Equity for the Year Ended December 31

	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
Balance as at January 1, 2020	359	875	(145)	1	(123)	(49)	275	5,709	6,902	18	6,920
Total 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
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,493	6,160	6	6,166
Total comprehensive income (loss) for year											
Profit for the year	-	-	-	-	-	-	-	457	457	-*	457
Other comprehensive income (loss)	-	563	(56)	-	-	-	19	(5)	521	-*	521
Total comprehensive income (loss) for the year	-	563	(56)	-	-	-	19	452	978	-*	978
Transactions with shareholders recognized directly in equity											
Dividend distributed	-	-	-	-	-	-	-	(236)	(236)	-	(236)
Non-controlling interests in a newly established consolidated subsidiary	-	-	-	-	-	-	-	-	-	12	12
Balance as at December 31, 2019	359	875	(145)	1	(123)	(49)	275	5,709	6,902	18	6,920

* Less than NIS 1 million.

** For additional information, see Note 16.

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Cash Flows for the Year Ended December 31

	Annex	2021 NIS million	2020 NIS million	2019 NIS million
Cash flows from operating activity				
Before taxes on income	A	**1,655**	1,704	(175)
Taxes paid		**(464)**	(291)	(186)
Net cash provided by (used for) operating activities		**1,191**	1,413	(361)
Cash flows from investment activity				
Acquisition of a subsidiary consolidated for the first time	B	**(92)**	-	-
Investment in investees		**(104)**	(28)	(118)
investee Proceeds from the sale of an investment in an equity accounted		**44**	69	132
pension fund Cash paid as part of the acquisition of provident fund and management rights from Psagot		**(185)**	-	-
Investment in fixed assets		**(49)**	(44)	(51)
Investment in intangible assets		**(305)**	(303)	(252)
Dividend and interest from investees		**55**	102	193
Proceeds from sale of fixed assets and intangible assets		**4**	1	1
Net cash used for investment activity		**(632)**	(203)	(95)
Cash flows from financing activity				
Proceeds of issuance of liability notes, net		**931**	395	1,384
Repayment of liability notes		**(468)**	(247)	(71)
Purchase of Treasury stock		**(40)**	-	-
Payment for purchase of ETNs and covered warrants, net		**-**	-	(33)
Short-term credit from banks, net		**531**	-	(121)
Loans received from banks and others		**375**	-	190
Repayment of loans from banks and others		**(454)**	(77)	(153)
Repayment of lease liabilities		**(36)**	(36)	(31)
Dividend paid to non-controlling interests		**(1)**	-	-
Dividends paid		**(257)**	-	(343)
Net cash provided by (used for) financing activity		**581**	35	822
Effect of exchange rate fluctuations on cash balances and cash equivalents		**124**	175	(117)
Net increase in cash and cash equivalents		**1,264**	1,420	249
Retained cash and cash equivalents at beginning of the year	C	**6,373**	4,953	4,704
Retained cash and cash equivalents at end of the year	D	**7,637**	6,373	4,953

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Cash Flows for the Year Ended December 31

	2021	2020	2019
	NIS million	NIS million	NIS million
(Annex A - Cash flows from operating activities before taxes on income (1), (2), (3			
Profit for the year	**1,212**	725	457
Items not involving cash flows:			
Company's share of profits of equity accounted investees	**(180)**	(13)	(160)
Net profits from financial investments for yield-dependent insurance contracts and investment contracts	**(8,131)**	(2,115)	(5,285)
Losses (profits) net, from other financial investments			
Marketable debt assets	**(312)**	(14)	1
Non-marketable debt assets	**(216)**	107	11
Shares	**(299)**	(119)	(48)
Other investments	**(626)**	(288)	(542)
Change in financial liabilities	**(370)**	(956)	905
Change in fair value of investment property for yield-dependent contracts	**(125)**	14	(113)
Change in fair value of other investment property	**(189)**	14	(172)
Depreciation and amortization			
Fixed assets	**116**	111	118
Intangible assets	**206**	178	145
Change in liabilities for non-yield-dependent insurance contracts and investment contracts	**1,443**	399*	1,728*
Change in liabilities for yield-dependent insurance contracts and investment contracts	**10,683**	3,294*	9,551*
Change in reinsurance assets	**(349)**	(85)	9
Change in DAC	**(173)**	(28)	(29)
Salary income for share-based payment	**5**	-	-
Income tax expense	**486**	296	104
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	**(36)**	(47)	(28)
Net acquisitions of financial investments	**(976)**	(1,058)	(4,269)
Other financial investments and investment property			
Purchase of investment property	**(16)**	(16)	(39)
Net acquisitions of financial investments	**(1,012)**	1,213	(3,102)
Premiums due	**(72)**	58	(18)
Trade and other receivables	**(140)**	(212)	86
Cash and cash equivalents pledged for holders of ETNs	**-**	-	35
Trade and other payables	**682**	255	471
Liabilities for employee benefits, net	**44**	(9)	9
Total adjustments required to present cash flows from operating activities	**443**	979	(632)
Total cash flows from operating activity before taxes on income	**1,655**	1,704	(175)
Material non-cash activity			
Initial application of IFRS 16 - Leases	**-**	-	63

* Reclassified

(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 was presented at NIS 824 million (for 2020 and 2019 NIS 743 and NIS 835 million, respectively), and interest was paid in the amount of NIS 180 million (for 2020 and 2019, NIS 179 and NI 160 million, respectively).

(3) As part of the operating activities, a dividend received from other financial investments was stated in the amount of NIS 645 million (for 2020 and 2019, NIS 26 and NIS 295 million, respectively).

The accompanying Notes are an inseparable part of the Financial Statements.

Consolidated Statements of Cash Flows for the Year Ended December 31

	2021	2020	2019
	NIS million	NIS million	NIS million
Annex B – Acquisition of a subsidiary consolidated for the first time			
Assets and liabilities of the consolidated subsidiary at the acquisition date			
Goodwill created on acquisition	(56)	-	-
Retained cost – intangible asset for customer relations – created on acquisition	(69)	-	-
Retained cost – intangible asset for brand – created on acquisition	(15)	-	-
Other intangible assets	(10)	-	-
Deferred tax assets	(3)	-	-
Fixed assets	(3)	-	-
Other investment property	(5)	-	-
Reinsurance assets	(608)	-	-
Trade receivables	(55)	-	-
Premium due	(85)	-	-
Other financial investments	(595)	-	-
Liabilities for non-yield-dependent insurance contracts and investment contracts	1,098	-	-
Trade payables	305	-	-
Cash to be deducted due to acquisition of a consolidated company consolidated for the first time	(101)	-	-
From which amount paid in February 2022, after the Reporting Period, for adjustment of the proceeds	9	-	-
Total cash deducted on acquisition of a consolidated company consolidated for the first time	(92)	-	-

	2021	2020	2019
	NIS million	NIS million	NIS million
Annex C - Cash and cash equivalents at beginning of year			
Cash and cash equivalents for yield-dependent contracts	3,452	2,897	3,083
Other cash and cash equivalents	2,921	2,056	1,621
Retained cash and cash equivalents at beginning of the year	6,373	4,953	4,704
Annex D - Cash and cash equivalents at end of year			
Cash and cash equivalents for yield-dependent contracts	5,012	3,452	2,897
Other cash and cash equivalents	2,625	2,921	2,056
Retained cash and cash equivalents at end of the year	7,637	6,373	4,953

The accompanying Notes are an inseparable part of the Financial Statements.

Note 1 - General

A. The Reporting Entity

Harel Insurance Investment and Financial Services Ltd. ("the Company") is a company resident and incorporated in Israel. The Company's shares are traded on the Tel Aviv Stock Exchange Ltd. The official address of the company is 3 Abba Hillel St., Ramat Gan.

The company is a holding company whose principal holdings are in consolidated companies that are insurance and financial services companies. The consolidated financial statements as at December 31, 2021 include the financial statements of the company and of its subsidiaries ("the Group") as well as the Group's interests in associates and in joint arrangements. Insurance companies prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), and in accordance with the disclosure requirements prescribed by the Commissioner of the Capital Market, Insurance and Savings based on the Supervision of Financial Services (Insurance) Law, 1981. The consolidated financial statements reflect the assets, liabilities and expenses of the consolidated insurance companies, and they are therefore prepared in a similar format.

The company's consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and in accordance with the disclosure requirements set out by the Commissioner under the Supervision Law, and in accordance with the Securities (Annual Financial Statements) Regulations, 2010, to the extent that these regulations apply to a company that consolidates insurance companies.

B. Definitions

In these financial statements:

The Company	-	Harel Insurance Investments and Financial Services Ltd.
The Commissioner	-	The Commissioner of the Capital Market, Insurance and Savings.
The Group	-	The Company and its consolidated subsidiaries.
Harel Insurance	-	Harel Insurance Company Ltd.
Harel Finance	-	Harel Financial Holdings Ltd.
Harel Financing & Issuing	-	Harel Insurance, Financing and Issuing Ltd.
Dikla	-	Dikla Insurance Company Ltd., whose insurance license was nullified commencing January 1, 2016, received a license to engage in insurance brokerage and at the same time its name was changed on January 1, 2016 to Dikla General Insurance Agency Ltd. In September 2016, the Company changed its name to Dikla Insurance Agency Ltd.
Dikla Agency	-	Dikla Insurance Agency Ltd.
Liabilities for insurance contracts and investment contracts	-	Insurance reserves and outstanding claims in the life assurance, non-life insurance, health insurance and insurance companies overseas operating segments.

Note 1 - General (contd.)

B. Definitions (contd.)

Joint Arrangements	-	Arrangements in which the Group has joint control that was obtained by a contractual arrangement that requires unanimous consent regarding the activities that significantly affect the returns from the arrangement.
Associate company	-	A company, except for a consolidated company, including a partnership or a joint venture, in which the Company's investment is included, whether directly or indirectly, in the financial statements on an equity basis.
Consolidated company/subsidiary	-	A company, including a partnership/joint venture, whose financial statements are fully consolidated, whether directly or indirectly, with the company's financial statements.
Investee company	-	A subsidiary or associate company.
Insurance contracts	-	Contracts (policies) where one party (the insurer) accepts a significant insurance risk of a counter party (the policyholder), by agreeing to compensate the policyholder if any defined uncertain future event (insured event) has a negative effect on the policyholder.
Investment contracts	-	Policies that do not constitute insurance contracts.
Yield-dependent contracts [also known as unit linked]	-	Insurance policies and investment contracts in which the insurer's liability, for the savings component or the risk therein, is mostly linked to the yield on the investment portfolio (policies that share in investment profit) in assets for yield-dependent contracts.
Supervision Law	-	Supervision of Financial Services (Insurance) Law, 1981, and its amendments
Reinsurance assets	-	Reinsurers' share of the insurance reserves and outstanding claims.
Total assets for yield dependent contracts	-	Total assets held against the liabilities arising from yield-dependent contracts.
Premiums	-	Premiums, including fees.
Earned premiums	-	Premiums relating to the Reporting Period.
Related parties	-	As defined by International Accounting Standard 24 (2009) - Related Parties.
Interested parties / principal shareholders	-	According to their meaning in paragraph (1) of the definition "interested party" in a corporation in Section 1 of the Securities Law, 1968.
Mirvah Hogen	-	Mirvah Hogen Ltd., which provides price quotes and discounting interest rates for financial institutions for revaluing their non-marketable debt assets, regarding various risk ratings.

Note 1 - General (contd.)

B. Definitions (contd.)

Investment Rules Regulations	-	Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Financial Institutions), 2012.
Interasco	-	Interasco Societe Anonyme General Insurance Company A.E.G.A. - a company incorporated in Greece and which holds an insurer's license in Greece.
Turk Nippon	-	Turk Nippon Sigorta A.S. - an insurance company incorporated in Turkey, whose insurer's license in Turkey was renewed in April 2009.
EMI	-	EMI - Ezer Mortgage Insurance Company

Note 1 – General (contd.)

C. Outbreak of the COVID-19 pandemic

Due to the outbreak of the COVID-19 pandemic at the beginning of 2020 ("the COVID-19 Crisis") and its global spread, Israel included, governments around the world imposed various limitations in an effort to halt the spread of the virus and reduce the number of sick people. These measures included, among others, a drastic reduction of business and leisure activity, isolation of those suspected of being infected with the virus, public transport cutbacks and the closure of borders, restrictions on gatherings and other limitations.

In Q4 2020 many countries, including Israel, began to approve the use of vaccinations against the virus and launched campaigns to vaccinate the population.

In the Reporting Period, as a result of the rapid vaccination of Israel's population, morbidity declined significantly and accordingly, the restrictions which had been imposed were almost entirely lifted. Nonetheless, during the course of 2021 additional waves of the COVID-19 virus spread and morbidity increased periodically, which was accompanied by the imposition of restrictions on large gatherings and travel to and from different countries. Towards the end of 2021, there was another wave of morbidity due to the spread of the Omicron variant. Despite the extensive morbidity which triggered widespread isolation, at the date of the report no significant restrictions have been imposed on economic activity in Israel..

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.

Note 2 - Basis of Preparation

A. Statement of Compliance

The consolidated financial statements were prepared by the Group in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the disclosure requirements prescribed by the Commissioner, under the Supervision of Financial Services (Insurance) Law, 1981.
These financial statements were also prepared in accordance with the Securities (Annual Financial Statements) Regulations, 2010, to the extent that these regulations apply to a company that consolidates insurance companies.
The consolidated financial statements were approved for publication by the Company's Board of Directors on March 28, 2022.

B. Functional and Presentation Currency

The consolidated financial statements are presented in New Israel Shekels (NIS), which is the Company's functional currency and are rounded to the nearest million, unless specified otherwise.

C. Basis of Measurement

The financial statements were prepared on basis of the historical cost, except for the following assets and liabilities:
- Financial instruments measured at fair value through profit or loss;
- Financial instruments classified as available-for-sale measured at fair value through other comprehensive income;
- Investment property measured at fair value;
- The fixed assets group relating to land and office buildings measured at fair value (new valuation method);
- Investments in associates and joint transactions measured at fair value;
- Deferred tax assets and liabilities;
- Assets and liabilities for employee benefits;
- Reinsurance assets;
- Insurance obligations;
- Provisions;

For additional information about the method of measuring these assets and liabilities, see Note 3, Significant Accounting Policies.

D. Use of Estimates and Judgments

Use of Estimates

The preparation of financial statement in conformity with IFRSs requires management to apply discretion in the estimates, judgments and assumptions, including actuarial assumptions and estimates ("estimates") that affect the application of accounting policies, and the reported amounts of assets, liabilities, income and expenses. It is stipulated that actual results may differ from these estimates, in part due to regulatory changes that were or are expected to be published in the insurance, pension and provident sectors and where there is a measure of uncertainty as to their ramifications and manner of application. The main estimates included in the financial statements are based, *inter alia,* on actuarial estimates and on external valuation reports.

When formulating accounting and actuarial estimates to be used in the preparation of the Group's financial statements, the Company's management is required to make certain assumptions regarding circumstances and events that involve considerable uncertainty. The Company's management bases these judgments on past experience, various facts, external circumstances and reasonable assumptions, including future expectations, to the extent that they can be estimated, regarding the circumstances appropriate for each estimate.

Note 2 - Basis of Preparation (contd.)

D. Use of Estimates and Judgment (contd.)

The estimates and underlying assumptions are reviewed regularly. Changes in the accounting estimates are recognized in the period in which they are revised and in any future periods affected. On the completion of a study relating to the cost of claims in the personal lines health sector, see Note 37. Regarding the provisions published by the Commissioner updating the method of calculating the illiquidity premium added to the risk-free interest rate as part of the LAT, see Note 3C1(g).

Information about critical assumptions made by the Group where there is a significant risk that a material change in them, particularly in view of the aforementioned regulatory changes, might materially change the value of the assets and liabilities in the financial statements during the course of the next fiscal year:

- Liabilities for insurance contracts - these liabilities are based on actuarial valuation methods and on estimates regarding demographic and economic variables. The actuarial valuations and various assumptions are based mainly on past experience, and are grounded on the belief that behavior and claims in the past reflect future events. Any change in risk factors, in the frequency or severity of the events, and any change in the legal position may significantly affect the amount of the liability for insurance policies (see Note 37).

- Contingent liabilities - contingent and pending legal claims, and requests for class-action approvals have been filed against the Group. In estimating the chances of legal claims that were submitted against the Company and its investees, the companies relied on professional opinions prepared by their legal counsel. These legal estimates are based on their best professional judgment, considering the stage at which the proceedings are at, and the accumulated legal experience with the various issues. It is emphasized that the outcomes of the claims as decided by the courts may differ from the estimates (see Note 40).

- Fair value estimates - the fair value of non-marketable bonds, loans and deposits, is calculated using a model which is based on a capitalization of cash flows where the discounting interest rates are determined by a company which provides interest rate quotes (see Note 14))

- Impairment of non-financial assets - at every reporting date the Group considers whether any events have occurred, or if there have been any changes in circumstances that indicate an impairment of one or more of its non-financial assets. If there are indications of any impairment, an evaluation is made as to whether the amount presented as an investment in an asset is recoverable from the expected capitalized cash flows from said asset, and where necessary, provision for impairment is recorded of up to the recoverable amount. The cash flows are capitalized using a capitalization rate which reflects the market's opinion of the time value of the money and specific risks relating to the asset. The estimates of the cash flows are based on past experience with the asset, or with similar assets, and on the Group's estimate of the economic conditions that will prevail over the remaining useful life of the asset. Changes in Group estimates, as stated, may lead to significant changes in the book values of the assets and in operating results (see Note 6).

- Determining the recoverability of deferred acquisition costs - the recoverability of the deferred acquisition costs in life assurance and long-term care and in health insurance is tested once a year using guidelines for cancellation rates, mortality, incidence, and other variable factors (see Note 3C1e and Note 3C2j, respectively). Determining the recoverable value of deferred acquisition costs for asset management contracts is tested once a year (see Note 3C1f).

- Determining the fair value of investment property – investment property is presented at fair value at reporting date, with changes in the fair value recognized in profit or loss. The fair value is determined by independent external appraisers based on to their estimates of overall economic value which include assumptions regarding estimates of expected future cash flows from the asset, and an estimate of the appropriate capitalization rate for these cash flows.
  The fair value is determined in relation to recent transactions of a nature and location which are similar to the estimates when this information is available (see Note 10).

Note 2 - Basis of Preparation (contd.)

D. Use of Estimates and Judgment (contd.)

- Determining the fair value of owner-occupied real estate - owner-occupied real estate is presented at fair value at the reporting date where changes in the fair value beyond the cost net of depreciation are recognized in a revaluation reserve. The fair value is determined by independent, external appraisers based on estimates of economic value that are regularly prepared to ensure that the balance in the financial statements does not differ significantly from the value that would have been determined according to the fair value method on the reporting date. The economic valuations include assumptions regarding estimates of future cash flows expected from similar assets and an estimate of the appropriate capitalization rate for these cash flows. The fair value is determined using a combination of several revaluation methodologies, including the comparative approach and discounting of appropriate rent from similar assets (see Note 8).

Determination of fair value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 6, Intangible assets;
- Note 8, Fixed assets
- Note 10, Investment property;
- Note 13, Assets for yield-dependent contracts;
- Note 14, Other financial investments;
- Note 25, Financial obligations.

When determining the fair value of an asset or liability, the Group uses observable market data wherever possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the evaluation, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than those included within Level 1 that are observable, either directly or indirectly;
- Level 3: inputs that are not based on observable market data (unobservable inputs).

E. 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 - Basis of Preparation (contd.)

F. Changes in the Consumer Price Index and in US dollar (USD) Exchange Rates

	Consumer Price Index		
	CPI for	CPI "Known"	Representative USD Exchange Rate
	%	%	%
For the Year Ended			
December 31, 2021	2.80	2.40	(3.27)
December 31, 2020	(0.69)	(0.60)	(6.97)
December 31, 2019	0.60	0.30	(7.79)

G. Operating cycle and reporting structure

The Group's activities, which are mainly financial in nature, do not have a clearly identifiable operating cycle and are generally longer than a year, particularly in relation to life assurance business, long-term savings and non-life insurance business, for which the reporting period continues long after the period of insurance coverage.

The Consolidated Statements of Financial Position are presented by order of liquidity, and not according to current and non-current classifications. This presentation conforms with International Accounting Standard (IAS) 1 and provides, in the company's opinion in view of the foregoing, more reliable and relevant data, and is in accordance with the instructions of the Commissioner.

Note 3 - Significant Accounting Policies

The accounting policies described below have been applied consistently for all periods presented in these consolidated financial statements by Group entities.

A. Basis of Consolidation

1. Business combinations

The Group applies the Acquisition Method to all business combinations.

The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill at acquisition according to the fair value of the consideration transferred, including any amounts that were recognized in respect of any non-controlling interests in the acquiree as well as the fair value at the acquisition date of any pre-existing equity right of the Group in the acquiree, less the net amount attributed to identifiable assets acquired and the liabilities assumed.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are expensed in the period the services are received.

2. Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of the subsidiaries are included in the consolidated financial statements from the date of gaining control until the control ends. The accounting policies of the subsidiaries have been changed when necessary to align them with the accounting policies adopted by the Group.

The financial statements of the pension funds, provident funds, mutual funds, ETFs and investment portfolios managed by the Group, were not consolidated since the Company has no share in their assets and liabilities.

3. Investment in associates and in joint ventures

Associate companies are entities over which the Group has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of another entity. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account. Joint ventures are joint arrangements in which the Group has the rights to the net assets of the arrangement.

Investment in associates and joint ventures are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

When a company first obtains significant influence or joint control in a joint arrangement that was accounted for as an available-for-sale financial asset until the date of obtaining significant influence or joint control, accumulated other comprehensive income in respect of that investment is transferred to profit or loss at that date.

Note 3 - Significant Accounting Policies (contd.)

A. Basis of Consolidation (contd.)

3. Investment in associates and in joint ventures (contd.)

The consolidated financial statements include the Group's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after making the necessary adjustments to align their accounting policies with those of the Group, from the date on which significant influence or joint control commences and until the date on which significant influence or joint control ceases. Where the Group's share of the loss exceeds the value of the Group's interests in an equity accounted investee, the book value of those interests includes any long-term investment which forms part of the investment in the investee, is reduced to zero. Where the Group's share of long-term investments which forms part of the investment in the investee differs from its share of the investee's equity, the Group continues to recognize its part in the losses of the investee, after the capital investment was reduced to zero, based on its rate of economic entitlement in the long-term investment. After this, the recognition of further loss is discontinued, except to the extent that the Group has an obligation to support the investee or it has made payments on behalf of the investee.

4. Non-controlling interests

Non-controlling interests are the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company.

Measurement of non-controlling interests on the date of the business combination

Non-controlling interests, that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (such as: ordinary shares), are measured on the date of the business combination at fair value or according to their proportionate share in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Allocation of other comprehensive income or loss to the shareholders

Profit or loss and any part of other component of comprehensive income are allocated to the owners of the Company and the non-controlling interests. Total profit or loss and other comprehensive is allocated to the owners of the Company and the non-controlling interests even if the result is a negative balance of non-controlling interests.

Transactions with non-controlling interests, while retaining control

Transactions with non-controlling interests while retaining control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in non-controlling interests is included in the owners' share of the Company directly in retained earnings.

The amount of the adjustment to non-controlling interests is calculated as follows:
For an increase in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction.
For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

Furthermore, when the holding rate of the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

Note 3 - Significant Accounting Policies (contd.)

A. Basis of Consolidation (contd.)

5. Loss of significant influence or joint control

The Group discontinues applying the equity method from the date it loses significant influence in an associate or joint control in a joint venture and it accounts for the retained investment as a financial asset or associate company, as applicable.

On the date of losing significant influence or joint control, the Group measures at fair value any retained interest it has in the former associate or joint venture. The Company recognizes in profit or loss net investment profits (losses) and financing income in any difference between the sum of the fair value of the retained interest and any proceeds received from the partial disposal of the investment in the associate or joint venture, and the book value of the investment on that date.

The amounts recognized in equity through other comprehensive income with respect to the same associate or joint venture are reclassified to profit or loss or to retained earnings in the same manner that would have been applicable if the associate or joint venture had itself realized the same assets or liabilities.

When the Group loses significant influence and obtains joint control in a joint venture or vice versa, the change is accounted for as described in Section 7 below.

6. Business combinations under common control

The acquisition of interests in businesses controlled by the Group's controlling shareholder are accounted for by the carrying amount method, as if the acquisition had occurred on the date the Group's controlling shareholder obtained control for the first time.

The acquired assets and the liabilities are recognized at the carrying amounts (book value) recognized previously in the consolidated financial statements of the Group's controlling shareholder. The capital components of the Group were restated from the date on which control was first obtained by the Groups' controlling shareholder, so that components of equity of the acquired entity are added to the Group's existing components, excluding the share capital of the acquired entity which is carried to share premium. Any difference between the cash paid for the acquisition and the value of the assets and liabilities acquired on the date on which joint control was achieved has been recognized directly in equity.

7. Change in interest held in equity accounted investees while retaining significant influence or joint control, including transition from significant influence to joint control and vice versa

When the Group increases its interest in an equity accounted investee while retaining significant influence or joint control, it implements the acquisition method only with respect to the additional interest obtained whereas the previous interest remains unchanged.

When there is a decrease in the interest in an equity accounted investee while retaining significant influence or joint control, the Group derecognizes a proportionate part of its investment and recognizes the profit or loss from the sale under net investment profits (losses) and financing income in the income statement. The cost of the interests sold is determined according to a weighted average for purposes of calculating the gain or loss from the sale.

Note 3 - Significant Accounting Policies (contd.)

A. Basis of Consolidation (contd.)

8. Joint Ventures

When the Group has rights in the assets and obligation to the liabilities attributed to joint arrangements, it recognizes the assets, liabilities, revenues and expenses of the joint arrangement based on its rights in these items, including its share of the items held or incurred jointly. Gains or loss from transactions with joint activity are recognized only at the amount of the share of the other parties in the joint operation. When these transactions provide evidence of impairment of those assets, such losses are fully recognized by the Group.

9. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

B. Foreign Currency

1. Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are denominated in foreign currency are measured in accordance with the historical cost, and are translated according to the exchange rate that was in force at the time of the transaction.

Foreign currency differences arising on translation are generally recognized in profit or loss, except for differences which are recognized in other comprehensive income, arising on the translation of available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss).

2. Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to NIS at exchange rates at the reporting date. The income and expenses of foreign operations are translated to NIS at exchange rates at the dates of the transactions.

Foreign currency differences for the translation are recognized in other comprehensive and are recognized in equity in the foreign activity translation reserve.

When the foreign operation is a non-wholly-owned subsidiary of the Company, then the relevant proportionate share of the foreign operation translation difference is allocated to the non-controlling interests.

Note 3 - Significant Accounting Policies (contd.)

B. Foreign Currency (contd.)

2. Foreign Operations (contd.)

The financial reports of foreign operations which are not held directly are translated to NIS using the consolidation method, in stages, by which the financial reports of foreign operations are first translated into the functional currency of the direct parent company and then translated into the functional currency of the final parent company's activities. Therefore, when realizing foreign operations that are not held directly, the Group reclassifies to profit and loss the amount accumulated in the foreign exchange reserve by the amount that would have been realized, had the foreign operations been translated directly to NIS.

When the foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve for that foreign operations is reclassified to profit or loss as part of the profit or loss from the disposal.

Foreign currency differences for loans received from or provided for foreign operations, including foreign operations that are subsidiaries, are generally recognized in profit or loss in the consolidated financial statements.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

C. Insurance contracts

IFRS 4, which discusses insurance contracts, allows insurers to continue to apply the accounting policy adopted prior to the date of transition to IFRS with respect to insurance contracts they issue (including related acquisition costs and related intangible assets, as well as for reinsurance contracts they purchase.

Following is a summary of the Group's accounting policy in connection with insurance contracts:

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment

a. For income recognition, see Note 3L below.

b. Life Assurance Reserves:

Life assurance reserves are calculated in accordance with the instructions of the Commissioner (regulations and circulars), generally accepted accounting principles, accepted actuarial methods and in a manner consistent with the previous year. The reserves are calculated according to the relevant coverage data, such as: the age and sex of the insured, number of years of coverage, policy period, category of insurance and sum insured.

Life assurance reserves, long-term care reserves, the reinsurers' share therein and the deferred acquisition costs on policies issued up to 31 December 1998, are determined on the basis of an actuarial evaluation, performed by the actuary responsible for life assurance and health insurance in Harel Insurance, Mr. Jonathan Brody, F.IL.A.A. The actuary is a company officer in Harel Insurance.

c. Life assurance reserves linked to the CPI and the investments held against said reserves are included in the financial statements according to the last Index published before the reporting date (the CPI for November). Life assurance reserves relating to policies which according to their conditions are linked semi-annually, were included in the financial statements according to the CPI for June or December, as applicable.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

d. Commissioner's instructions concerning reserves for annuity payments:

In March 2013, the Commissioner published a circular on Guaranteed Annuity Options (annuity coefficients that incorporate a longevity guarantee). This circular prescribes that insurance companies will define two K values, one for liabilities for the yield-dependent savings component, and the second for liabilities for the yield-guaranteed savings component. The supplementary reserve for annuity is accrued gradually for monies accumulated in policies up to the end of the Reporting Period, taking into account the profits anticipated from policies until the insureds reach retirement age.

The provision is made gradually using the K factor which is derived from the rate of future revenues. The higher the K factor, the lower the liability for supplementing the reserve for annuity recognized in the financial statement will be and the amount to be deferred and recorded in the future will be higher.

The Company's policy is for the K value to be fixed. This value will only be subtracted if it cannot be justified. At December 31, 2021 and December 31, 2020, the K value for yield-guaranteed policies is 0% for profit-sharing policies it is 0.935%.

The outstanding reserve for supplementing the annuity included in the financial statements at December 31, 2021, was NIS 1,137 million and NIS 1,050 million at December 31, 2020.

The reserve expected to be recognized in the financial statements by applying the K factor at December 31, 2021 was NIS 887 million and NIS 806 million at December 31, 2020.

The Company prepares estimates of liabilities for annuity based on data published by the Ministry of Finance, and based on additional actuarial data which are reviewed against the Group's actual experience.

e. Deferred Acquisition Costs for life assurance and long-term care contracts:

Deferred acquisition costs (DAC) for life assurance policies and long-term care policies that were sold from 1 January 1999 include direct expenses for agents' commissions, including prizes and bonuses and expenses related to the writing of new policies, including medical examination expenses, underwriting, marketing and general and administrative expenses. The DAC is amortized at equal annual rates over the policy period but not more than 15 years. The DAC relating to cancelled policies is written off at the date of cancellation.

Pursuant to the Commissioner's instructions, every year the appointed actuary tests the recoverability of the DAC. The test is performed to ensure that the liabilities for insurance contracts net of the DAC, for policies that were sold from 1999, are expected to generate future income that will cover the balance of the DAC and the insurance liabilities, the operating expenses and commissions in respect of those policies. The test is performed collectively at the level of all personal lines products for all the underwriting years together. The assumptions applied in this test include assumptions for cancellations, operating expenses, return on assets, mortality and morbidity, as determined by the Company's actuary every year based on reviews, past experience and current relevant studies.

f. Deferred acquisition costs for asset management contracts:

Incremental acquisition costs e.g.: commissions for agents, acquisition supervisors and marketing personnel, which are directly attributable to the acquisition of contracts for managing the assets of pension funds and provident funds, are discounted as DAC assets if they can be identified separately and reliably measured and they are likely to be recovered through management fees. The DAC is amortized over the period estimated for receiving the income from the management fees, including taking cancellations into account. The amortization period is assessed at least once a year.

The outstanding DAC accumulated up to December 31, 2017 is assessed for impairment at least once a year, by comparing the total expected discounted flow from the portfolio in its entirety with the outstanding DAC at the reporting date. The outstanding DAC accumulated from January 1, 2018 is assessed for impairment at least once a year in accordance with IFRS 15, by comparing the total expected non-discounted flow with the outstanding DAC at the reporting date.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

f. Deferred acquisition costs for asset management contracts (contd.):

The assessment is performed on the basis of grouping transactions that were brokered by agents separately from transactions that were performed by the Company's salaried marketing personnel, and for each business (output) year separately per business and agent for output, from 2018. Where necessary, the impairment is recognized in the income statement.

g. Liability Adequacy Test (LAT):

The Group conducts an on-going review of the adequacy of the reserves (LAT – liability adequacy test). If the test shows that the premiums received are inadequate for covering the expected claims, minus the insurance reserves at the date of the computation, special provision is recorded in respect of the shortfall. The test is performed separately for personal lines policies and group policies. For personal lines policies, the test is performed at the level of the insurance plan in the policy, including the riders that are relevant for that policy. The test for group policies is performed at the individual collective level.

The parameters and assumptions used for the abovementioned tests include assumptions for cancellations, operational expenses, additions for gaps in fair value, in comparison to book value of the non-negotiable assets, mortality and morbidity determined by the actuary every year, according to past experience and other relevant studies. Studies on the adequacy of reserves are conducted for collective policies, according to the claims experience of the groups.

(1) On March 8, 2020, a circular was published concerning an amendment to the provisions of the consolidated circular on the measurement of liability - interest rate assumption ("the Circular"). According to the Circular, the risk-free interest rate curve that should be used up to the Last Liquid Point in the 25th year is a yield curve based on yield-to-maturity interest rates for marketable Israel government bonds, as published by the company that wins the price quote tender. Beyond this point, interest rate curves will be determined by extrapolation based on the Smith-Wilson method as far as the Ultimate Forward Rate (UFR) to be determined on 60 years, in accordance with the Commissioner's instructions concerning implementation of Solvency II-based economic solvency regime. From this point on, the forward rate will be fixed. The Company applied the provisions of the Circular when calculating the LAT in its financial statements at December 31, 2019 as a change in the accounting estimate in accordance with International Accounting Standard (IAS) 8. As a result application of the circular, in 2019 Harel Insurance reduced the insurance liabilities in the personal lines LTC sector by approximately NIS 570 million before tax.

(2) From the date of publication of Insurance Circular 2020-1-5 concerning the measurement of liability - Liability Adequacy Test (LAT) ("the Circular") - on March 29, 2020, the LAT is calculated according to the following allocation: (a) non-life insurance portfolio; (b) health insurance portfolio; (c) life assurance portfolio, excluding Long-term Care; (d) long-term care portfolio. The provisions of the Circular entered into force in Q1 2020 by way of retrospective application. The effect of application of the circular on equity as at December 31, 2019 is NIS 720 million before tax (NIS 464 million after tax).

(3) On June 7, 2020, an amendment to the Consolidated Circular on the Measurement of Liability - Illiquidity Premium ("the Circular") was published which determines that a liquidity premium at different rates can be added to the risk-free interest rate which is applied in calculating the adequacy of the reserves (LAT). The circular determines an individual rate for the liquidity premium to be applied in calculating the LAT for personal lines long-term care policies and for compulsory motor and liabilities insurance. According to the Circular, a liquidity premium of 80% may be added to the risk-free interest rate regarding both a yield assumption and a discounting interest assumption, for personal lines long-term care policies, compulsory motor insurance and liabilities insurance. Initial application of the Circular was made in the financial statements at June 30, 2020, as a change of estimate in accordance with International Accounting Standard (IAS) 8.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

(3) (contd.)

Following application of the circular, in 2020 Harel Insurance reduced the insurance liabilities in the personal lines LTC sector and in the non-life insurance segment by NIS 393 million before tax and NIS 40 million before tax, respectively (NIS 14 million in the compulsory motor sector before tax and NIS 26 million before tax in the other liabilities sector).

g. Liability Adequacy Test (LAT): (contd.)

(4) On June 10, 2020, a circular was published concerning the method of allocating assets which are not at fair value when testing the LAT. The purpose of the circular is to provide clarifications on the method of implementing the provisions in relation to an insurance company's right to account for the difference between the amortized cost and the fair value of assets, other than earmarked bonds, that are not recorded in the statement of financial position at fair value, when testing the LAT (Unrealized Gains & Losses). According to these provisions, if there is an exogenous limitation (such as regulatory instructions) or endogenous limitation (such as an administrative limitation) with respect to distribution of the assets to cover certain reserves, the assets will be allocated to certain liabilities on the basis of these limitations. Otherwise, the allocation will be made in accordance with a documented allocation procedure to be determined by the company or in proportion to the size of the reserve. Initial application of the Circular was made in the financial statements at June 30, 2020, as a change of estimate in accordance with International Accounting Standard (IAS) 8. Based on the provisions of the Circular, the Board of Directors of Harel Insurance approved the allocation policy of Harel Insurance. Following application of the Circular, assets that were previously attributed to the life assurance segment and whose fair value is greater than their book value, are now attributed to the personal lines long-term care sector. As a result, in 2020, Harel Insurance reduced the insurance liabilities in the personal lines long-term care sector by NIS 156 million before tax.

(5) On February 17, 2022, a circular was published on an "Amendment to the provisions of the consolidated circular on the measurement of liability - illiquidity premium" ("the Circular") updating the formula for calculating the illiquidity premium. According to the Circular, the methodology for calculating the Volatility Adjustment component which is currently applied within the framework of an economic solvency regime (Solvency II), should be used for calculating the illiquidity premium. The Company applied the provisions of the Circular when calculating the LAT in its financial statements at December 31, 2021, as a change in the accounting estimate in accordance with International Accounting Standard (IAS) 8. Following application of the circular Harel Insurance reduced the insurance liabilities in the personal lines LTC sector and in the non-life insurance segment in the Reporting Period by NIS 863 million before tax and NIS 60 million (NIS 21 million before tax in the compulsory motor sector and NIS 39 million before tax in the other liabilities sectors), respectively.

The total increase in the LAT reserve in 2021 was NIS 157 million before tax.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

h. Effects of changes in the interest rate and changes in the difference between the fair value and book value of the non-marketable assets and the effects of applying the circulars specified in Note 3C1(g) on the insurance liabilities are detailed below:

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Life assurance – increase of the insurance liabilities resulting from the effects of the interest rate (1)	-	(61)	(120)
Health insurance – decrease (increase) in the insurance liabilities as a result of:			
Effects of the interest rate and changes in the difference between the fair value and book value of the non-marketable assets (2)	**(936)**	(898)	(1,496)
Effects of application of circulars	**863**	549	570
Total health insurance	**(73)**	(349)	(926)
Non-life insurance – decrease (increase) in the insurance liabilities as a result of:			
Effects of the interest rate and changes in the difference between the fair value and book value of the non-marketable assets (2)	**(262)**	5	(183)
Effects of application of circulars	**60**	40	-
Total non-life insurance	**(202)**	45	(183)
Total effects of interest rates on profit and comprehensive income before tax	**(275)**	(365)	(1,229)
Total effects of interest on profit and comprehensive income after tax	**(181)**	(240)	(809)

(1) Life assurance

In 2020, due to a revision 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, the insurance liabilities in the life assurance and long-term savings segment increased by NIS 61 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 145 million before tax in the liabilities for policies which include a savings component until 2003 and an increase of NIS 50 million before tax in the insurance liabilities for policies which include a savings component until 1990).

In 2019, due to an update of the interest rate applied in calculating the reserve for annuities in payment an increase of NIS 120 million before tax was recorded in the insurance liabilities.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

h. (contd.)

(2) The following table relates to the difference between the fair value and book value of the non-marketable assets used for offsetting the reserve for LAT allocated by segments. Most of the difference is in respect of non-marketable debt assets:

	For the year ended December 31			
	2021		2020	
	Health	Non-life	Health	Non-life
	NIS million	NIS million	NIS million	NIS million
Total retained value **	*840	140	853	132
Amount offset from LAT reserve	840	140	853	132
Retained fair value to be offset	-	-	-	-

* Of the above amount, NIS 250 million is for an investment in liability notes which are the subject of a dispute with a financial institution. Close to the date of publication of the report, the retained fair value of these liability notes is NIS 170 million. See also Note 40A.

** Not including retained value of NIS 2,244 million and NIS 100 million for designated bonds and the capital segment, respectively (at December 31, 2020 - not including retained value of NIS 2,051 million and NIS 83 million for designated bonds and the capital segment, respectively).

i. Outstanding claims include mainly provision for outstanding claims for death in individual policies and in group life assurance transactions, based on notifications received about insured events and sums insured.

j. The provisions for annuity payments and the for prolonged claims in the payment of work disability and long-term care, the direct and indirect expenses relating thereto, as well as the provisions for incurred but not yet reported claims (IBNR), are included in the liabilities for insurance and investment contracts.

k. Provision for profit sharing accrued to the right of group holders of group life assurance policies and group long-term care policyholders are included in the item trade and other payables.

l. Investment Contracts:

Receipts in respect of investment contracts are not included in the item earned premiums but are recognized directly to liabilities for insurance and investments contracts. Payment of surrenders, death and term, for these contracts are not recognized in the Statement of Income, but are deducted directly from the item liabilities for insurance and investments contracts.

The Statement of Income includes investment revenues, a change in the liabilities and payments for investment contracts on account of the insureds' share of the investment revenues, management fees agents' commissions, and general and administrative expenses.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

1. Life assurance and Long-term Savings segment and Long-term care insurance in the health insurance segment (contd.)

m. Presentation of insurance liabilities according to financial exposure:

Pursuant to the Commissioner's directive, the insurance liabilities listed below are presented according to the financial exposure arising from them:

1. Group LTC plan in which most of the investment risks are not imposed on the insurer.
2. Part of the liabilities in LTC plans in which the insurer does not bear most of the investment risk.
3. Part of the liabilities in P.H.I. plans in which the insurer does not bear the financial exposure.

n. An original difference for future profitability incorporated in the assets and liabilities acquired was attributed to the insurance liabilities for the Eliahu transaction. This original difference was amortized in accordance with the period of the economic benefit.

2. Non-life insurance segment and health insurance segment, excluding long-term care

a. For revenue recognition see Note 3L below.

b. Changes in liabilities and payments for insurance policies, both gross and retention, include, inter alia, settlement and direct handling costs for claims paid and outstanding claims, that occurred during the reporting year, payments and updating the provision for outstanding claims that was recorded in previous years, as well as the general and administrative expenses component for claims settlement.

c. Provision for indirect expenses to settle outstanding claims:

Provisions for outstanding claims included in liabilities from insurance contracts include provisions for indirect expenses for settling claims.

d. Liabilities for insurance contracts and Deferred Acquisition Costs:

The reserves for unexpired risks and outstanding claims included in the item liabilities for insurance contracts, and the reinsurers' share therein, included in the item reinsurance assets and deferred acquisition costs for non-life insurance and health insurance were calculated in accordance with the Supervision of Insurance Business (Methods of Calculating Provisions for Future Claims in General Insurance) Regulations 1984, including amendments, the Commissioners' instructions and generally accepted actuarial methods for calculating outstanding claims, applied at the discretion of the actuaries.

e. Liabilities for insurance contracts includes the following insurance liabilities:

1. Reserve for unexpired risks which constitutes the balance of the unearned premium reserve at the end of the reporting period. This reserve is not calculated by actuarial methods and is not dependent on any assumptions. This reserve reflects the insurance premiums in respect of the insurance period after the reporting date and is calculated on a daily basis.
2. Premium deficiency reserve (as required), in the branches motor property, compulsory motor, comprehensive household and healthcare, which is a provision for anticipated loss (premium deficiency) and is calculated on retention, based on an actuarial estimate.
3. Insurance reserves in health insurance are calculated, mostly, according to actuarial estimates.
4. For contingent claims, see Section F below.

The change in the reserve for unexpired risks is included in the Statement of Income under earned premiums; the change in the other insurance liabilities is included under payments and change in liabilities for insurance contracts.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (contd.)

f. Contingent claims:

The contingent claims in the financial statements are calculated using the following methods:

1. Contingent claims and the re-insurers share therein, are included according to actuarial evaluation, except for the branches specified in sub-section 2 below. The actuarial calculation for general insurance in Harel Insurance is made by the actuary responsible for non-life insurance, Mr. Jeffrey Cohen, F.IL.A.A., F.I.A. Health insurance reserves in Harel Insurance and Dikla were calculated by the actuary responsible for health insurance Mr. Jonathan Brody, F.IL.A.A. These actuaries are officers in Harel Insurance.
2. Contingent claims in the non-statistical sectors, such as: contractors, directors' liability, natural perils and other lines of business are included according to the specific estimations of the claims made by the company's experts handling the claims, based, inter alia, on the opinion received from external experts. The estimates include appropriate provisions for claims settlement and handling expenses not yet paid at the date of the financial statements. The estimates also include provisions for claims that have been incurred but not yet reported (IBNR) according to Group experience.

g. Calculation of Insurance Reserves in Non-Life Insurance

In January 2015, a Commissioner's position paper was published concerning a best practice for the calculation of insurance reserves for non-life insurance for the purpose of financial reporting as well as a circular on this subject. The Commissioner's position addresses, *inter alia*, the following topics:

(a) The principle of caution, whereby "A reserve adequate to cover the insurer's obligations" means that it is fairly likely that the reserve defined in the retention will be adequate to cover the insurer's liabilities. Regarding outstanding claims in the compulsory and liabilities lines of activity, the stipulation of "reasonably likely" will refer to an estimated probability of at least 75%. Nevertheless, insofar as the statistical analysis is limited, the actuary will apply discretion and may use accepted actuarial methods. The appropriate discounting interest for testing the caution is based on the risk-free interest curve adjusted to the non-liquid nature of the liabilities. Furthermore, this test must also consider the manner of revaluing the assets in the financial statements that are held against the liabilities.

(b) Capitalization rate for the flow of liabilities.

(c) Grouping - for the purpose of calculating margins for uncertainty in statistical branches (as defined in the circular), each branch must be addressed separately, but the risks from all the underwriting years (or loss) in the branch may be grouped together. In non-statistical branches, they may all be treated as a single group.

(d) Determining the level of insurance liabilities for policies that were sold during periods close to the reporting date and for risks after the reporting date.

h. Subrogation and salvage are taken into account in the data base from which the actuarial evaluations for the outstanding claims are calculated. In branches that are not statistical, subrogation and salvage are taken into account at the time of making the overall risk assessment of the claim on a specific basis for each claim.

i. Implementation of the Kaminetz Committee recommendations:

In June 2014, an inter-ministerial committee headed by retired Justice Eliahu Winograd, was appointed to review a correction of the life expectancy tables and interest rates used for discounting annuities under the National Insurance (Capitalizing) Regulations, 1978 ("the Capitalization Regulations" and "the Committee"). In June 2016, an amendment was published to the regulations ("the Amendment") which includes, inter alia, an update of the mortality tables and the capitalization rates used for calculating these annuities.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (contd.)

i. Implementation of the Kaminetz Committee recommendations: (contd.)

Among other things, the Capitalization Regulations regulate the discounting interest rate used for calculating subrogation claims that the National Insurance Institute ("NII") submits to third parties, based on the right conferred upon it in the National Insurance (Consolidated Version) Law, 1995 ("the Law") for cases in which the event serves as cause to charge a third party under the Torts Ordinance or the Compensation for Road Accident Victims Law. Pursuant to the Amendment, the rate of interest used for discounting annual annuities will be 2% instead of 3%, as prescribed in the Capitalization Regulations immediately prior to the Amendment.

At the request of the Supreme Court, in April 2018, an inter-ministerial committee was formed under the leadership of Mr. Erez Kaminetz, the Deputy Attorney General (Civil Law), to assess all the ramifications of the issue of discounting in torts compensation ("Kaminetz Committee"). In June 2019, the final conclusions of the Kaminetz Committee were published, which determined, among other things, a standard discounting rate of 3% (the return given on low-risk investment channels), and it also determined an inflexible mechanism for updating the discounting interest rate, where necessary, by the Accountant General. The Kaminetz Committee therefore resolved to determine an interest rate band of ±1% with the standard 3% discounting rate in the middle. Any deviation from this band will trigger an almost automatic adjustment of the discounting interest rate. To test whether there has been any deviation from the interest rate band, once in two years the Accountant General will examine what yield is obtained from an investment in AA 25-year corporate bonds. If in the last six months before the test date the yield deviates by more than ±1%, this mechanism will be activated.

On June 24, 2019, a hearing took place in the Supreme Court at which the court proposed that (1) the discounting interest rate according to the NII regulations will be 3%; (2) the Finance Minister will promulgate regulations whereby the NII will receive a fixed amount from the insurers that takes into account a discounting interest rate of 3%; (3) until the NII's Capitalization Regulations are enacted, insurance companies that belong to the Association are willing to take upon themselves the court's proposal, to the effect that the NII annuities will be deducted from the compensation they pay to injured parties at the rate of interest used for discounting the compensation, namely 3%, this with respect to claims on which no ruling has been given and as long as the discounting rate under the NII regulations is 2%.

On August 8, 2019, the Supreme Court issued its ruling with respect to the discounting interest rate for compensation for bodily injuries in torts whereby the said discounting rate will continue to be 3% until the legislator decides otherwise and unless a need for changes is proved in accordance with the mechanism proposed for this purpose in the aforementioned Kaminetz Committee report. Following this decision, in Q2 2019, a decrease in the insurance liabilities in the non-life segment of NIS 260 million in retention before tax was recorded (of which the amount in the compulsory motor sector is NIS 158 million in retention, and in the other liabilities sector is NIS 102 million in retention).

On August 18, 2019, the claimant filed a motion to extend the date for filing a petition for a further hearing on this matter.

In September 2020, the Supreme Court ruled that the provision - whereby the discounting interest rate for compensation due to bodily injury in torts will remain 3% (unless a need to change it is proven, based on the mechanism set out by the Kaminetz Committee) - is presumed also to apply to NII subrogation claims. Accordingly, and based on the professional opinion of its external legal advisors, in Q3 2020, Harel Insurance reduced its insurance liabilities in the non-life insurance segment 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 sectors), and it increased pre-tax profit and comprehensive income before tax by the same amount.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance Contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (Contd.)

j. In July 2021, a consensual arrangement was formulated between the insurance companies, including Harel Insurance, and the National Insurance Institute ("the Agreement" and "the NII" respectively) concerning application of the NII's right of subrogation under Section 328 of the National Insurance Institute [Combined Version] Law, 1995 ("the Law") in those cases in which a third party is obligated to pay compensation under the Compensation for Road Accident Victims Law, 1975 ("CRAV Law"). The Agreement stipulates that the parties will continue to apply the existing mechanism for litigation and settlement of accounts between them with respect to events that occurred and will occur in the period from January 1, 2014 through December 31, 2022, that obligated and will obligate the NII to pay a benefit under the Law, and which also serve as grounds for obligating Harel Insurance to pay compensation under the CRAV Law; and it also stipulates that each insurance company will pay an advance to the NII by December 31, 2021, on account of such cases, which is equal to 4.06% of the premiums it collected between 2014 and 2018, from which the aforesaid NII claims will be offset, subject to the information in the Agreement. Based on the foregoing, at the end of 2021 Harel Insurance paid an advance of NIS 140 million (of which NIS 33 million is for Shirbit's activity).

Additionally, pursuant to the information in the Agreement, part of the legislation relating to the economic plan for fiscal years 2021 and 2022 ("the Arrangements Law") included cancellation of the obligation to pay the global sum which had originally been regulated in the Economic Efficiency (Legislative Amendments to Achieve the Budgetary Targets for the 2019 Fiscal Year), 2018, for cases that occurred between 2014 and 2018. The Arrangements Law also prescribed a fixed percentage of the premiums to be paid to the NII by all insurers for road accidents that may occur in 2023 and thereafter, and this in lieu of individual subrogation of the claims. Based on the provisions prescribed in the Arrangements Law, the percentage of premiums to be collected each year and transferred to the NII will be as follows: in 2023 and 2024 - 10% of the premiums; from 2025 and thereafter - 10.95% of the premiums. The Company believes that the arrangements detailed above regarding the past are not expected to significantly affect its financial results.

k. Deferred Acquisition Costs:

1. Deferred acquisition costs in non-life insurance include agents' commissions and part of the general and administrative expenses related to the writing of policies in respect of the retained unearned insurance premiums. The deferred acquisition costs are calculated according to the lower of actual costs or at standard rates prescribed in the Supervision Regulations, calculated as a percentage of unearned premiums for each branch separately.
2. Deferred acquisition costs for illness and hospitalization insurance include long-term expenses resulting from the issuing of new policies, including expenses for medical examinations, underwriting commissions, marketing and general and administrative expenses.
3. Deferred acquisition costs are amortized at equal rates over the period of the policy, but no longer than six years. Deferred acquisition costs relating to cancelled policies are written off at the cancellation date.
4. Pursuant to the Commissioner's instructions, every year the appointed actuary tests the recoverability of the DAC. The test is performed to ensure that the reserve, net of the DAC, is adequate and that the policies are expected to generate future income which will cover the reduction of DAC and the insurance liabilities, the operating expenses and commissions in respect of those policies. The test of recoverability for the reporting year showed that total future revenues from insurance policies for illness and hospitalization in respect of which deferred acquisition costs were paid, cover the outstanding deferred expenses at the reporting date.
5. The reinsurers' share of the DAC is classified under trade and other payables.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance Contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (Contd.)

l. Business received through the Israeli pool for motor vehicle insurance of the Israel Insurance Association ("the Pool"), from other insurance companies (including co-insurance) and underwriting agencies are included according to the accounts received up to the reporting date with the additional of the relevant provisions, based on the Company's rate of participation therein.

m. Gross earned premiums include all the amounts paid by the borrowers in connection with property insurance policies written through a mortgage bank. The amounts paid to the mortgage bank for expenses are included under commission and other marketing and acquisition expenses.

n. Provision for profit sharing credited to group health insurance policyholders is recorded on the basis of the agreements in force and is included under credit and other payables, changes therein are net of premiums.

o. Mortgage insurance business

E.M.I. is a company that operates in Israel as an insurer in the credit insurance market for mortgages for residential properties (Monoline branch), and is subject to the conditions of the insurer's license issued by the Commissioner, including the definition of the branch in which EMI is authorized to operate, conditions concerning minimum equity, the unique nature of its insurance activity, the need for the Commissioner's approval of the policy conditions and conditions of the insurance plan, provisions concerning a reserve for unexpired risks (UPR), a reserve for outstanding claims (Loss Reserve), contingency reserve, reinsurance, provisions concerning an option for the policyholder to cancel the EMI policy, provisions concerning payment of premiums by the insured, etc. Until June 30, 2021, Harel Insurance held all the holdings of Mortgage Holdings Israel Ltd. ("EMI Holdings"), which holds all the share capital of EMI. See Note 40 on the subject of a restructuring that was completed on July 1, 2021, in which context all the holdings of Harel Insurance in EMI Holdings were transferred to the Company.

(1) The premiums are recorded as revenues based on monthly output reports. Premiums relate principally to insurance periods during the life of the loans. Premiums from policies that commence after the reporting date are recorded as advance premiums under trade and other payables.

(2) Gross premiums - the premium received for the entire policy period net of premium refunds to insureds for policies that were cancelled before the end of the original loan period.

(3) Earned premiums - the income included in the financial statements under premiums earned are net of cancellations based on information received from the policyholders and subject to the provisions of any law, and after the deduction or addition of all the changes in the reserve for unexpired risks, and in relation to the Reporting Period.

(4) Notably, in light of the foregoing in sub-section 11 below, the Company does not record new premiums and due to the fact that the paid-up amounts are included in gross premiums as a negative amount, the gross premium might be a negative amount.

(5) Payments and changes in liabilities for insurance contracts includes, inter alia, payments for insurance contracts including direct expenses for settling claims as well as indirect expenses (general and administrative) for claims settlement and revised provision for outstanding claims and for the reserve for extraordinary risks that were recorded in previous years.

(6) The reserve for unexpired risks, the reserve for extraordinary risks, and outstanding claims ("the insurance obligations") were calculated based on the instructions in the insurer's license, amendments included, granted to EMI under the Insurance Supervision Law ("the Insurer's License"). Accordingly, no actuarial calculation is necessary to determine the insurance obligations, and they are therefore independent of any special assumptions.

Note 3 - Significant Accounting Policies (contd.)

C. Insurance Contracts (contd.)

2. Non-life insurance segment and health insurance segment, excluding long-term care (Contd.)

o. Mortgage insurance business (contd.)

(7) An original difference was attributed to the insurance obligations, reflecting their fair value on the acquisition date. The original difference in respect of the insurance obligations is amortized based on the economic life of the obligations.

(8) The reserve for unexpired risks reflects the premium component paid to the company for policy periods that apply after the reporting date ("the unearned premium"). In addition, a percentage of the premiums less the change in the reserve for unexpired risks ("the earned premium") is transferred to the reserve for extraordinary risks to cover loss and expenses in excess of the rate of the earned premium, net, for that year.

(9) Based on the information in EMI's insurer's license, EMI is unable to apply subrogation against an insured, unless the insured deliberately caused the insured event.

(10) The change in the reserve for unexpired risks appears in the Income Statement under earned premiums. The change in other insurance obligations appears under payments and changes in obligations for insurance contracts.

(11) On November 1, 2012, the Bank of Israel published an instruction concerning limits on financing rates for housing loans (LTV ratio) which will apply to loans that are approved in principle from November 1, 2012 onwards. The new instruction is a continuation of the previous measures introduced by the Supervisor of Banks in the mortgage credit market. The instruction prescribes that a bank may not approve a mortgage with an LTV ratio of more than 70%, except for a loan for the purchase of a borrower's only apartment, for which the maximum LTV ratio will be 75%. Additionally, the provision prescribes that a bank may not approve a loan to a borrower to finance an apartment for investment purposes with an LTV ratio of more than 50%. Consequently, in 2013 the format of EMI's operations was adjusted to the existing scope of activity, at the same time continuing to deal with policies which are in force and maintaining the company's ability to resume underwriting and policy issue activity. The insurance cover sold by EMI is long-term cover, where the entire premium is received in advance when the policy is issued. Accordingly, recognition of the revenue and the profit is spread over the period of the insurance risk and EMI has an insurance commitment for many years in advance. During the Reporting Period EMI recorded a new premium of an insignificant amount and it is not expected to record any significant premium as long as the provision remains in force.

D. Provision for doubtful debts

1. In respect of outstanding premiums, loans and other receivables - the provision is determined specifically in respect of debts whose collection is doubtful in the opinion of management.

   The provision in respect of reinsurers' debts which the Group's management considers doubtful is determined on the basis of individual risk estimates.

2. In addition, in determining the reinsurers' share in outstanding claims and insurance reserves, included in the item reinsurance assets, the Company and the consolidated companies take into account, among other things, an estimate of the chances of collection from the reinsurers. The share of those reinsurers who are having financial difficulties (if any) is calculated according to the actuary's recommendation, which takes into account all the risk factors. When reinsurers encounter financial difficulties, they are likely to raise various arguments related to acknowledgment of the debt. In these cases, the Group takes into account the reinsurers' willingness to reach cut-off agreements. The reinsurers' liabilities to the Group do not release the Company from its obligations to the insured parties under the insurance policies.

Note 3 - Significant Accounting Policies (contd.)

E. Financial instruments

1. Non-derivative financial assets

Initial recognition of financial assets

The Group initially recognizes loans, receivables and deposits at the time that they are created. All other financial assets acquired in regular way purchases, including assets designated at fair value through profit or loss, are initially recognized are recognized initially on the date at which the Group undertook to purchase or sell the asset. Non-derivative financial instruments comprise investments in equity and debt securities, premiums due, and trade and other receivables, and cash and cash equivalents.

Derecognition of Financial Assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Regular way sales of financial assets are recognized on the trade date at which the Group undertook to sell the asset.

See subsection (2) below regarding the offset of financial assets and financial liabilities.

Classification of financial assets into categories and the accounting treatment of each category
The Group classifies its financial assets according to the following categories:

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss, if it is held for trading or if is designated as such at the time of initial recognition. Financial assets are designated at fair value though profit or loss if the Group manages this class of investment and makes purchase and sale decisions based on their fair value, in accordance with the Group's documented risk management or investment strategy. If the designation is intended to prevent an accounting mismatch or if the device includes an embedded derivative, attributable transaction costs are recognized in profit or loss as incurred. These financial assets are measured at fair value and changes therein are recognized in profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, and net of any impairment losses.

Loans and receivables include cash and cash equivalents, premiums due, other receivables and investments in non-marketable bonds.

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value and are not limited by any lien.

Held-to-maturity investments

If the Group has the express intent and ability to hold debt securities to maturity, then such debt securities are classified as held-to-maturity. Held-to-maturity investments are initially recognized at fair value, plus attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment loss.

Note 3 - Significant Accounting Policies (contd.)

E. Financial instruments (contd.)

1. Non-derivative financial assets (contd.)

Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets which have been designated as available for sale financial assets or which have not been classified into one of the other categories.

The Group's investments in stocks and certain debt securities are classified as available-for-sale financial assets Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. In subsequent periods, they are measured at fair value and changes therein, other than impairment loss, gains or loss arising from foreign currency changes and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for equity instruments classified as available-for-sale. Dividends received for financial assets available for sale are recognized in profit or loss at the date of payment. When the investment is derecognized, the cumulative gain or loss in capital fund for available for sale financial assets, are transferred to profit or loss.

On the method of recognizing loss from impairment in profit or loss in respect of this category of assets, see Note 3I below on impairment.

2. Non-derivative financial liabilities

The Group has the following financial liabilities that are not derivatives: loans and credit from banks and other providers of credit, marketable and non-marketable debt instruments, other suppliers and creditors (trade payables).

Initial recognition of financial liabilities

The Group initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities (other than financial liabilities at fair value through profit or loss) are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are designated at fair value through profit or loss if the Group manages such liabilities and their performance is assessed based on their fair value in accordance with the Group's documented risk management strategy, providing that the designation is intended to prevent an accounting mismatch, or the liability is a combined instrument including an embedded derivative.

Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognized as an asset in the framework of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortized as financing expenses in the statement of income when the issuance is no longer expected to occur.

De-recognition of financial liabilities

Financial liabilities are derecognized when the Group's commitment, as specified in the agreement, expires or when it is settled or eliminated.

Change of conditions of debt instruments

A swap of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. Furthermore, a substantial modification of the terms of the existing financial liability or part of it, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Note 3 - Significant Accounting Policies (contd.)

E. Financial instruments (contd.)

2. Non-derivative financial liabilities (contd.)

Change of conditions of debt instruments (contd.)

In such cases, the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, *inter alia*, whether there have also been changes in various economic parameters inherent in the replaced debt instruments, therefore as a rule, exchanges of CPI-linked debt instruments with unlinked instruments are considered exchanges with substantially different terms even if they do not meet the aforementioned quantitative criterion.

Offset of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately to profit or loss, as financing income or expenses. See also Section 5 below.

4. CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities not measured at fair value, are revalued at each period based on the actual increase or decrease of the index.

5. The Group passed the following resolutions for asset designation:

Assets included in the investment portfolios of yield-dependent contracts

These assets, which include marketable and non-marketable financial instruments (including investments in affiliates), are designated to fair value categories through profit or loss, for the following reasons: they are separate and distinct managed portfolios, where their presentation according to fair value significantly diminishes the accounting mismatch of the presentation of financial assets and liabilities according to different measurement bases, and the portfolio management and performance are measured according to fair value based on the documented risk management strategy, and the information about the financial instruments is reported to management (the relevant investment committee) on the basis of fair value.

Non-marketable assets (not including shares) held to cover a yield-dependent group long-term care portfolio were classified to loans and receivables.

Note 3 - Significant Accounting Policies (contd.)

E. Financial instruments (contd.)

5. The Group passed the following resolutions for asset designation: (contd.)

Non-marketable assets included in investment portfolios held to cover non yield-dependent contracts (nostro)

These assets, which include earmarked bonds, other non-marketable bonds, commercial certificates, bank deposits and loans and other receivables, are included in the statement of financial position as non-marketable debt assets. These assets were classified to loans and receivables.
Non-marketable shares are classified to available-for-sale financial assets. For derivatives or embedded derivatives - see below.

Marketable assets included in investment portfolios held to cover non yield-dependent contracts (nostro) that do not include embedded derivatives or constitute derivatives (including investment reserves)

The assets held to cover yield-guaranteed liabilities that were issued from 2004 were classified up to December 31, 2013 to fair value categories through profit or loss. In 2014, based on an assessment performed by Harel Insurance, it was decided to include the portfolio assets as part of the overall portfolio of assets held against non-yield dependent contracts. Assets that were classified to fair value through profit or loss will be accounted for in the same way until they are realized, new assets were included in the total nostro portfolio and were accounted for as available for sale. This change did not affect the Group's financial results.

Derivatives and financial assets which include separable embedded derivatives

These assets, marketable and non-marketable, are designated to fair value through profit or loss.

Held-to-maturity

These assets include CPI-linked marketable bonds held as part of the liabilities that are not yield-dependent. These assets were classified as "held to maturity" for the following reasons: the Company intends and is able to hold these assets until their final date of maturity. In addition, these assets are held against insurance liabilities most of which are CPI-linked. By classifying the assets to this category, an accounting match is created which is sensitive to changes in the CPI between the assets and liabilities against which they are held.

6. Share Capital

<u>Ordinary shares</u>

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

<u>Treasury stock</u>

When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is deducted from equity. The repurchased shares are classified as treasury stock. When treasury stock is sold or subsequently reissued, the amount received is recognized as an increase in equity, and the resulting surplus on the transaction is carried to share premium, whereas a deficit on the transaction is deducted from the retained premium, insofar as there is any.

Note 3 - Significant Accounting Policies (contd.)

F. Fixed Assets

1. Recognition and measurement

Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment losses, excluding owner-occupied real estate, presented at fair value, where the changes in fair value are recorded in equity under the revaluation reserve and are recognized in other comprehensive income.

The cost of the fixed assets includes expenses which can be directly attributed to the purchase of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, and any other costs directly attributable to bringing the asset to a working condition for its intended use by the management. The cost of purchased software, which is integral to the functionality of the related equipment, is capitalized as part of the cost of that equipment.

A fixed asset item, that was purchased in consideration of another non-monetary item, in a transaction with commercial substance, is measured at fair value.

When major parts of a fixed asset item (including the costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Gains or losses on disposal of a fixed asset item are determined by comparing the net proceeds from the disposal with the book value of the asset, and are recognized as a net amount under “other income” or “other expenses”, as relevant, in profit or loss.

Any increase in the value of owner occupied real estate as a result of revaluation is recognized in profit or loss up to the amount at which it offsets the impairment resulting from the revaluation of that asset, which was previously recognized in profit or loss. Any subsequent, further increase is recognized in the revaluation reserve.

When performing a revaluation, depreciation accrued on the date of the revaluation is offset against the asset’s gross book value, and the net amount is restated according to the estimated amount of the asset. The revaluation reserve is carried over directly to surpluses when the asset is derecognized, but not earlier.

2. Reclassification to investment property

When there is evidence of a change in use of property from owner-occupied to investment property, which is measured at fair value, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement is recognized in other comprehensive income and presented within equity in a revaluation reserve, unless the gain reverses a previous impairment loss on the specific property, in which case the gain is first recognized in profit or loss. Any loss is recognized directly in profit or loss.

3. Subsequent Costs

The cost of replacing part of a fixed asset item and other subsequent expenses are recognized as part of the book value of that fixed asset, if it is probable that the future economic benefits associated with them will flow to the Group and their cost can be measured reliably. The book value of the replaced part of a fixed asset item is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

4. Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Note 3 - Significant Accounting Policies (contd.)

F. Fixed assets (contd.)

4. Depreciation (contd.)

Depreciation is recognized in profit or loss on a straight-line basis (unless the amount is included in the carrying amount of another asset) over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated.

The rate of depreciation, based on the estimated useful life for current and comparative periods, is as follows:

• Buildings	2% - 4%
• Fixtures and office equipment	6% - 20%
• Computers and peripherals	14% - 33%
• Leasehold improvements	10% - 25%
• Motor Vehicles	15%

Leasehold improvements are depreciated using the straight line method over the period of the lease (including an option for extension available to the Group which it intends to exercise) or based on the estimated useful life of the assets, whichever is shorter.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

G. Intangible Assets

(1) Surplus costs attributable to future management fees as were expected to be received are amortized over the projected period for receiving the management fees, reflecting the format for projected consumption of the future economic benefits inherent in the asset.

(2) Software development costs for the Company's own use are capitalized when the preliminary design stage is complete and it is expected that the project will be completed and the software will be used for its intended use. Capitalization ceases when the software is substantially completed and ready for its intended use. These costs are amortized in a straight line over the expected period of consumption of the economic benefit.

(3) Implementation costs in cloud computing arrangements are capitalized insofar as the asset meets the definition of an intangible asset, and specifically to the extent that the Group controls the asset. If the Company does not recognize an intangible asset, it examines whether the services received are distinct from the cloud-computing service. If the services received by the Company are distinct from the cloud-computing services or are provided by a third-party that is not a cloud-computing service provider, the Group recognizes the expense when the implementation services are provided. Insofar as the services are not distinct, the implementation costs are recognized as an expense concurrently with the consumption of the cloud-computing services.

(4) Goodwill and brand that were recognized as part of the acquisition of subsidiaries or the purchase of activity, are included within intangible assets.

In subsequent periods goodwill and brand are measured at cost net of accumulated impairment loss. Goodwill and brand are not systematically amortized, but rather tested at least annually for impairment. As for the other intangible assets, estimates of depreciation methods, useful life and retention values are reassessed at least at the end of each reporting year and adjusted where necessary.

Note 3 - Significant Accounting Policies (contd.)

H. Investment property

Investment property is property (land or building - or part of a building - or both) held (by the Group as owner or by the lessee under a financial lease) either to earn rental income or for capital appreciation or both, but not for use or sale during the normal course of business.

Investment property is initially measured at cost. In subsequent periods the investment property is measured at fair value, while the changes therein are recognized in profit or loss.

The Group measures its investment property using the fair value model, and accordingly it measures the property under construction as follows:

(1) At fair value, where the fair value of the property under construction can be reliably measured; and -

(2) Where the fair value cannot be reliably measured, at cost during the construction period until either construction is completed or its fair value can be reliably measured, whichever is earlier.

When investment property which is measured at fair value becomes a fixed asset (owner-occupied property), its fair value is set at this date as cost of the fixed assets for subsequent accounting treatment.

When investment property that was previously classified as a fixed asset is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

I. Impairment

1. Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or the issuer of the debt will enter bankruptcy, adverse changes in the payment status of borrowers, or the disappearance of an active market for the security, or changes in the economic environment which confirm the insolvency of the debt issuers and observable data indicating a measurable decrease in expected cash flows from a group of financial assets.

<u>Evidence of impairment of available-for-sale financial assets</u>

When testing for impairment of available-for-sale financial assets that are equity instruments, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the standard deviation of the instrument's price, the length of time the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment or in the market environment in which the issuer of the instrument operates. Furthermore, a significant or prolonged decline of the fair value below the original cost is objective evidence of impairment.

In accordance with Group policy, a decline of more than 20% below the original cost of the instrument, or a decline to below the original cost for more than nine months, is considered significant or prolonged, respectively.

<u>Evidence of impairment of debt instruments</u>

The Group assesses evidence of the impairment of financial assets at the level of the individual asset and at the collective level.

For significant financial assets, the need for impairment is assessed separately for each asset. Furthermore, where no specific impairment is identified for significant financial assets, the need for collective impairment is assessed with the purpose of locating an impairment that has occurred but has not yet been identified. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Note 3 - Significant Accounting Policies (contd.

I. Impairment (contd.)

1. Non-derivative financial assets (contd.)

Accounting of impairment losses for financial assets

An impairment loss on a financial asset, measured at amortized cost, is calculated as the difference between the carrying amount of the asset and the present value of estimated future cash flows, capitalized at the original effective interest rate.

Losses for financial assets measured at amortized cost are recognized in profit or loss and reflected in a provision for loss against the balance of the assets. Interest income on the impaired assets is recognized using the interest rate that was used to discount the future cash flows for the purpose of measuring the impairment loss.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss that is classified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Any additional impairment is recognized in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of net investment profit and financing income.

Reversal of impairment losses

The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are debt securities, the reversal is recognized directly in profit or loss and the current cumulative difference (the difference between the fair value and cost) is recognized in other comprehensive income, if there is no objective evidence of impairment.

The reversal of an impairment loss for financial assets that are classified as available-for-sale that are capital instruments is recognized directly to other comprehensive income.

2. Non-financial assets

Timing of testing for impairment

The book value of the Group's non-financial assets, which are not deferred acquisition costs, investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash generating unit that contains goodwill, or intangible assets that have indefinite useful lives or are unavailable for use.

Determining cash-generating units

To test for impairment, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Measurement of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or to a cash-generating unit, for which the estimated future cash flows from the asset or from cash-generating unit were not adjusted.

Note 3 - Significant Accounting Policies (contd.)

I. Impairment (contd.)

2. Non-financial assets (contd.)

Allocation of goodwill to cash-generating units

In cash-generating units to which goodwill was allocated, assets are grouped together so that the level at which the goodwill is tested reflects the lowest level of the goodwill which can be monitored for internal reporting purposes, but in any event is not greater than the operating segment (before the grouping of similar segments).

Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, that are expected to benefit from the synergies of the combination.

Recognition of impairment loss

Impairment losses are recognized if the book value of an asset or cash-generating unit exceeds its estimated recoverable amount, and is recognized in profit or loss. For cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after including the balance of goodwill, exceeds its recoverable amount. Impairment loss recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

Reversal of impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, for which impairment loss were recognized in prior periods, an assessment is performed at each reporting date for any indications that these loss have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Investments in associates and joint ventures

After applying the equity value method, the Group determines whether it is necessary to recognize loss for impairment of the investment in affiliated companies or joint transaction. At each reporting date, the Company determines whether there is objective evidence indicating impairment of the investment in an affiliated company. Where necessary, the impairment loss is recognized as the difference between recoverable amount of the investment in the affiliate and its carrying amount. An impairment loss is recognized in profit or loss within the Company's share of the profits (losses) of equity accounted investees.
Goodwill, which accounts for part of the investment in an affiliate or joint transaction, is not recognized separately as asset and is therefore not tested separately from impairment. If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment as the higher of its value in use and its net sale price.
In determining the value in use of an investment in an affiliate or joint transactions, the Group estimates its share of the present value of estimated future cash flows that are expected to be generated by the affiliated company or joint transaction, including cash flows from operations of the affiliated company or joint transaction and the proceeds of the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.
An impairment loss is recognized when the book value of the investment, after applying the equity method, is more than the recoverable amount, and is recognized to the Company's share of equity accounted investees. An impairment loss is not allocated to any specific asset, including goodwill which constitutes part of the investment in the affiliate or joint transaction.
An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was last recognized. The carrying amount of the investment, after the reversal of the impairment loss, must not exceed the carrying amount of the investment that would have been determined using the equity method if no impairment loss had been recognized.

Note 3 - Significant Accounting Policies (contd.)

J. Employment benefits

1. Post-employment benefits

The Group has several post-employment benefit plans. These plans are usually financed by payment of contributions to insurance companies or funds, and they are classified as defined contribution plans or as defined benefit plans.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Group's obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees. Contributions to a defined contribution plans that are due more than 12 months after the end of the period in which the employees render the service are recognized at their present value.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan, which is not a defined contribution plan. The Group's net obligation in respect of defined benefit plans for post- employment benefits is calculated separately for each plan by estimating the amount of future benefit due to an employee for his services in current and previous periods. This benefit is presented at current value net of the fair value of the plan's assets. The Group determines the net interest liability (asset), net defined benefit liability by multiplying the (asset), net defined benefit discount rate used to measure the defined benefit obligation, as both were set at the beginning of the annual reporting period.

The discount rate is the yield at the reporting date on high-quality CPI-linked corporate bonds, whose currency is NIS and maturity date is similar to the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

If there is an obligation, as part of a requirement for a minimum deposit, for payment of additional amounts for past services, the Company recognizes an additional obligation (increase of the net liability or decrease of the net asset) if the amounts are not available as an economic benefit in the form of a refund from the plan or reduction in future contributions.

Re-measurement of the net defined benefit liability (asset) for a defined benefit include actuarial gains and loss, the return on plan assets (excluding interest) and any change in the effect of the asset ceiling (if any, excluding interest). Re-measurements are recognized immediately directly in retained earnings through other comprehensive income. Interest costs on a defined benefit obligation and interest income on plan assets that were recognized in profit or loss are presented under payroll expenses in general and administrative expenses.

When the benefits of a plan are improved or curtailed, the portion of the increased benefit relating to past service by employees or the gain or loss on curtailment are recognized immediately in profit or loss when the plan improvement or curtailment occurs.

The Group recognizes gains and loss on the settlement of a defined benefit plan when the settlement occurs. These gains and loss are the difference between the portion of the present value of the defined benefit obligation that is settled on the date of settlement, and the settlement price, including transferred plan assets.

The Group has managers' insurance policies that were issued before 2004, according to which the profit in real terms accumulated on the severance pay component will be paid to the employees upon their retirement. In respect of these policies, the plan's assets include both the balance of the severance pay component and the balance of the profit in real terms (if there is any) on the severance pay deposits that accumulated up to the reporting date and are presented at fair value.

Note 3 - Significant Accounting Policies (contd.)

J. Employment benefits (contd.)

1. Post-employment benefits (contd.)

Defined benefit plans (contd.)

The assets of these plans are for a defined benefit that includes two liability components: a defined benefits plan component for severance pay which is calculated on an actuarial basis, as noted above, and another component that is the obligation to pay the accumulated profit in real terms (if there is any) upon the retirement of the employee. This component is measured at the balance of the actual profit in real terms that accumulated at the reporting date.

The Group offsets an asset relating to one benefit plan from the liability relating to another benefit plan only when there is a legally enforceable right to use the surplus of the one plan to settle the obligation in respect of the other plan, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in the other plan.

Insurance policies in respect of employee severance benefits, which were issued by a related party, do not constitute defined benefit plan assets and are offset against the for insurance contracts liabilities.

2. Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date for high quality, CPI-linked corporate bonds denominated in shekels and that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or loss are recognized directly in profit or loss as incurred.

3. Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.
If the benefits are payable more than 12 months after the end of the reporting period, they are discounted to their present value. The discount rate is determined in accordance with the yield at the reporting date on blue-chip, CPI-linked corporate bonds denominated in shekels that have maturity dates approximating the terms of the Group's obligations.

4. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave).
The provision for short-term employee benefits for a cash bonus or profit-sharing plan, is recognized for the amount expected to be paid, if the Group has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated reliably.
Employee benefits for a non-competition bonus are recognized over the period of non-competition.
The employee benefits for measurement are classified as short-term benefits or as other long-term benefits according to the company forecast for full disposal of the benefits.

Note 3 - Significant Accounting Policies (contd.)

J. Employment benefits (contd.)

5. Share-based payment transactions

The grant date fair value of share-based payment awards to employees is recognized as a salary expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service conditions is adjusted to reflect the number of awards that are expected to vest. For share-based payment awards that are conditional on market performance vesting conditions, the Group considers these conditions in estimating the fair value of the awarded equity instruments, and the Group therefore recognizes an expense in respect of these awards whether or not the conditions have been met.

Share-based payment transactions in which the parent company awards rights to equity instruments to employees of the Company are accounted for by the Group as equity-settled share-based payment transactions.

K. Provisions

Provisions are recognized if, as a result of a past event, the Group has a present, legal or constructive obligation that can be estimated reliably, and it is probable that a negative outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific risks to the liability, and without adjustment of the Company's credit risk. The book value of the provision is adjusted in each period in order to reflect the passage of time, and the amount of the adjustment is recognized as a financing expense.

Legal claims

Provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and the Group will more likely than not require economic resources to settle the obligation, which can be reliably estimated. If the time factor is significant, the provision is measured at present value.

L. Revenue recognition

1. Premiums

a. Life assurance and long-term care premiums, including savings premiums and except for receipts from investment contracts are mainly recognized as income when due. Cancellations are recognized upon receipt of notice from the policyholder, or as initiated by the Group due to arrears in payment, as permitted by law. Profit sharing is deducted from the premiums.

b. Non-life insurance premiums are mostly recognized as revenues on the basis of monthly output reports. Insurance premiums usually relate to an insurance period of one year.

   Some of the insurance premiums in the sickness and hospitalization and travel insurance branches are recognized as income on a daily or monthly basis.

   Premiums in the compulsory motor sector are recognized as income when they are paid, given that the insurance cover only takes effect when the premiums have been paid.

   Premiums from of policies where the insurance become applicable after the reporting date or premiums relating to periods of more than one year from the issue of the policy, as well as life assurance premiums received prior to their due date, are included in the Statement of Financial Position under trade and other payables.

   Revenues from premiums after their cancellation which were received from policyholders, and net of provisions due to non-payment of the premiums, subject to the provisions of any law, and after deduction or addition of all changes in the unearned premiums, are recorded in the statement of income under earned premiums, gross.

   Profit-sharing in group insurance is deducted from the insurance premiums.

Note 3 - Significant Accounting Policies (contd.)

L. Revenue recognition (contd.)

2. Management fees, commissions and other financial services

a. Management fees for insurance contracts and yield-dependent investment contracts:

   Management fees are calculated according to the conditions of the contracts, and in accordance with the Commissioner's instructions based on the yield and accrual of the policyholder's savings.

   Management fees for insurance contracts and investment contracts sold from January 1, 2004 are fixed management fees only.

   Management fees for insurance contracts sold until December 31, 2003 include fixed and variable management fees.

   Fixed management fees are calculated at fixed rates of the accrued savings and recorded on an accrual basis.

   Variable management fees are calculated as a percentage of the real annual profit (from January 1 to December 31) credited to the policy, net of the fixed management fees collected from that policy. Variable management fees may be collected only from real positive yield and net of real loss accumulated in previous years.

   During the year the variable management fees are recorded on an accrual based on the real monthly yield, insofar as it is positive. In months where the real yield is negative, the variable management fees are reduced to the level of the total variable management fees collected in aggregate from the beginning of the year. Negative yields in respect of which reductions were not made in the current year will be deducted, for the purpose of calculating management fees from positive yield in subsequent periods (see also Note 28).

   Management fees for claims and the operation of insurance schemes for Clalit Health Services are on the basis of signed agreements. These agreements prescribe a rate of total assets and profit arising from the assets held against the plan's liabilities.

b. Management fee revenues from pension and provident funds are calculated as a percentage of the value of their assets at the end of each month and/or from total contributions collected each month, which are recognized as accrual-based income.

c. Management fees from affiliates are for services rendered.

d. Management fees (from mutual funds, investment portfolios etc.) and revenues from consulting, are recognized as income on a cumulative basis, according to the date on which the service is rendered or the transaction is performed.

e. Success fees based on periodic returns are recorded as income at the end of the period.

f. Income from non-life insurance commissions in insurance agencies is recognized as incurred.

g. Revenues from life assurance commissions are recognized based on the date of entitlement to payment of the commissions according to the agreements with the insurance companies, net of the provisions for refunded commissions due to anticipated cancellations of insurance policies.

h. Revenues from reinsurance commissions in non-life insurance, life assurance, and health insurance are recognized as incurred.

Note 3 - Significant Accounting Policies (contd.)

M. Net gains (loss) from investments, financing income and financing expenses

Net gains (loss) from investments and financing income include interest income on amounts invested (including available-for-sale financial assets), income from dividends, gains (loss) on the sale of available-for-sale financial assets, revaluation of investment property, changes in the fair value of financial assets through profit or loss, gains and loss from exchange-rate differences on assets and gains (loss) from the sale of investments measured at amortized cost which are calculated as the difference between the proceeds from the sale, net, and the original or amortized cost and are recognized at the time of the sale. Interest income is recognized on accrual, using the effective interest method. Income from dividends is recognized on the date that the Group's right to receive payment. If dividends are received on marketable shares, the Company recognizes the income from the dividends on the ex-dividend date.

Financing expenses comprise interest expense on loans received, gains and loss from exchange rate differences on liabilities and changes in the time value of provisions. Credit costs are recognized in the statement of income.

In the cash flow reports, interest received and paid and dividends received are presented under cash flows from operating activities. Dividends paid are presented as cash flows from financing activities.

N. General and administrative expenses and costs

General and administrative expenses attributed to indirect expenses for claims settlement are classified as payments and the change in liabilities for insurance contracts and investment contracts and general and administrative expenses attributed to classified purchase costs appear under "Other purchase expenses and commissions". The classification is prepared in accordance with the Group's internal models which are based on direct expenses charged and indirect expenses which were allocated.

O. Income tax expense

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, , or are recognized directly in equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income except if the tax is relate to a business combination.

<u>Current taxes</u>

Current tax is the tax expected payable or receivable on the taxable income for the year, and is calculated using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of previous years.

<u>Offset of current tax assets and liabilities</u>

The Group offsets current tax assets and liabilities if it has an enforceable legal right to offset current tax assets and liabilities, and it intends to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

<u>Uncertain tax positions</u>

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

<u>Deferred taxes</u>

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred tax for the following temporary differences:

Note 3 - Significant Accounting Policies (contd.)

O. Income tax expense (contd.)

Deferred taxes (contd.)

Initial recognition of goodwill; initial recognition of assets and liabilities in a transaction that is not a business combination and which does not affect accounting profit or taxable profit or loss; differences relating to investments in subsidiaries, joint arrangements and associates, to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investments or by way of distributing dividends in respect of the investment..

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax loss, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Offset of deferred tax assets and liabilities

The Group offsets deferred tax liabilities and assets to the extent that there is a legal right to offset current tax assets and liabilities, and they are attributed to the same tax-liable income which is taxed by the same tax authority in the same assessed company, or in different companies, that intend to clear the current tax assets and liabilities on a net basis or where the deferred tax assets and liabilities are settled simultaneously.

Deferred tax in respect of inter-company transactions in the consolidated financial statements is recognized at the tax rate applicable to the acquiring company.

P. Transactions with a controlling shareholder

Assets and liabilities included in a transaction with a controlling shareholder are measured at fair value on the date of the transaction.

As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its equity.

Q. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury stock. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury stock and for the effects of all potential ordinary shares, insofar as they are dilutive.

Note 3 - Significant Accounting Policies (contd.)

R. Leases

The Group treats contracts as lease contracts if, under the conditions of the contract, they convey the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the right throughout the lease term to obtain substantially all the economic benefits from use of the identified asset; and whether it has the right to direct the identified asset's use. For lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus direct costs incurred in respect of the lease. Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the lessee is used.

Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model and is depreciated over the shorter of the lease term or useful life of the asset, whichever is earlier. Depreciation is calculated on a straight-line basis as follows:

- Motor vehicles: 2-5 years
- Buildings 2-10 years

When there are signs of impairment, the Group assesses impairment of a right-of-use asset in accordance with IAS 36.

The Group has elected to apply the practical expedient by which short-term leases of up to one year and/or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

Assets that the Group leases to others:

Leases in which the Group leases assets to others, which in practice do not transfer all the risks and rewards associated with ownership of the underlying asset, are classified as operating leases. The Group recognizes operating lease payments as revenue on a straight-line basis over the lease term.

Initial direct costs incurred to obtain operating leases are added to the book value of the underlying asset, and recognized as an expense over the lease term on the same basis as the revenue from the lease.

Note 3 - Significant Accounting Policies (contd.)

S. New standards and interpretations not yet adopted

1. IFRS 9 – *Financial Instruments* ("IFRS 9")

IFRS 9 replaces the existing instructions in IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 includes revised provisions, mainly regarding the classification and consecutive measurement of financial assets. The Standard stipulates that upon initial recognition, all the financial assets will be measured at fair value. The Standard stipulates that in subsequent periods, debt instruments will be measured at amortized cost only if they meet both the following conditions:

- The asset is held within the context of a business model the purpose of which is to hold the assets so as to collect their contractual cash flows;
- According to the contractual conditions of the financial asset, the Company is eligible, on certain dates, to collect cash flows that are solely payments of principal and interest on the outstanding principal.

Subsequent measurement of the other debt instruments and other financial assets will be at fair value. IFRS 9 distinguishes between debt instruments to be measured at fair value through profit or loss and debt instruments to be measured at fair value through other comprehensive income. Financial assets that are capital instruments will be measured in subsequent periods at fair value through profit or loss or at fair value through other comprehensive income (loss), as the Company chooses on an instrument by instrument basis. Capital instruments held for trading purposes will be measured at fair value through profit or loss.

Furthermore, IFRS 9 includes a new expected credit loss (ECL) model for financial debt assets that are not measured at fair value through profit or loss.

Retrospective application of the Standard is required. Nonetheless, the restatement of comparative figures is not required.

The Standard is expected to have a material effect, and among other things it requires deployment regarding information systems and the finance division.

The initial date of application of the Standard is January 1, 2018. Nonetheless, in accordance with the amendment to IFRS 4, a company that issues insurance contracts (based on the defined criteria) may defer adoption of the Standard to January 1, 2023 to enable the insurance companies to apply the range of changes arising from the Standard and from IFRS 17, *Insurance Contracts*, simultaneously. The Group is in compliance with the aforementioned criteria. Nonetheless, as noted in Note 3S(2) below, in light of the publication of the updated roadmap by the Capital Market, Insurance and Savings Authority, the current date for the initial application of IFRS 9 is January 1, 2024.

In accordance with an amendment to IFRS 17 published by the International Accounting Standards Board (IASB) in December 2021, which discusses the transition provisions for IFRS 17 and IFRS 9, there is an expedient according to which, at the time of the initial application of IFRS 9, the Group will be able to measure financial assets presented within the comparative figures (figures for 2023 only - assuming that IFRS 17 will be applied on or after January 1, 2024), that were not restated at the time of the initial application of IFRS 9, as if the provisions of IFRS 9 had been applied regarding them, and this based on the classification which is expected to apply to them at the initial date of application (which, as noted, is expected to be January 1, 2024). There will be no requirement to apply the impairment provisions of IFRS 9 in the comparative figures with respect to these assets.

This expedient will help reduce the accounting mismatches that might have been created in the 2023 figures, such as the measurement of insurance liabilities that will be restated in the 2023 figures on the basis of current information whereas certain financial assets held to cover them would have been measured at amortized cost, were it not for the expedient.

The Group has begun but not yet completed assessment of the implications of adopting the Standard on its financial statements.

Note 3 - Significant Accounting Policies (contd.)

S. New standards and interpretations not yet adopted (contd.)

2. IFRS 17, *Insurance Contracts* ("IFRS 17")

IFRS 17 was published in May 2017, and its initial date of application is January 1, 2023. Nevertheless., as specified below, based on the current draft roadmap for application of the Standard published by the Capital Market, Insurance and Savings Authority, the date of initial application of the Standard in Israel is expected to apply from the quarterly and annual periods beginning on January 1, 2024.

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts (including reinsurance contracts), replacing the existing instructions on this subject. The new standard could result in significant changes in the financial reporting of insurance companies and it requires substantial deployment within the information systems and the finance division.

Under IFRS 17, an entity will recognize and measure groups of insurance contracts according to the present risk-adjusted value of the future cash flows from these contracts, which relates to all the information available about the cash flows in a manner that is consistent with market observations, plus / net of the amount that represents the unrealized profit from the group of contracts (the contractual service margin). For each reporting period, revenues for insurance contracts are derived from changes in the liability for future cover relating to the different components of the payment to which the insurer is entitled for the contract, e.g. insurance acquisition costs, risk adjustment, allocating the contractual service margin to a given period, claims and expenses forecast for the period. Nevertheless, a simpler measurement model may be applied for contracts with a period of insurance cover of up to a year or where the liability is not expected to differ significantly from the application of the general model. According to the simple model, the amount allocated to services not yet provided will be measured using the premium allocation approach (PAA).

The Standard is to be applied retrospectively and where retrospective application is impractical, one of the following two approaches should be chosen: retrospective application with certain expediencies or application based on the fair value approach.

On January 5, 2022, the Capital Market, Insurance and Savings Authority published an Updated Roadmap for the Adoption of IFRS 17 - *Insurance Contracts* ("the Draft Roadmap"). The Draft Roadmap determines that the initial date of application of the Israeli standard will be postponed and will apply for quarterly and annual periods commencing January 1, 2024. Nonetheless, the companies will already be required to report in 2023, as part of a special note to the financial statements, key pro-forma reports (at the very least - report on financial position and report on comprehensive income, without comparative figures) to be prepared in accordance with IFRS 17 and IFRS 9 (see also Note 3S1 above) and this based on the disclosure format attached in the appendix to the Draft Roadmap.

The roadmap also determines the key preparatory measures and time frames that, in the opinion of the Capital Market, Insurance and Savings Authority, are required to ensure deployment by Israel's insurance companies for the proper application of IFRS 17, including with respect to adapting and operating their information systems, project management and documentation, the formulation of accounting policy, performing quantitative tests and the required methods of disclosure to the public.

The Group is assessing the implications of adopting the Standard on its financial statements and is preparing for its application within the said time frame. As part of this deployment, the Group is in the process of introducing and assimilating a SAP computerized system for the accounting management of the instructions of IFRS 17 and it is also in the process of examining the range of repercussions of its adoption on its financial reports, including an assessment and mapping of the necessary controls.

Note 3 - Significant Accounting Policies (contd.)

S. New standards and interpretations not yet adopted (contd.)

3. Amendment to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets - Cost of Fulfilling a Contract ("the Amendment")

Under the Amendment, in assessing whether a contract is onerous, the costs of fulfilling the contract to be considered are those costs attributed directly to the contract, e.g.: incremental costs, as well as an allocation of other costs relating directly to fulfilling the contract. The Amendment will be applied retrospectively from January 1, 2022, for contracts for which the obligation has not yet terminated. Early adoption is possible. At the time of application of the Amendment, comparison figures will not be restated but the opening balance of the surpluses on the initial date of application will be adjusted by the amount of the cumulative effect of the Amendment.

The Group believes that application of the Standard is not expected to significantly affect the Financial Statements.

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 characteristics that are derived from exposure whose characteristics resemble those of insurance risks. Likewise, the results of the portfolio of investments held against insurance liabilities may significantly affect profitability.

Segment performance is measured on the basis of the segmental income before taxes on income. The inter-segmental business results are eliminated as part of the adjustments made for the purpose of the preparation of the consolidated 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 branch as well as its management of pension and provident funds.

2. Health insurance

This segment consists of the group's insurance activities in the sickness and hospitalization, personal accident, long-term care, foreign workers, travel insurance and dental lines of business. The policies sold in these branches of insurance cover a range of injuries caused to the insured party as a result of illness and / or an accident, including long-term care and dental treatment. Health insurance policies are offered to both private individuals and groups.

3. Non-life insurance

This segment comprises five sub-segments:

Motor property - includes the Group's activities in selling insurance policies in the motor vehicle insurance branch ("motor property") covering damages caused to vehicle owners as a result of accident and / or theft and / or liability of the vehicle owner, or any driver, for damage to property caused to third parties in an accident.

Compulsory motor - includes the Group's activities in this branch, according to the requirements of the Motor Vehicle Insurance Ordinance (New Version), 5730-1970, ("compulsory motor"), which cover physical injury resulting from the use of a motor vehicle in accordance with the Compensation to Road Accident Victims Law, 1975.

Other liability - includes the Group's activities in the sale of policies that cover the insured party's liability vis-à-vis a third party (except for liability coverage in the compulsory motor sector, as explained above). Other liability includes the following branches - employer's liability, third-party liability, professional liability, directors and officers liability (D&O), and insurance for defective products (product liability).

Property and other branches - this includes the Group's insurance activities in all property branches (except for motor property), (such as: guarantees, homeowners, etc.).

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

4. Insurance companies overseas operating segment

The overseas segment consists of the activity of Interasco Societe Anonyme General Insurance Company S.A.G.I ("Interasco"), and Turk Nippon, an insurance company wholly owned by the Company.

Note 4 – Operating Segments (contd.)

5. Financial services segment

Group activities in the capital and financial markets are carried out through Harel Finance. Harel Finance is involved, through companies under its control, in the following activities:

- Management of mutual funds
- Management of securities portfolios for private individuals, entities and institutional customers in the Israeli and foreign capital markets.

6. Not attributed to operating segments and others

Activities that are not attributed to operating segments are comprised principally of the activities of insurance agents as well as the equity operations in the consolidated insurance companies.

Note 4 – Operating Segments (contd.)

A. Information about reportable segments

	As at December 31, 2021							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation and others*	Adjustments and offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Assets								
Intangible assets	722	2	150	3	433	934	-	2,244
Deferred Acquisition Costs	1,484	871	275	38	-	-	(1)	2,667
Investments in equity accounted investees	395	-	493	-	-	497	-	1,385
Investment property for yield-dependent contracts	1,882	81	-	-	-	-	-	1,963
Other investment property	932	-	466	-	-	871	-	2,269
Financial investments for yield-dependent contracts	68,064	5,786	-	-	-	-	-	73,850
Other financial investments								
Marketable debt assets	3,985	2,421	3,527	118	10	3,518	-	13,579
Non-marketable debt assets	5,059	3,198	2,655	76	3,929	1,712	-	16,629
Shares	153	152	499	-	628	1,076	-	2,508
Other	819	506	824	84	50	1,312	-	3,595
Total other financial investments	10,016	6,277	7,505	278	4,617	7,618	-	36,311
Reinsurance assets	254	1,372	3,522	99	-	-	(5)	5,242
Premium due	193	471	709	79	-	-	-	1,452
Cash and cash equivalents for yield-dependent contracts	4,671	341	-	-	-	-	-	5,012
Other cash and cash equivalents	943	-	530	80	35	1,037	-	2,625
Other assets	686	51	505	51	43	1,527	(212)	2,651
Total assets	90,242	15,252	14,155	628	5,128	12,484	(218)	137,671
Total assets for yield-dependent contracts	75,720	5,828	-	-	-	-	-	81,548
Liabilities								
Liabilities for non yield-dependent insurance contracts and investment contracts	11,946	7,683	10,991	512	-	-	(5)	31,127
Liabilities for yield-dependent insurance contracts and investment contracts	74,730	5,786	-	-	-	-	-	80,516
Financial liabilities	247	2	4	-	4,443	5,749	-	10,445
Other liabilities	1,320	910	1,971	67	131	2,503	(212)	6,690
Total liabilities	88,243	14,381	12,966	579	4,574	8,252	(217)	128,778

* Most of the assets presented are held to cover the equity of the Group's financial institutions. Total assets and liabilities of the activity of the insurance agencies is negligible.

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	For the year ended December 31, 2021							
	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	5,887	5,364	3,584	441	-	-	(4)	15,272
Premiums earned by reinsurers	187	307	1,285	82	-	-	(3)	1,858
Premiums earned in retention	5,700	5,057	2,299	359	-	-	(1)	13,414
Profit from investments, net, and financing income	9,611	1,097	519	58	25	604*	(2)	11,912
Income from management fees	1,548	4	-	-	228	11	(1)	1,790
Income from commissions	39	19	243	16	-	101**	(71)	347
Other income	10	-	-	-	1	-	-	11
Total income	16,908	6,177	3,061	433	254	716	(75)	27,474
Payments and changes in liabilities for insurance contracts and investment contracts, gross	14,549	4,966	3,216	398	-	-	(2)	23,127
Reinsurers' share in payments and changes in liabilities for insurance contracts	123	453	892	41	-	-	(2)	1,507
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	14,426	4,513	2,324	357	-	-	-	21,620
Commissions, marketing expenses and other acquisition costs	1,035	917	750	93	-	7***	(71)	2,731
General and administrative expenses	608	292	39	22	167	185****	(3)	1,310
Other expenses	6	-	-	3	4	1***	-	14
Financing expenses (income), net	16	45	(11)	1	5	225	-	281
Total expenses	16,091	5,767	3,102	476	176	418	(74)	25,956
Company's share of profits of equity accounted investees	20	21	40	-	-	99	-	180
Profit (loss) before taxes on income	837	431	(1)	(43)	78	397	(1)	1,698
Other comprehensive income (loss) before taxes on income	72	104	112	(25)	-	202	-	465
Total comprehensive income (loss) before taxes on income	909	535	111	(68)	78	599*****	(1)	2,163

* Total investment profits are for 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. Of these commissions, NIS 71 million are commissions paid to these agencies by the Group's financial institutions.
*** For activity of the insurance agencies that are fully owned by the Group.
**** Of the total general and administrative expenses, NIS 77 million is for expenses of the activity of the Group's insurance agencies.
***** Total comprehensive income before income tax in respect of the activity of the Group's insurance agencies was NIS 14 million.

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	As at December 31, 2020							
	Life assurance and long-term savings	Health insurance	Non-life insurance	Insurance companies abroad	Financial services	Not attributed to segments of operation and others*	Adjustments and offsets	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Assets								
Intangible assets	539	-	20	3	437	811	-	1,810
Deferred Acquisition Costs	1,337	881	251	45	-	-	(1)	2,513
Investments in equity accounted investees	375	-	463	-	-	407	-	1,245
Investment property for yield-dependent contracts	1,728	74	-	-	-	-	-	1,802
Other investment property	1,177	-	414	-	-	469	-	2,060
Financial investments for yield-dependent contracts	58,887	5,720	-	-	-	-	-	64,607
Other financial investments								
Marketable debt assets	3,209	1,779	3,235	105	1	2,738	-	11,067
Non-marketable debt assets	5,666	2,990	2,533	111	2,178	1,597	-	15,075
Shares	243	115	245	-	57	970	-	1,630
Other	729	460	449	95	61	1,444	-	3,238
Total other financial investments	9,847	5,344	6,462	311	2,297	6,749	-	31,010
Reinsurance assets	230	1,139	2,847	129	-	-	(5)	4,340
Premium due	176	430	637	102	-	-	-	1,345
Cash and cash equivalents for yield-dependent contracts	3,094	358	-	-	-	-	-	3,452
Other cash and cash equivalents	755	-	836	179	66	1,085	-	2,921
Other assets	1,766	50	502	58	38	1,456	(1,229)	2,641
Total assets	79,911	13,996	12,432	827	2,838	10,977	(1,235)	119,746
Total assets for yield-dependent contracts	65,247	5,762	-	-	-	-	-	71,009
Liabilities								
Liabilities for non yield-dependent insurance contracts and investment contracts	11,738	7,069**	9,453	631	-	-	(5)	28,886
Liabilities for yield-dependent insurance contracts and investment contracts	64,582	5,251**	-	-	-	-	-	69,833
Financial liabilities	141	5	111	-	2,193	5,344	-	7,794
Other liabilities	2,155	750	1,623	85	123	1,972	(1,229)	5,479
Total liabilities	78,616	13,075	11,187	716	2,316	7,316	(1,234)	111,992

* Most of the assets presented are held to cover the equity of the Group's financial institutions. Total assets and liabilities of the activity of the insurance agencies is negligible.
** Reclassified.

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	For the year ended December 31, 2020							
	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
Premiums earned in 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 of equity accounted investees	(3)	(7)	(22)	-	-	45	-	13
Profit (loss) 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

* 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 of this amount is 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 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 NIS 19 million.

Note 4 - Operating segments (contd.)

A. Information about reportable segments (contd.)

	For the year ended December 31, 2019							
	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	6,255	4,922	3,405	526	-	-	(4)	15,104
Premiums earned by reinsurers	160	392	1,091	106	-	-	(4)	1,745
Premiums earned in retention	6,095	4,530	2,314	420	-	-	-	13,359
Profit (loss) from investments, net, and financing income	6,651	624	235	65	13	336*	(3)	7,921
Income from management fees	1,281	4	-	-	194	8	-	1,487
Income from commissions	37	68	205	22	-	210**	(184)	358
Total income	14,064	5,226	2,754	507	207	554	(187)	23,125
Payments and changes in liabilities for insurance contracts and investment contracts, gross	12,281	4,779	2,367	411	-	-	(4)	19,834
Reinsurers' share in payments and changes in liabilities for insurance contracts	112	404	638	79	-	-	(4)	1,229
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	12,169	4,375	1,729	332	-	-	-	18,605
Commissions, marketing expenses and other acquisition costs	1,038	962	698	114	-	101***	(184)	2,729
General and administrative expenses	561	275	35	26	172	145****	(3)	1,211
Other expenses	8	-	-	3	4	1***	-	16
Financing expenses (income), net	6	16	(27)	-	2	166	-	163
Total expenses	13,782	5,628	2,435	475	178	413	(187)	22,724
Company's share of profits of equity accounted investees	17	24	74	-	-	45	-	160
Profit (loss) before income tax	299	(378)	393	32	29	186	-	561
Other comprehensive income (loss) before taxes on income	254	116	165	(13)	-	282	-	804
Total comprehensive income (loss) before taxes on income	553	(262)	558	19	29	468*****	-	1,365

* 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 182 million of this amount is 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 total general and administrative expenses, NIS 93 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 14 million.

Note 4 - Operating segments (contd.)

B. Additional information about the non-life insurance segment

	For the year ended December 31, 2021					
	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	620	953	1,119	1,001	(3)	3,690
Reinsurance premiums	19	19	881	412	-	1,331
Premiums in retention	601	934	238	589	(3)	2,359
Change in outstanding unearned premiums, in retention	32	11	8	17	(8)	60
Earned premiums in retention	569	923	230	572	5	2,299
Profit from investments, net, and financing income	192	34	28	249	16	519
Income from commissions	1	5	182	55	-	243
Total income	762	962	440	876	21	3,061
Payments and changes in liabilities for insurance contracts, gross	796	806	441	1,205	(32)	3,216
Reinsurers' share of payments and change in liabilities for insurance contracts	22	19	370	481	-	892
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	774	787	71	724	(32)	2,324
Commissions, marketing expenses and other acquisition costs	108	236	245	161	-	750
General and administrative expenses	10	11	9	6	3	39
Financing income, net	(4)	(1)	-	(6)	-	(11)
Total expenses (income)	888	1,033	325	885	(29)	3,102
Company's share of profits of equity accounted investees	15	3	1	21	-	40
Profit (loss) before income tax	(111)	(68)	116	12	50	(1)
Other comprehensive income before income tax	42	7	3	57	3	112
Total comprehensive income (loss) before income tax	(69)	(61)	119	69	53	111
Liabilities for insurance contracts, gross, as at December 31, 2021	3,499	760	1,028	5,507	197	10,991
Liabilities for insurance contracts, in retention, as at December 31, 2021	2,952	706	188	3,426	197	7,469

* Property and other branches include mainly results from the property loss and comprehensive homeowners sectors the activity of which accounts for 78% of the premiums in these sectors.
** Other liabilities branches include mainly results from the third-party and professional liability sectors the activity of which accounts for 73% of the premiums in these sectors.

Note 4 - Operating segments (contd.)

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

	For the year ended December 31, 2020					
	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 in 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, 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 the profits of equity accounted investees	(9)	(2)	(1)	(10)	-	(22)
Profit (loss) before income tax	98	90	93	34	51	366
Other comprehensive income, 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, retention, as at December 31, 2020	2,447	490	155	3,275	239	6,606

* Property and other branches consist principally of the results of property loss insurance and comprehensive homeowners' insurance, whose activity accounts for 78% of total premiums earned from these branches.
** Other liabilities branches consists principally of the results of third party insurance and professional liability insurance; whose activity accounts for 73% of total premiums from these branches.

Note 4 - Operating segments (contd.)

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

	For the year ended December 31, 2019					
	Compulsory motor	**Motor property (CASCO)**	**Property and other branches***	**Other liabilities branches****	**Mortgage insurance**	**Total**
	NIS million	**NIS million**	**NIS million**	**NIS million**	**NIS million**	**NIS million**
Gross premiums	647	854	983	968	(4)	3,448
Reinsurance premiums	7	13	755	316	-	1,091
Premiums in retention	640	841	228	652	(4)	2,357
Change in outstanding unearned premiums, in retention	26	36	(1)	(5)	(13)	43
Earned premiums in retention	614	805	229	657	9	2,314
Profit from investments, net, and financing income	83	18	15	101	18	235
Income from commissions	-	5	160	40	-	205
Total income	697	828	404	798	27	2,754
Payments and changes in liabilities for insurance contracts, gross	492	498	413	997	(33)	2,367
Reinsurers' share of payments and change in liabilities for insurance contracts	(9)	15	357	275	-	638
Payments and changes in liabilities for insurance contracts in retention	501	483	56	722	(33)	1,729
Commissions, marketing expenses and other acquisition costs	101	198	234	165	-	698
General and administrative expenses	8	9	8	7	3	35
Financing expenses, net	(11)	(2)	(1)	(13)	-	(27)
Total expenses (income)	599	688	297	881	(30)	2,435
Company's share of profits of equity accounted investees	30	6	2	36	-	74
Profit (loss) before income tax	128	146	109	(47)	57	393
Other comprehensive loss before income tax	62	13	4	75	11	165
Total comprehensive income (loss) before income tax	190	159	113	28	68	558
Liabilities for insurance contracts, gross, as at December 31, 2019	2,662	539	884	5,437	288	9,810
Liabilities for insurance contracts, in retention, as at December 31, 2019	2,545	526	158	3,306	288	6,823

* Property and other branches consist principally of the results of property loss insurance and comprehensive homeowners' insurance, whose activity accounts for 78% of total premiums earned from these branches.
** Other liabilities branches consists principally of the results of third party insurance and professional liability insurance; whose activity accounts for 77% of total premiums from these branches.

Note 4 - Operating segments (contd.)

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

	For the year ended December 31, 2021				For the year ended December 31, 2020			
	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	-	-	5,887	5,887	-	-	6,116	6,116
Premiums earned by reinsurers	-	-	187	187	-	-	166	166
Premiums in retention	-	-	5,700	5,700	-	-	5,950	5,950
Profit from investments, net, and financing income	1	3	9,607	9,611	1	2	2,920	2,923
Income from management fees	260	372	916	1,548	247	333	599	1,179
Income from commissions	-	-	39	39	-	-	34	34
Other income	-	-	10	10	-	-	-	-
Total income	261	375	16,272	16,908	248	335	9,503	10,086
Payments and changes in liabilities for insurance contracts and investment contracts, gross	2	14	14,533	14,549	2	13	8,033	8,048
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	123	123	-	-	107	107
Payments and changes in liabilities for insurance contracts and investment contracts in retention	2	14	14,410	14,426	2	13	7,926	7,941
Commissions, marketing expenses and other acquisition costs	102	128	805	1,035	96	122	814	1,032
General and administrative expenses	87	139	382	608	87	129	364	580
Other expenses	2	4	-	6	6	1	-	7
Financing expenses, net	-	1	15	16	-	-	6	6
Total expenses	193	286	15,612	16,091	191	265	9,110	9,566
Company's share of profits (losses) of equity accounted investees	-	-	20	20	-	-	(3)	(3)
Profit before income tax	68	89	680	837	57	70	390	517
Other comprehensive income (loss) before income tax	-	2	70	72	-	(2)	27	25
Total comprehensive income before income tax	68	91	750	909	57	68	417	542

Note 4 - Operating segments (contd.)

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

	For the year ended December 31, 2019			
	Provident	Pension	Life assurance	Total
	NIS million	NIS million	NIS million	NIS million
Premiums earned, gross	-	-	6,255	6,255
Premiums earned by reinsurers	-	-	160	160
Premiums earned in retention	-	-	6,095	6,095
Profit from investments, net, and financing income	-	2	6,649	6,651
Income from management fees	257	331	693	1,281
Income from commissions	-	-	37	37
Total income	257	333	13,474	14,064
Payments and changes in liabilities for insurance contracts and investment contracts, gross	2	13	12,266	12,281
Reinsurers' share of payments and change in liabilities for insurance contracts	-	-	112	112
Payments and changes in liabilities for insurance contracts and investment contracts in retention	2	13	12,154	12,169
Commissions, marketing expenses and other acquisition costs	99	128	811	1,038
General and administrative expenses	91	122	348	561
Other expenses	7	1	-	8
Financing expenses, net	-	-	6	6
Total expenses	199	264	13,319	13,782
Company's share of profits of equity accounted investees	-	-	17	17
Profit before income tax	58	69	172	299
Other comprehensive income before income tax	2	5	247	254
Total comprehensive income before income tax	60	74	419	553

Note 5 – Acquisition of activity and purchase of management rights

A. Acquisition of the insurance activity of Shirbit Insurance Company Ltd. ("Shirbit")

On November 30, 2021, when all the relevant suspensive conditions had been satisfied, the transaction was completed according to which Harel Insurance acquired the insurance activity of Shirbit in consideration of NIS 111 million (of which NIS 102 million was paid in cash prior to the date of the report and NIS 9 million was paid in February 2022, after the Reporting Period. From the date of completion of the transaction, all the customers of Shirbit became customers of Harel Insurance. The insurance activity of Shirbit was included in the consolidated financial statements from December 1, 2021 and its contribution to the Group's comprehensive income and revenues in 2021 was negligible. The Company's management believes that even if the acquisition had taken place on January 1, 2021, the effect on the Group's comprehensive income and revenues in 2021 would not have been significant.

The transaction is a business combination and was accounted for according to the acquisition method. Accordingly, the Company recognized the fair value of the identified assets that were acquired and the liabilities undertaken as part of the business combination according to a valuation prepared by an external appraiser. Final adjustment of the consideration for the acquisition as well as the fair value of the acquired assets and liabilities may be made up to 12 months from the date of the acquisition. The adjustments, if there are any, will be made by way of a restatement of the comparative figures reported in the past according to the temporary measurement.

The fair value of the identified assets and liabilities that were acquired (according to temporary amounts as described above) is as follows:

	NIS million
Computer software	10
Fixed assets	3
Investment property	5
Reinsurance assets	608
Trade receivables	55
Premium due	85
Cash and cash equivalents	10
Other financial investments	595
Deferred taxes	3
Total assets	**1,374**
Liabilities for non-yield-dependent insurance contracts	(1,098)
Trade payables	(305)
Total liabilities	**(1,403)**
Total liabilities, net	**(29)**
Goodwill created on acquisition	56
Retained cost - intangible asset for customer relations – created on acquisition	69
Retained cost – intangible asset for brand – created on acquisition	15
Total acquisition cost	**111**

Note 5 – Acquisition of activity and purchase of management rights (contd.)

The total cost of the business combination amounted to NIS 111 million (of which NIS 102 million was paid in cash prior to the date of the report and NIS 9 million was paid in February 2022, after the Reporting Period). Additionally, there are direct acquisition costs attributed to the transaction in the amount of approximately one million shekels that were recognized as an expense and were included within general and administrative expenses.

	NIS million
Cash provided by the acquisition (used for acquisition)	
Cash and cash equivalents in Shirbit at the acquisition date	10
Cash paid for the acquisition up to December 31, 2021	(102)
Total cash deducted for the Shirbit acquisition up to December 31, 2021*	**(92)**

* Additionally, a further NIS 9 million was paid in consideration of the acquisition in February 2022, after the Reporting Period.

B. Purchase of the management rights for provident funds and pension funds from Psagot Provident and Pension Funds Ltd. (“Psagot”)

On September 30, 2021, when all the suspensive conditions had been satisfied, the agreement was completed according to which Harel Pension & Provident acquired from Psagot the management rights of several provident funds and pension funds (“the Management Rights”), in consideration of NIS 185 million. These Management Rights include management of the pension funds of Psagot, including the old HAL (National Labor Federation) pension fund, the investment provident fund of Psagot and the long-term savings provident funds for children, as well as central severance pay funds. Commencing October 1, 2021, these funds will be managed by Harel Pension & Provident. This acquisition was accounted for in the financial statements as the acquisition of assets.

Note 6 - Intangible Assets

A. Composition and movement

	Goodwill	Differences in origin attributed to the value of insurance portfolios	Future management fees	Brand	Computer software*	Customer relations	Other	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost								
Balance as at January 1, 2021	1,244	336	366	14	1,983	-	39	3,982
Additions	-	1	185	-	301	-	3	490
Deductions	-	-	-	-	(1)	-	-	(1)
Adjustments attributable to translation of financial statements in foreign currency	-	-	-	-	(1)	-	-	(1)
Acquisition within a business combination (see Note 5)	56	-	-	15	10	69	-	150
Balance as at December 31, 2021	1,300	337	551	29	2,292	69	42	4,620
Amortizations and impairment losses								
Balance as at January 1, 2021	289	334	353	13	1,163	-	20	2,172
Current amortizations during the year	-	1	7	-	194	-	3	205
Adjustments attributable to translation of financial statements in foreign currency	-	-	-	-	(1)	-	-	(1)
Balance as at December 31, 2021	289	335	360	13	1,356	-	23	2,376
Book value, net, as at December 31, 2021	1,011	2	191	16	936	69	19	2,244

* Additions for computer software in 2021 include additions for independently developed software in the amount of NIS 289 million.

Note 6 - Intangible Assets (contd.)

A. Composition and movement (contd.)

	Goodwill	Differences in origin attributed to the value of insurance portfolios	Future management fees	Brand	Computer software*	Other	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost							
Balance as at January 1, 2020	1,244	336	366	14	1,684	35	3,679
Additions	-	-	-	-	299	4	303
Balance as at December 31, 2020	1,244	336	366	14	1,983	39	3,982
Amortizations and impairment losses							
Balance as at January 1, 2020	279	334	344	13	1,007	17	1,994
Current amortizations during the year	-	-	9	-	156	3	168
Impairment	10	-	-	-	-	-	10
Balance as at December 31, 2020	289	334	353	13	1,163	20	2,172
Book value, net, as at December 31, 2020	955	2	13	1	820	19	1,810

* In 2020, additions for computer software include additions for independently developed software in the amount of NIS 267 million.

Note 6 - Intangible Assets (contd.)

B. Amortization of intangible assets

On the method of amortizing the intangible assets, see Note 3G to the Financial Statements. The total annual amortization is included within other expenses.

Information about amortizations (including impairments) of intangible assets other than computer software - according to the cash generating units to which the assets are allocated:

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Cash-generating unit:			
Provident activity	**2**	6	7
Pension activity	**5**	1	1
Harel Finance	**4**	14	4
Other	**-**	1	1
	11	22	13

C. Impairment of goodwill and intangible assets

To test for impairment of goodwill and intangible assets with an undefined lifespan, the assets were allocated to the following cash generating units, which form the smallest group of assets that generate cash flows from on-going use and are mostly independent of other assets and groupings: provident activity, pension activity, mutual fund activity, mortgage insurance business activity and other activity.

The book value of goodwill, future management fees and brand allocated to each of the above cash-generating units and for which impairment was tested:

	Future management fees and brand		Goodwill	
	2021	2020	2021	2020
	NIS million	NIS million	NIS million	NIS million
Cash-generating unit:				
Provident activity (1)	**47**	-	**366**	366
Pension activity (2)	**143**	11	**145**	145
Mutual fund activity (3)	**-**	1	**421**	421
Mortgage insurance business activity (4)	**-**	-	**20**	20
Other (5)	**2**	2	**3**	3
	192	14	**955**	955

1. Provident activity

   The recoverable amount of provident fund activity is determined using estimates of future cash flows of management fees net of management costs. The real discounting rate after tax, adjusted to the specific risks of the Company, is 8% (9% in 2020). The projected cash flows are estimated using a real growth rate of 1.75% (1.75% in 2020), which is the average long-term growth rate in this sector.

2. Pension activity

   The recoverable amount of pension activity is determined based on an estimate of the future cash flows of management fees, net of refunds and management costs. The main parameters used for this model are: the real discounting rate after tax, adjusted to the specific risks of the company is 8% (9% in 2020);

Note 6 - Intangible Assets (contd.)

C. Impairment of goodwill and intangible assets (contd.)

2. Pension activity (contd.)

A wage increase of 1.65% - 3.85% a year (without any significant change relative to previous years) over the years of the forecast; cancellations based on the Company's experience and an estimate of the management fees and frozen accounts, taking into account the circular on consolidation of accounts.

3. Mutual fund activity

   The recoverable amount of mutual fund operations is determined using estimates of future cash flows of management fees net of management costs. The real discounting rate after tax that served as the basis for discounting the cash flows, adjusted to the specific risks of the company, is 8% (9.1% in 2020). Projected cash flows were estimated using a real growth rate of 2%, which is the average long-term growth rate in the portfolio management sector.

4. Mortgage insurance business operation

   The recoverable amount of mortgage insurance business activity is determined using estimated future cash flows for the insurance activity solely in the existing portfolio. The discounting rate in the existing portfolio is the risk-free interest curve linked to the CPI plus a liquidity premium. Projected cash flows were estimated using assumptions for the key parameters: repayment rate, estimate of future claims, rate of expenses and future yield.

5. Other operations

   Refers mainly to Interasco's activities.

D. On November 30, 2021, when all the relevant suspensive conditions had been satisfied, the transaction was completed in which Harel Insurance acquired the insurance activity of Shirbit. Regarding the amounts of intangible assets, including goodwill, that were recognized as part of the acquisition, see Note 5 above.

Note 7 - Deferred Acquisition Costs

A. Composition

	As at December 31	
	2021	2020
	NIS million	NIS million
Life assurance and long-term savings	**1,484**	1,337
Health insurance	**871**	881
Non-life insurance	**275**	251
Insurance companies abroad	**38**	45
Adjustments for inter-segment transactions	**(1)**	(1)
	2,667	2,513

B. Movement in Deferred Acquisition Costs in life assurance and long-term savings and in health insurance

	Life assurance and long-term savings				
	Life assurance	Pension & provident	Total	Health insurance	Total
	NIS million				
Balance as at January 1, 2020	1,043	256	1,299	891	2,190
Additions:					
Purchase commissions	198	55	253	215	468
Other acquisition costs	136	-	136	120	256
Total additions	334	55	389	335	724
Current amortization	(126)	(50)	(176)	(224)	(400)
Write down for cancellations	(175)	-	(175)	(121)	(296)
Balance as at December 31, 2020	**1,076**	**261**	**1,337**	**881**	**2,218**
Additions:					
Purchase commissions	**223**	**93**	**316**	**151**	**467**
Other acquisition costs	**149**	**-**	**149**	**160**	**309**
Total additions	**372**	**93**	**465**	**311**	**776**
Current amortization	**(129)**	**(40)**	**(169)**	**(240)**	**(409)**
Write down for cancellations	**(149)**	**-**	**(149)**	**(81)**	**(230)**
Balance as at December 31, 2021	**1,170**	**314**	**1,484**	**871**	**2,355**

Note 8 - Fixed Assets

A. **Determination of fair value**

Owner-occupied real estate is presented on the basis of the fair value defined in the valuation prepared by independent, external appraisers who have recognized professional qualifications and considerable experience in dealing with the location and type of real estate that was valued. External revaluations are performed regularly to ensure that the balance in the financial statements does not differ significantly from the value that would have been determined according to the fair value method on the reporting date.

The fair value is classified to Level 3 in the fair value hierarchy. The fair value is determined using a combination of several revaluation methodologies, including the comparative approach and capitalization of appropriate rent from similar assets. The appropriate amounts received from similar assets were discounted at rates ranging from 6.75% - 7.8%, based on the risk level that corresponds with the asset.

There are no interrelationships between the significant unobservable inputs.

The valuation for investment property under construction is based on estimating the fair value of the investment property after completion of its construction, less the present value of the estimated construction costs expected for its completion and less a reasonable entrepreneurial profit when relevant, taking into account a discount rate adjusted to the property's relevant risks and characteristics.

During the Reporting Period, the Company revalued owner occupied real estate in the amount of NIS 29 million before tax and NIS 21 million after tax (in 2020 NIS 34 million before tax and NIS 25 million after tax). In accordance with the Company's accounting policies described in Note 3, the change in fair value was recorded in equity under the item "revaluation reserve" and was recognized in other comprehensive income in the period.

Note 8 - Fixed Assets (contd.)

B. Movements in fixed assets

	Land and office buildings*	Computers and software	Vehicles	Furniture and equipment	Leasehold improvements	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost						
Balance as at January 1, 2021	1,256	510	61	167	158	2,152
Additions during the year	-	41	4	1	3	49
Additions to right-of-use assets	19	-	23	-	-	42
Adjustments attributed to the translation of financial statements for foreign activity	(2)	(1)	(1)	-	(1)	(5)
Revaluation	(4)	-	-	-	-	(4)
Deductions during the year	-	-	(3)	(2)	-	(5)
De-recognition of the cost of right-of-use assets	-	-	(18)	-	-	(18)
Acquisition within a business combination (see Note 5)	-	1	1	1	-	3
Balance as at December 31, 2021	1,269	551	67	167	160	2,214
Accrued depreciation						
Balance as at January 1, 2021	39	463	28	122	120	772
Additions during the year	33	38	1	7	3	82
Adjustments attributed to the translation of financial statements for foreign activity	(1)	(1)	-	-	(1)	(3)
Depreciation for right-of-use asset	11	-	23	-	-	34
Revaluation	(33)	-	-	-	-	(33)
Deductions during the year	-	-	(2)	-	-	(2)
De-recognition of the depreciation of right-of-use assets	-	-	(16)	-	-	(16)
Balance as at December 31, 2021	49	500	34	129	122	834
Outstanding amortized cost of right-of-use assets as at December 31, 2021	55	-	25	-	-	80
Outstanding amortized cost as at December 31, 2021	1,220	51	33	38	38	1,380

* The lands are fully owned by the Group. Some of the ownership rights have not yet been registered in the name of the Company or its subsidiaries, mostly due to registration procedures or technical problems.

Note 8 - Fixed Assets (contd.)

B. Movements in fixed assets (contd.)

	Land and office buildings*	Computers and software	Vehicles	Furniture and equipment	Leasehold improvements	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Cost						
Balance as at January 1, 2020	1,253	475	58	164	158	2,108
Additions during the year	1	37	3	3	-	44
Additions to right-of-use assets	2	-	22	-	-	24
Adjustments attributed to the translation of financial statements for foreign activity	(1)	(1)	(1)	-	-	(3)
Revaluation	1	-	-	-	-	1
Deductions during the year	-	(1)	(2)	-	-	(3)
De-recognition of the cost of right-of-use assets	-	-	(19)	-	-	(19)
Balance as at December 31, 2020	1,256	510	61	167	158	2,152
Accrued depreciation						
Balance as at January 1, 2020	28	427	22	115	117	709
Additions during the year	33	37	1	7	3	81
Depreciation for right-of-use asset	11	-	19	-	-	30
Revaluation	(33)	-	-	-	-	(33)
Deductions during the year	-	(1)	(1)	-	-	(2)
De-recognition of the depreciation of right-of-use assets	-	-	(13)	-	-	(13)
Balance as at December 31, 2020	39	463	28	122	120	772
Outstanding amortized cost of right-of-use assets as at December 31, 2020	47	-	27	-	-	74
Outstanding amortized cost as at December 31, 2020	1,217	47	33	45	38	1,380

* The lands are fully owned by the Group. Some of the ownership rights have not yet been registered in the name of the Company or its subsidiaries, mostly due to registration procedures or technical problems.

Note 9 - Investments in investees

A. Composition of investments in equity accounted associates and joint ventures

	Associates	
	As at December 31,	
	2021	2020
	NIS million	NIS million
Cost of shares	625	559
Company's share in profits accrued from date of purchase, net	560	440
Company's share in capital reserves accrued from date of purchase, net	(136)	(83)
	1,049	916
Long term loans and debit balances *	336	329
	1,385	1,245

* Regarding the terms of linkage and interest of loans to investees, see Note 14.

The Group has additional interests in these entities in the context of the profit-sharing portfolio, which are included under financial investments for yield-dependent contracts. The investment in respect of these additional rights, amounted to NIS 1,970 million and NIS 1,948 million at December 31, 2021 and 2020, respectively. The Company's income (expenses) from these investments amounted to NIS 163 million, NIS (61) million and NIS (13) million at December 31, 2021, 2020, and 2019 2018, respectively. The Company has an additional investment of NIS 1,740 million and NIS 1,512 million at December 31, 2020 and 2019, respectively, which is held by the Company's pension and provident funds and is not included in the Company's statement of financial position.

B. Composition of investments in equity accounted associates and joint ventures, by geographical segmentation and key categories of investment

1. Segmentation by key investment categories:

	As at December 31	
	2021	2020
Real estate	84%	82%
Insurance	12%	12%
Other sectors	4%	6%
Total	100%	100%

Real estate:

	As at December 31	
	2021	2020
Office property	75%	78%
Residential property	16%	14%
Commercial property	9%	8%
Total	100%	100%

Note 9 - Investments in investees (contd.)

B. Composition of investments in equity accounted associates and joint ventures, by geographical segmentation and key categories of investment (contd.)

2. Segmentation by geographical location:

	As at December 31				
	2021		2020		2019
		Profit (loss)		Profit (loss)	Profit
	Percent	NIS million	Percent	NIS million	NIS million
USA	**50**	**66**	48	(20)	107
Western Europe	**25**	**46**	27	*21	*10
Israel	**25**	**68**	25	12	43
Total	**100**	**180**	100	13	160

* Restated.

3. The tax rate applicable to the profit for investees is similar to the statutory tax rate in Israel.

C. Condensed information from the financial statements about equity accounted associates each of which is insignificant on its own, adjusted to the holding rates therein at the reporting date

	As at December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Assets*	**2,589**	2,386	2,445
Liabilities	**1,204**	1,156	1,052
Book value of the investment	**1,385**	1,230	1,393

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Group's share of net profit from ongoing activity	**180**	20	176
Group's share of other comprehensive loss	**(56)**	(46)	(64)
Group's share of total comprehensive income (loss)	**124**	(26)	112
Group's share of revenues of associates	**203**	199	208

* Including the balance of retained costs and goodwill.

Note 9 - Investments in investees (contd.)

D. Condensed information from the financial statements about equity accounted associates each of which is insignificant on its own, adjusted to the holding rates therein at the reporting date:

	As at December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Assets*	-	15	44
Book value of the investment	-	15	44

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Group's share of net loss from ongoing activity	-	(7)	(16)
Group's share of other comprehensive income	-	-	16
Group's share of total comprehensive loss	-	(7)	-
Group's share of the income (expenses) of joint ventures	-	(7)	45

* Including the balance of retained costs and goodwill.

Note 9 - Investments in investees (contd.)

E. Additional information about investees

List of significant consolidated subsidiaries:

	Primary location of the Company's activity	Group's ownership rights in the subsidiary	Loans and capital notes provided by the Company to consolidated companies (NIS million)	Scope of the investment in a consolidated company NIS million
2021				
Harel Insurance Company Ltd.	**Israel**	**100%**	**359**	**6,390**
Harel Finance Holdings Ltd.	**Israel**	**100%**	**218**	**555**
.Harel Pension and Provident Ltd	**Israel**	**100%**	**-**	**1,018**
Interasco A.E.G.A	**Greece**	**94%**	**-**	**50**
Turk Nippon Sigorta Anonim Sirketi	**Turkey**	**100%**	**-**	**(6)**
EMI Ezer Mortgage Insurance Co. Ltd. *	**Israel**	**100%**	**-**	**232**
2020				
Harel Insurance Company Ltd.	Israel	100%	351	5,671
Harel Finance Holdings Ltd.	Israel	100%	218	521
.Harel Pension and Provident Ltd	Israel	100%	-	798
Interasco A.E.G.A	Greece	94%	-	55
Turk Nippon Sigorta Anonim Sirketi	Turkey	100%	-	53

* On the restructuring of EMI, see Note 40.

1. Dividends from investees

(a) In January 2022, after the Reporting Period, the Board of Directors of Harel Insurance approved the distribution of a dividend in the amount of NIS 250 million. The Board of Directors made its decision after taking into account the financial results of Harel Insurance. The distributable retained earnings of Harel Insurance and the capital surpluses were assessed and found to be in compliance with the Solvency provisions. Additionally, the Board of Directors of Harel Insurance examined its compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law and following this review, the Board of Directors of Harel Insurance approved its compliance with the distribution test. The dividend was paid on February 3, 2022.

(b) In December 2021, Harel Pension and Provident Ltd. distributed a dividend in the amount of NIS 40 million, in accordance with approval given by the board of directors of Harel Pension and Provident Ltd. on November 16, 2021. The Board of Directors' decision was made after taking into account the financial results, the distributable surplus, assessing the capital surpluses and compliance with the Commissioner's regulations regarding the minimum equity required of Harel Pension and Provident Ltd. The Board of Directors of Harel Pension and Provident Ltd. also reviewed its compliance with the profit test and with the solvency test prescribed in Section 203(A) of the Companies Law. Following this review, the Board of Directors confirmed the compliance with the distribution test.

(c) See Note 40 regarding the dividend received from EMI.

Note 9 - Investments in investees (contd.)

F. Capital requirements for consolidated companies

1. Solvency II based economic solvency regime

An economic solvency regime based on Solvency II applies to Harel Insurance, and this pursuant to the implementation provisions published in June 2017 and revised in October 2020 ("Provisions of the Economic Solvency Regime").

Economic solvency ratio:

The economic solvency ratio is calculated as the ratio between the recognized economic equity of Harel Insurance and the solvency capital requirement (SCR).

The recognized economic equity is defined as the sum of the equity arising from the economic balance and debt instruments which include loss-absorbing mechanisms (additional tier-1 capital, tier-2 capital instruments, subordinated tier-2 capital, hybrid tier-2 and tier-3 capital).

The economic balance items are calculated according to economic value, where the insurance liabilities are calculated on the basis of a best estimate of all the anticipated future flows from current business, excluding margins for conservatism and plus a risk margin.

The purpose of the solvency capital requirement (SCR) is to estimate the exposure of the economic shareholders equity to a series of scenarios set out in the economic solvency regime provisions which reflect insurance risks, market and credit risks as well as operational risks.

Among other things, the economic solvency regime includes transitional provisions relating to compliance with the capital requirements, which allow the economic capital to be increased by deducting from the insurance reserves the amount calculated in accordance with the provisions of the economic solvency regime ("the Deduction"). The Deduction will gradually decrease until 2032 ("the Transitional Period"), in addition to a reduced capital requirement, which will gradually increase until 2023, for certain categories of investment, with a different maximum recognition limitation for tier-2 capital.

According to the consolidated circular, the economic solvency ratio report for data as at December 31 and June 30 each year will be included in the periodic report subsequent to the period of the calculation.

On March 14, 2021, Commissioner's letter CM 2021-423 was published which determined that the economic solvency report at December 31, 2020, as well as the reporting files for the Commissioner attached thereto, must be published by June 30, 2021. The letter also determines that insurance companies are entitled not to publish an economic solvency ratio report as at June 30, 2021, for the general public.

On June 30, 2021, Harel Insurance published a report on the economic solvency ratio ("the Solvency Report") in respect of data at December 31, 2020, on its website: https://www.harel-group.co.il/about/harel-group/harel/investor-relations/Pages/repayment-ability.aspx. According to the report, the Company has a capital surplus even without taking the transitional provisions into account.

The calculation prepared by 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 9 - Investments in investees (contd.)

F. Capital requirements for consolidated companies (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, 2020, 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 which 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 instructions, insurance companies must publish their solvency results at December 31, 2021 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. Harel Insurance is preparing to perform the calculation and the reporting based on the defined time schedule.

2. Own Risk and Solvency Assessment (ORSA) for insurance companies

On January 5, 2022, the following provisions were published on the subject of Own Risk and Solvency Assessment (ORSA) for insurance companies:

(a) Financial Institutions Circular 2022-1-2 on “Amendment to the provisions of the Consolidated Circular - Chapter 3, Part 4, Section 5 - “Reporting to the Capital Market Commissioner” - Own Risk and Solvency Assessment (ORSA) by insurance companies, which determined that insurance companies must submit a report about ORSA to the Commissioner as this assessment is implemented by them. The report will be prepared once a year in January and shall include, among other things, the following sections:

* Key conclusions and results of the assessment of the degree of consistency and relationship between the following: risk profile, policy of exposure to different risks and overall level of exposure, capital management policy and equity target, general strategy and annual work plan, risk management tools;
* Summary of the insurance company’s business position and its general strategy;
* Presentation of the insurance company’s risk plan and comparison with the exposure policy;
* Assessment of solvency and capital requirement;
* Forward-looking assessment for periods taken into account in the capital management plan and in the transitional period;
* Scenarios and sensitivity analyses for exposures, equity, solvency ratio and profit.

(b) Letter to insurance company directors (CM. 8901-2021) concerning the principles for implementing an Own Risk and Solvency Assessment Own Risk and Solvency Assessment (ORSA) for insurance companies) by insurance companies, which determined supplementary principles for the risk management framework and for capital management of insurance companies.

Harel Insurance is preparing to apply the provisions based on the Commissioner’s requirements.

Note 9 - Investments in investees (contd.)

F. Capital requirements for consolidated companies (contd.)

3. Capital management policy of Harel Insurance

   The new Solvency Circular r Circular requires a reassessment of the capital management policy of Harel Insurance, which is described in Section 9 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 Harel Insurance is capable of continuing its business activity and so that it can provide a return for its shareholders. Harel Insurance is subject to the capital requirements and defined regulations with respect to the distribution of dividends.

   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, taking the transitional provisions into account, and a minimum solvency ratio without taking the transitional provisions into account.

   On approval of a dividend distribution policy for the Company and Harel Insurance on February 28, 2021, see Note 16.

4. As part of the permit to control and hold the means of control in insurers, the Company undertook to inject NIS 120 million into Harel Insurance should Harel Insurance 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.

5. Consolidated 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 December 31, 2021, the subsidiaries are in compliance with these requirements.

Note 10 - Investment property (including investment property for yield-dependent contracts)

A. Composition and movement

	Investment property			
	for yield-dependent contracts		Other	
	2021	2020	2021	2020
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1	**1,802**	1,769	**2,060**	2,058
Additions during the year				
Purchases and additions to existing assets	**36**	45	**15**	16
Acquisition within a business combination (see Note 5)	**-**	-	**5**	-
Costs and expenses that were capitalized	**-**	2	**-**	-
Total additions	**36**	47	**20**	16
Adjustment to fair value	**125**	(14)	**189**	(14)
Balance as at December 31	**1,963**	1,802	**2,269**	2,060

B. Determination of fair value

Investment property is presented at fair value, as determined in an appraisal prepared by independent appraisers who are professionally recognized and who have considerable experience with respect to the location and type of real estate being appraised. External appraisals are performed at least once a year, on different dates for various assets in the investment property portfolio. An internal review is conducted for other reporting periods with the purpose of ensuring that no significant change has taken place in the value of the asset, based on the parameters that were used for preparing the appraisal.

The estimates are classified to fair value Level 3 hierarchy.

Valuation of the property is based on net annual cash flows discounted at a rate reflecting the specific risks inherent in them. When actual rent agreements include rent payments that are different from market rent, adjustments are made to reflect the actual rent payments in the period of the contract

The valuations take into account the type of tenants that actually occupy the leasehold or are responsible for fulfilling the rental obligations or may occupy the leasehold when available property is rented out, including a general assessment of their creditworthiness; distribution of the responsibility for the property's maintenance and insurance between the Group and the tenant; and the remaining economic life of the property, in those locations where such parameters are relevant.

The fair value is determined using several revaluation methodologies, including the comparative approach, similar assets and discounting of the future cash flow arising from the asset. The value of most of the assets is determined according to the estimated cash flows and which take into account their inherent risk, and they are mostly discounted at rates of between 3.25% - 6.5% for real estate abroad and 5.5% - 7.5% for real estate in Israel, depending on the appropriate level of risk in the asset.

Property under construction is valued by estimating the fair value of the completed investment property and then deducting from that amount the present value of the estimated costs to complete construction and a reasonable profit margin, when relevant, while taking into consideration a yield adjusted for the relevant risks and characteristics of the investment property.

Investment property consists mainly of office buildings and commercial property.

There are no interrelationships between the significant unobservable inputs.

Note 10 - Investment property (including investment property for yield-dependent contracts) (contd.)

C. Changes in investment property measured at level 3

	As at December 31, 2021							
	for yield-dependent contracts				for non-yield-dependent contracts			
	Commercial property	Real estate offices	Property under construction	Total	Commercial property	Real estate offices	Property under construction	Total
	NIS million				NIS million			
Balance as at January 1, 2021	963	826	13	1,802	896	1,154	10	2,060
Purchases	4	25	7	36	4	7	4	15
Acquisition within a business combination (see Note 5)	-	-	-	-	-	5	-	5
Other changes	7	-	(7)	-	4	-	(4)	-
Total profits (losses) that were recognized in profit or loss:*								
Changes in fair value	67	58	-	125	54	135	-	189
Balance as at December 31, 2021	1,041	909	13	1,963	958	1,301	10	2,269

	As at December 31, 2020							
	for yield-dependent contracts				for non yield-dependent contracts			
	Commercial property	Real estate offices	Property under construction	Total	Commercial property	Real estate offices	Property under construction	Total
	NIS million				NIS million			
Balance as at January 1, 2020	970	791	8	1,769	917	1,134	7	2,058
Purchases	4	36	5	45	4	9	3	16
Costs and expenses that were capitalized	-	2	-	2	-	-	-	-
Total profits (losses) that were recognized in profit or loss:*								
Changes in fair value	(11)	(3)	-	(14)	(25)	11	-	(14)
Balance as at December 31, 2020	963	826	13	1,802	896	1,154	10	2,060

* Under net profit from investments and financing income.

Note 10 - Investment property (including investment property for yield-dependent contracts) (contd.)

D. See Note 40 on commitments relating to the leasing of investment property

E. Information about rights in land that the Group uses as investment property

Some of the owner-occupied or leased land in Israel, has not yet been recorded in the name of the Company or the various companies or subsidiaries at the Land Registry, mostly because of registration procedures or technical problems.

	Book value as at December 31* *				
	2021	2020			
	NIS million	NIS million	Non-capitalized lease up to	Option for an additional lease period	Leasing entity
HaMered Street, Tel Aviv	**19**	19	2032	None	ILA
Hatikvah Street, Beersheva	**308**	278	2050	49 years from end of lease period	ILA
Haim Bar Lev Road, Neve Savyon	**58**	57	2041	None	ILA
Shoham shopping center	**98**	92	2042	None	ILA
Am Ve'Olamo Street, Jerusalem	**14**	13	2039	None	ILA
Yigal Alon Road, Tel Aviv	**429**	377	2060 2059	None	ILA
Corner of Weizmann and HaSadna Streets and corner of HaManofim Road, Kfar Saba	**136**	133	2058	49 years from end of lease period	ILA
Giborei Yisrael Road, K. Nordau, Netanya	**201**	182	2064	None	ILA
Tuval Road, Ramat Gan	**24**	24	Perpetual lease	None	Various lessors
Corner Galgalei HaPlada and Yahalom Binyamin Streets, Kfar Saba	**23**	16	2067	None	ILA
Zalman Shazar Street, Netanya	**687**	623	2064	49 years from end of lease period	ILA
Total	**1,997**	1,814			

* Including the building

Note 11 - Trade and other receivables

A. Composition

	As at December 31	
	2021	2020
	NIS million	NIS million
Related parties	8	4
Receivables in connection with the purchase of real estate	3	4
Government authorities and institutions	142**	2
Receivable income	78	99
Lease fees and prepaid expenses	161	133
Advances to service providers	9	6
Advances on account of commissions to insurance agents	91	105
Loans provided to externals	13	6
	505	359
Insurance companies and brokers:		
Deposits	-	1
Other accounts	229	215
Total insurance companies and brokers	229	216
Receivable income from management fees	5	13
Excess (deductible)	2	2
Subrogation and residuals	21	20
Deposits for payment of claims	15	13
Receivables for securities*	298	507
Policyholders	15	11
Deposits in a sick pay fund	57	52
Other	106	56
	519	674
Net of provision for doubtful debts	(2)	(3)
Total trade and other receivables	1,251	1,246

* Consists mainly of sureties for financial derivatives.
** Of which NIS 140 million was paid as an advance to the NII for a subrogation agreement in the compulsory motor sector, see Note 3C(2)j.

B. Changes in the provision for doubtful debts

	2021	2020
	NIS million	NIS million
Balance as at January 1	3	3
Change in provision in period	(1)	-
Balance as at December 31	2	3

Note 12 – Premiums due

A. Composition

	As at December 31	
	2021	2020
	NIS million	NIS million
Premiums due *	1,472	1,364
Net of provision for doubtful debts	(20)	(19)
Total premiums due	1,452	1,345
* including checks due and standing orders	524	408

B. Ageing

	As at December 31	
	2021	2020
	NIS million	NIS million
Premiums due whose value was not impaired		
Excluding arrears	1,150	1,065
In arrears : *		
less than 90 days	145	118
90-180 days	69	84
more than 180 days	32	40
Total premiums due whose value was not impaired	1,396	1,307
Premiums due whose value was impaired	56	38
Total premiums due	1,452	1,345

* Consists mainly of debts in arrears in the life assurance segment. These debts are mostly backed by the redemption value of the policies. On the linkage conditions of premiums due, see Note 37.

C. Changes in the provision for doubtful debts from premiums due

	NIS million
Balance as at January 1, 2019	17
Change in provision in period	1
Balance as at December 31, 2019	18
Change in provision in period	1
Balance as at December 31, 2020	19
Change in provision in period	1
Balance as at December 31, 2021	20

Note 13 - Assets held for yield dependent contracts

A. Assets presented at fair value

	As at December 31	
	2021	2020
	NIS million	NIS million
Investment property	**1,963**	1,802
Financial investments		
Marketable debt assets	**21,155**	21,331
Non-marketable debt assets (*)	**15,977**	14,745
Shares	**17,393**	13,322
Other financial investments	**19,325**	15,209
Total financial investments	**73,850**	64,607
Cash and cash equivalents	**5,012**	3,452
Other	**723**	1,148
Total assets for yield-dependent contracts **	**81,548**	71,009
Payables	**582**	726
Financial liabilities ***	**61**	106
Financial liabilities for yield-dependent contracts	**643**	832
(*) Of which assets measured at amortized cost	**413**	451
Fair value of debt assets measured at amortized cost	**485**	513

** Including assets in the amount of NIS 5,153 and NIS 4,695 million at December 31, 2021 and 2020, respectively, for a liability attributable to the group long-term care portfolio, in which most of the investment risks are not imposed on the insurer.

*** Mainly derivatives and future contracts.

On the exposure for assets held to cover yield-dependent liabilities, see Note 37.

On the interest rates used to determine the fair value of non-marketable financial assets, see Note 14.

Note 13 - Assets held for yield dependent contracts (contd.)

B. Non-marketable debt assets measured at fair value hierarchy for disclosure purposes only

	As at December 31, 2021		
	Level 2	Level 3	Total
	NIS million	NIS million	NIS million
Other debt assets accounted for as loans and receivables, other than bank deposits	458	19	477
Bank deposits	8	-	8
Total	466	19	485

	As at December 31, 2020		
	Level 2	Level 3	Total
	NIS million	NIS million	NIS million
Other debt assets accounted for as loans and receivables, other than bank deposits	473	32	505
Bank deposits	8	-	8
Total	481	32	513

C. Fair value hierarchy of financial assets

The table below analyses the assets held against insurance policies and investment contracts carried at fair value through profit and loss.

	As at December 31, 2021			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	18,584	2,571	-	21,155
Non-marketable debt assets	-	14,640	924	15,564
Shares	14,688	145	2,560	17,393
Other	11,508	579	7,238	19,325
Total	44,780	17,935	10,722	73,437

	As at December 31, 2020			
	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 13 - Assets held for yield dependent contracts (contd.)

D. Level 3 assets measured at fair value

	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	**33**	**296**	**1,092**	**1,421**
Interest and dividend receipts	**(42)**	**(302)**	**(488)**	**(832)**
Purchases	**622**	**462**	**2,298**	**3,382**
Sales	**-**	**(89)**	**(619)**	**(708)**
Redemptions	**(720)**	**-**	**(38)**	**(758)**
Transfers from Level 3 *	**(16)**	**(249)**	**-**	**(265)**
Balance as at December 31, 2021	**924**	**2,560**	**7,238**	**10,722**
Total profits (losses) for period included in profit or loss for assets held for the year ended December 31, 2021	**6**	**185**	**1,075**	**1,266**

	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
Total profits (losses) for period included in profit or loss for assets held for the year ended December 31, 2020	14	(6)	83	91

* Mainly for securities whose rating changed.

Note 14 - Other Financial Investments

A. Composition

	As at December 31, 2021				
	Revalued at fair value through profit and loss	Available-for-sale	Held to redemption	Loans and receivables	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	10	13,555	14	-	13,579
Non-marketable debt assets	3,152	-	-	13,477	16,629
Shares	628	1,880	-	-	2,508
Other	422	3,173	-	-	3,595
Total	4,212	18,608	14	13,477	36,311

	As at December 31, 2020				
	Revalued at fair value through profit and loss	Available-for-sale	Held to redemption	Loans and receivables	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	121	10,907	39	-	11,067
Non-marketable debt assets	1,544*	-	-	13,531*	15,075
Shares	57	1,573	-	-	1,630
Other	312	2,926	-	-	3,238
Total	2,034	15,406	39	13,531	31,010

* Reclassified

B. Fair value hierarchy of financial assets

The table below analyses financial assets carried at fair value.

The balance in the financial statements for cash and cash equivalents, premiums due, trade and other payables and current tax assets, corresponds with or approximates their fair values.

	As at December 31, 2021			
	Level 1	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	12,874	691	-	13,565
Non-marketable debt assets	-	3,152	-	3,152
Shares	2,017	80	411	2,508
Other	885	294	2,416	3,595
Total	15,776	4,217	2,827	22,820

	As at December 31, 2020			
	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	-	1,544*	-	1,544
Shares	1,338	-	292	1,630
Other	1,260	199	1,779	3,238
Total	12,760	2,609	2,071	17,440

* Insignificant restatement of comparative figures

Note 14 - Other financial investments (contd.)

C. Level 3 assets measured at fair value

	Fair-value measurement on report date		
	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	**47**	**150**	**197**
In other comprehensive income	**20**	**168**	**188**
Interest and dividend receipts	**(51)**	**(154)**	**(205)**
Purchases	**146**	**701**	**847**
Sales	**-**	**(209)**	**(209)**
Redemptions	**-**	**(19)**	**(19)**
Transfers from Level 3 *	**(43)**	**-**	**(43)**
Balance as at December 31, 2021	**411**	**2,416**	**2,827**
Total profit for period included in profit or loss for assets held in the year ended December 31, 2021	**42**	**120**	**162**

	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
Total profit for period included in profit or loss for assets held in the year ended December 31, 2020	7	33	40

* Mainly for securities whose rating changed

Note 14 - Other financial investments (contd.)

D. Marketable debt assets

	As at December 31	
	2021	2020
	NIS million	NIS million
Government bonds		
Presented at fair value through profit or loss designated upon initial recognition	9	3
Available-for-sale	8,079	6,187
Total government bonds	8,088	6,190
Other debt assets		
Non-convertible		
Presented at fair value through profit or loss designated upon initial recognition	1	118
Held to redemption (*)	14	39
Available-for-sale	5,476	4,720
Total other non-convertible debt assets	5,491	4,877
Total marketable debt assets	13,579	11,067
Outstanding impairments recognized in profit or loss for debt assets presented as available-for-sale	-	1

(*) Fair value of marketable debt assets held to redemption	Level 1	Level 1
	NIS million	NIS million
Other debt assets:		
Non-convertible	14	40

Note 14 - Other financial investments (contd.)

E. Non-marketable debt assets

	Book value		Fair value	
	As at December 31		As at December 31	
	2021	2020	2021	2020
	NIS million	NIS million	NIS million	NIS million
Government bonds				
Accounted for as loans and receivables:				
Earmarked bonds	**4,779**	5,147	**7,023**	7,197
Total government bonds	**4,779**	5,147	**7,023**	7,197
Other non-convertible debt assets				
Accounted for as loans and receivables, excluding bank deposits	**7,625**	7,281	**8,638**	8,288
Bank deposits (*)	**4,225**	2,647	**4,279**	2,698
Total other non-convertible debt assets	**11,850**	9,928	**12,917**	10,986
Total non-marketable debt assets	**16,629**	15,075	**19,940**	18,183
Outstanding impairments recognized in profit or loss	**37**	55		
(*) Of which debt assets measured at fair value	**3,152**	1,544**		

F. Non-marketable debt assets measured at fair value for disclosure purposes only, by level

	As at December 31, 2021			As at December 31, 2020		
	Level 2	Level 3	Total	Level 2	Level 3	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Earmarked bonds *	**7,023**	**-**	**7,023**	7,197	-	7,197
Other debt assets accounted for as loans and receivables, not including bank deposits	**7,432**	**1,206**	**8,638**	6,804	1,484	8,288
Bank deposits	**1,127**	**-**	**1,127**	1,154**	-	1,154
Total	**15,582**	**1,206**	**16,788**	15,155	1,484	16,639

* The fair value of earmarked bonds was calculated according to their contractual maturity date.

** Insignificant restatement of comparative figures

Note 14 - Other financial investments (contd.)

G. Interest and linkage for debt assets

	Linkage base	Effective interest As at December 31 2021 %	2020 %
Marketable debt assets			
	CPI-linked	**(0.8)**	0.2
	Shekel	**1.4**	1.0
	Linked to foreign currency	**6.5**	3.2 *
Non-marketable debt assets			
	CPI-linked	**3.5**	4.0
	Shekel	**2.2**	2.3
	Linked to foreign currency	**6.3**	6.2

* Insignificant restatement of comparative figures

H. Shares

	As at December 31 2021 NIS million	2020 NIS million
Marketable		
Presented at fair value through profit or loss designated upon initial recognition	**628**	57
Available-for-sale	**1,469**	1,281
Total marketable shares	**2,097**	1,338
Non-marketable shares available-for-sale	**411**	292
Total	**2,508**	1,630
Outstanding impairments recognized in profit or loss	**62**	67

Note 14 - Other financial investments (contd.)

I. Other Financial Investments

	As at December 31	
	2021	2020
	NIS million	NIS million
Marketable		
Presented at fair value through profit or loss designated upon initial recognition	78	75
Available-for-sale	804	1,181
Derivative instruments (see Section J below)	3	3
Total marketable financial investments	885	1,259
Non-marketable		
Presented at fair value through profit or loss designated upon initial recognition	47	35
Available-for-sale	2,369	1,745
Derivative instruments (see Section J below)	294	199
Total non-marketable financial investments	2,710	1,979
Total other financial investments	3,595	3,238
Outstanding impairment recognized in profit or loss for other financial investments presented as available-for-sale	173	143
Derivative financial instruments presented in financial liabilities	103	181

Other financial investments consist mainly of investments in ETNs, certificates of participation in mutual funds, investment funds, future contracts, options and structured products. The fair value of non-marketable investments in investment funds and hedge funds is based mainly on the fair value of the underlying assets or on valuations.

On the Group's commitment to invest in investment funds, see Note 40.

J. Derivative instruments

The exposure, net, to the underlying asset, presented in "Delta" terms for financial transactions at the reporting date:

	As at December 31	
	2021	2020
	NIS million	NIS million
Shares	85	95
CPI	3,915	3,274
Foreign currency	(4,213)	(4,414)
Interest	5	-

Note 14 - Other financial investments (contd.)

K. 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 concerning 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 dividing the market into deciles consistent with the yield to maturity of the debt asset, and determining the position of the non-marketable asset according on those deciles, and this in accordance with the risk premium derived from the prices of transactions/issuances on the non-marketable 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 revaluing non-marketable debt assets.

The yield curve presented below, and the average weighted interests for each of the rating groups presented in the table, are consistent with the assets included in each rating group.

	As at December 31	
	2021	2020
	% interest	% interest
AA and higher	**(0.8)**	(0.2)
A	**1.5**	1.7
BBB	**2.4**	2.6
Less than BBB	**6.2**	11.3
Not rated	**3.7**	2.9

The sources for the local rating level are the Maalot and Midroog rating companies. Data from Midroog were converted into rating symbols, on the basis of accepted conversion coefficients.

There are some difference between ratings in Israel and ratings abroad. The sources for foreign ratings are the rating companies approved by the Commissioner, S&P, Moody's and Fitch.

On an internal rating, see Note 37.

Note 14 - Other financial investments (contd.)

L. Aging of investments in non-marketable debt assets**

	As at December 31	
	2021	2020
	NIS million	
Government bonds	4,779	5,147
Debt assets whose value was not impaired		
Excluding arrears	11,833	9,908
In arrears : *		
More than 180 days	-	2
Total debt assets whose value was not impaired	11,833	9,910
Debt assets whose value was impaired		
Assets whose value was impaired, gross	32	32
Provision for loss	15	14
Debt assets whose value was impaired, net	17	18
Total non-marketable debt assets	16,629	15,075

* Mainly loans on policies against which there are full redemption values and/or pledges.
** The above amounts do not constitute the actual amount in arrears, but the outstanding debt involved in the arrears.

M. Disclosure required in connection with the temporary exemption from the application of IFRS 9, *Financial Instruments* (see Note 3S)

The following table presents the fair value of financial assets allocated by two groups:
- Assets that comply with the solely payments of principal and interest (SPPI) test (not including assets held for trade or managed on a fair-value basis) ("Group A");
- All other financial assets ("Group B").

Allocation of the financial assets into Group A and Group B, as described below, is based on a preliminary valuation prepared by the Company.

	As at December 31, 2021	
	Group A	Group B
	NIS million	
Investments for yield-dependent contracts	413	73,437
Other financial investments - shares	-	2,508
Other financial investments - other	-	3,595
Other financial investments - marketable debt assets	14	13,565
Other financial investments - non-marketable debt assets	13,477	3,152
Yield dependent cash and cash equivalents	5,012	-
Other cash and cash equivalents	2,625	-
Total other financial investments	21,542	96,257

Note 14 - Other financial investments (contd.)

M. Disclosure required in connection with the temporary exemption from the application of IFRS 9, *Financial Instruments* (see Note 3S) (contd.)

	As at December 31, 2020	
	Group A	Group B
	NIS million	
Investments for yield-dependent contracts	451	64,156
Other financial investments - shares	-	1,630
Other financial investments - other	-	3,238
Other financial investments - marketable debt assets	39	11,028
Other financial investments - non-marketable debt assets	13,531*	1,544*
Yield dependent cash and cash equivalents	3,452	-
Other cash and cash equivalents	2,921	-
Total other financial investments	20,394	81,596

* Insignificant restatement of comparative figures

Note 15 - Cash and cash equivalents

A. For yield-dependent investment contracts and insurance contracts

	As at December 31	
	2021	2020
	NIS million	NIS million
Cash and call deposits in banks	**5,012**	3,452

Cash balances held in banks as at December 31, 2021 and 2020, bear daily interest at an annual rate of 0.06%, in annual terms.

B. Other

	As at December 31	
	2021	2020
	NIS million	NIS million
Cash and call deposits	**2,283**	2,571
Short-term deposits	**342**	350
Cash and cash equivalents	**2,625**	2,921

Cash in banks at December 31, 20210 and 2020 bear daily interest at an annual rate of 0.06%, in annual terms.

Short-term deposits held in banks are for periods of between one week and three months. The deposits bear interest at a rate of 0.09% and 0.06%, in annual terms, at December 31, 2021 and 2020 respectively.

On the linkage and interest terms of the cash and short-term deposits, see Note 37.

Note 16 – Equity

A. Composition of share capital

	As at December 31, 2021		As at December 31, 2020	
	Registered	Issued and Paid-up	Registered	Issued and Paid-up
Ordinary shares, NIS 0.1 par value each	**500,000,000**	**222,836,923**	500,000,000	222,836,923

B. Treasury stock

1. Company shares held by the Company and subsidiaries

	As at December 31	
	2021	2020
Percentage of issued share capital	**4%**	4%
Cost (NIS million)*	**163**	123

* At December 31, 2021 and 2020, all the Treasury stock held by the Company.

2. Plan to repurchase shares

On June 30, 2021, the Company's Board of Directors approved a plan to buy back shares of the Company in the amount of up to NIS 100 million. This plan will be implemented from time to time as will be determined by the Company's management which was authorized by the Board of Directors to purchase securities at its discretion during the period prescribed for implementation of the plan. For additional information, see an Immediate Report of the Company dated June 30, 2021 (Ref. 2021-01-109800). At December 31, 2021, the Company repurchased 1,176,957 shares at a cost amounting to NIS 40 million. At the date of publication of the report, the Company has repurchased 1,490,408 shares at a total cost of NIS 51.6 million.

C. Rights attached to shares

1. Voting rights in the general meeting, right to dividends, rights upon liquidation of the Company, and rights to appoint company directors.
2. Marketability on the Tel Aviv Stock Exchange.

D. Dividend

1. The following dividends were declared by the company:

	As at December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Total dividends	**357**	-	236
Dividend per ordinary share (NIS)*	**1.67**	-	1.10

* Calculation of the dividend per share did not take into account dormant shares in the amount of 9,635,107 at December 31, 2021 and 8,458,150 at December 31, 2020 and 2019.

Note 16 – Equity (contd.)

D. Dividend (contd.)

2. Dividend distributions

(a) On January 27, 2021, the Company's Board of Directors approved the distribution of a 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.

(c) On November 29, 2021, the Company's Board of Directors approved the distribution of a cash dividend in the amount of NIS 100 million (NIS 0.47 per share). The Board of Directors made its decision after taking into account the Company's results as at September 30, 2021. 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 January 3, 2022.

(d) On March 28, 2022, together with the approval of the Company's annual financial statements, the Board of Directors approved the distribution of a cash dividend in the amount of NIS 300 million. The Board's decision was made after taking into account the Company's financial results as at December 31, 2021. 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 will be paid on April 26, 2022

3. 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.

Additionally, 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.

Note 16 – Equity (contd.)

D. Dividend (contd.)

3. Dividend distribution policy (contd.)

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 under 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.

E. Non-controlling interests

	As at December 31	
	2021	2020
	NIS million	NIS million
Part in balance sheet value *	32	19

* Including that part of the balance of surplus attributed costs.

Note 16 - Equity (contd.)

F. Other comprehensive income

	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for revaluation of fixed assets	Actuarial changes	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the year ended December 31, 2021							
Net change in the fair value of financial assets classified as available-for-sale	**920**	**-**	**-**	**-**	**920**	**-***	**920**
Net change in fair value of financial assets classified as available-for-sale transferred to income statement	**(461)**	**-**	**-**	**-**	**(461)**	**-***	**(461)**
Loss from impairment of available-for-sale financial assets transferred to income statement	**51**	**-**	**-**	**-**	**51**	**-**	**51**
Foreign currency translation differences for foreign activity	**-**	**(77)**	**-**	**-**	**(77)**	**-**	**(77)**
Revaluation reserve for fixed asset items	**-**	**-**	**29**	**-**	**29**	**-**	**29**
Re-measurement of a defined benefit plan	**-**	**-**	**-**	**3**	**3**	**-**	**3**
Tax benefit (income tax) relating to components of other comprehensive income (loss)	**(166)**	**19**	**(8)**	**(1)**	**(156)**	**-***	**(156)**
Total other comprehensive income (loss) for the period, net of tax	**344**	**(58)**	**21**	**2**	**309**	**-***	**309**
For the year ended December 31, 2020							
Net change in the fair value of financial assets classified as available-for-sale	356	-	-	-	356	-*	356
Net change in fair value of financial assets classified as available-for-sale transferred to income statement	(297)	-	-	-	(297)	-*	(297)
Loss from impairment of available-for-sale financial assets transferred to income statement	148	-	-	-	148	-	148
Foreign currency translation differences for foreign activity	-	(61)	-	-	(61)	-	(61)
Revaluation reserve for fixed asset items	-	-	34	-	34	-	34
Re-measurement of a defined benefit plan	-	-	-	7	7	-	7
Tax benefit (income tax) relating to components of other comprehensive income (loss)	(79)	12	(9)	(2)	(78)	-*	(78)
Total other comprehensive income (loss) for the period, net of tax	128	(49)	25	5	109	-*	109

* Less than NIS 1 million

Note 16 - Equity (contd.)

F. Other comprehensive income (contd.)

	Capital reserve for available-for-sale assets	Translation reserve for foreign activity	Capital reserve for revaluation of fixed assets	Actuarial changes	Total	Non-controlling interests	Total equity
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
For the year ended December 31, 2019							
Net change in fair value of financial assets classified as available-for-sale	950	-	-	-	950	-*	950
Net change in fair value of financial assets classified as available-for-sale transferred to income statement	(127)	-	-	-	(127)	-*	(127)
Loss from impairment of available-for-sale financial assets transferred to income statement	31	-	-	-	31	-	31
Foreign currency translation differences for foreign activity	-	(69)	-	-	(69)	-	(69)
Revaluation reserve for fixed asset items	-	-	26	-	26	-	26
Remeasurement of a defined benefit plan	-	-	-	(7)	(7)	-	(7)
Tax benefit (income tax) relating to components of other comprehensive income (loss)	(291)	13	(7)	2	(283)	-*	(283)
Total other comprehensive income (loss) for the period, net of tax	563	(56)	19	(5)	521	-*	521

* Less than NIS 1 million

Note 17 - Liabilities for non-yield dependent insurance and investment contracts

	As at December 31					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Life assurance and long-term savings						
Insurance contracts	**11,833**	11,612	**124**	114	**11,709**	11,498
Investment contracts	**193**	198	**-**	-	**193**	198
	12,026	11,810	**124**	114	**11,902**	11,696
Net of amounts deposited with a subsidiary as part of a defined benefit plan for the Company's employees	**(80)**	(72)	**-**	-	**(80)**	(72)
Total life assurance and long-term savings	**11,946**	11,738	**124**	114	**11,822**	11,624
Insurance contracts included in the health insurance segment	**7,683**	7,069*	**1,316**	1,097*	**6,367**	5,972*
Insurance contracts included in the non-life insurance segment	**10,991**	9,453	**3,522**	2,847	**7,469**	6,606
Insurance contracts included in the insurance companies overseas segment	**512**	631	**99**	129	**413**	502
Inter-segment adjustments and offsets	**(5)**	(5)	**(5)**	(5)	**-**	-
Total liabilities for non yield-dependent insurance contracts and investment contracts	**31,127**	28,886	**5,056**	4,182	**26,071**	24,704

The allocation between liabilities for yield-dependent insurance contracts and investment contracts and non-yield-dependent liabilities is based on the method of linkage of the insureds rights in the policy.

* Reclassified

Note 18 - Liabilities for yield -dependent insurance and investment contracts

	As at December 31					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Life assurance and long-term savings						
Insurance contracts	**55,429**	48,518	**130**	116	**55,299**	48,402
Investment contracts	**19,448**	16,194	**-**	-	**19,448**	16,194
	74,877	64,712	**130**	116	**74,747**	64,596
Net of amounts deposited in a subsidiary as part of a defined benefit plan for the Company's employees	**(147)**	(130)	**-**	-	**(147)**	(130)
Total life assurance and long-term savings	**74,730**	64,582	**130**	116	**74,600**	64,466
Insurance contracts included in the health insurance segment	**5,786**	5,251*	**56**	42*	**5,730**	5,209*
Total liabilities for yield-dependent insurance contracts and investment contracts	**80,516**	69,833	**186**	158	**80,330**	69,675

The allocation between liabilities for yield-dependent investment contracts and insurance contracts and liabilities that are not yield-dependent is based on the method of linkage of the rights of the policyholders.

* Reclassified

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment

A. Liabilities for insurance contracts included in the non-life insurance segment

1. By category

	As at December 31					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Compulsory motor and motor liabilities sectors						
Provision for unearned premiums	**650**	502	**194**	127	**456**	375
Outstanding claims and provision for premium deficiency	**8,356**	7,277	**2,434**	1,930	**5,922**	5,347
Total compulsory motor and motor liabilities branches (see Section B1 below)	**9,006**	7,779	**2,628**	2,057	**6,378**	5,722
Of this - total liabilities for compulsory motor (see Section C3 below)	**3,499**	2,524	**547**	77	**2,952**	2,447
Property and other branches (including motor property - CASCO)						
Provision for unearned premiums	**940**	797	**385**	329	**555**	468
Provision for premium deficiency	**35**	-	**6**	-	**29**	-
Outstanding claims and reserve for extraordinary risks	**1,010**	877	**503**	461	**507**	416
Total property and other branches (including motor property - CASCO) (see Section B2 below)	**1,985**	1,674	**894**	790	**1,091**	884
Total liabilities for insurance contracts included in non-life insurance segments	**10,991**	9,453	**3,522**	2,847	**7,469**	6,606
Deferred Acquisition Costs						
Compulsory motor and motor liabilities branches	**87**	77	**21**	17	**66**	60
Property and other branches (including motor property - CASCO)	**188**	174	**71**	65	**117**	109
Total DAC	**275**	251	**92**	82	**183**	169
Liabilities for non-life insurance policies net of DAC						
Compulsory motor	**3,473**	2,503	**546**	77	**2,927**	2,426
Other liabilities branches	**5,446**	5,199	**2,061**	1,963	**3,385**	3,236
Property and other branches (including motor property - CASCO)	**1,797**	1,500	**823**	725	**974**	775
Total liabilities in non-life insurance contracts net of DAC	**10,716**	9,202	**3,430**	2,765	**7,286**	6,437

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

A. Liabilities for insurance contracts included in the non-life insurance segment (contd.)

2. By method of calculation

	As at December 31					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Actuarial estimates						
Mr. Jeffrey Cohen	**8,986**	7,705	**2,719**	2,156	**6,267**	5,549
Provision based on other estimates						
Claims Department estimate for known outstanding claims	**274**	278	**223**	235	**51**	43
Addition to outstanding claims in respect of IBNR claims	**1**	-	**1**	-	**-**	-
Reserve for extraordinary risks	**140**	171	**-**	-	**140**	171
Provision for unearned premiums	**1,590**	1,299	**579**	456	**1,011**	843
Total liabilities for insurance contracts included in non-life insurance segment	**10,991**	9,453	**3,522**	2,847	**7,469**	6,606

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

B. Changes in liabilities for insurance contracts included in the non-life insurance segment, net of deferred acquisition costs

1. Compulsory motor and liability branches

	As at December 31					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Balance at beginning of year	**7,702**	8,013	**2,040**	2,235	**5,662**	5,778
Accrued cost of claims for current underwriting year	**1,382**	1,203	**295**	230	**1,087**	973
Change in retained amount at beginning of year due to CPI linkage and change in exchange rate and investment profit according to the capitalization assumption embedded in the liabilities	**184**	(52)	**49**	(14)	**135**	(38)
Change in estimate of accrued cost of claims for previous underwriting years (A)	**498**	39	**177**	78	**321**	(39)
Total change in accrued cost of claims	**2,064**	1,190	**521**	294	**1,543**	896
Payments for claims settlement during the year:						
For current underwriting year	**12**	21	**4**	1	**8**	20
For previous underwriting years	**1,683**	1,480	**452**	488	**1,231**	992
Total payments for period	**1,695**	1,501	**456**	489	**1,239**	1,012
Change due to a business combination (see Note 5A)	**848**	-	**502**	-	**346**	-
Balance at end of year	**8,919**	7,702	**2,607**	2,040	**6,312**	5,662

(A) The change in the estimated accrued cost of the claims for previous underwriting years, in the reporting year, was affected, in part: (1) by a sharp 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. This effect was partially offset by application of the circular on the revised formula for calculating the illiquidity premium added to the risk-free interest rate curve; (2) in the compulsory motor sector, by deterioration of the underwriting due to an increase in the cost of the claims; (3) in the liabilities sectors, by an increase in the cost of claims and an increase in the number of claims reported. Additionally, the change in the estimated cumulative cost of claims for previous underwriting years, in the reporting year, includes NIS 76 million in the gross (about NIS 28 million in the retention) for output which is attributed to previous underwriting years and was recorded in the reporting year (in 2020 including NIS 55 million in the gross (NIS 20 million in retention) for the period attributed to previous underwriting years that was recorded in 2020).

* The opening and closing balances include: outstanding claims plus provision for premium deficiency, reserve for extraordinary risks, unearned premium and net of deferred acquisition costs.

** The aggregate cost of claims for events in the reporting period includes the balance of outstanding, at the end of the period, plus total claims payments in the Reporting Period, including direct and indirect expenses for claims settlement.

*** Payments for claims settlement include direct and indirect expenses for their settlement (general and administrative which are recorded within claims) allocated by the loss years.

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

B. Changes in liabilities for insurance contracts included in the non-life insurance segment, net of deferred acquisition costs (contd.)

2. Property and other branches (including motor property)

	As at December 31					
	2021	2020	2021	2020	2021	2020
	Gross		Reinsurance		Retention	
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Balance at beginning of year	**1,500**	1,546	**725**	681	**775**	865
Accrued cost of claims for events in the reporting year	**1,253**	1,106	**397**	443	**856**	663
Change in cost of accrued claims for events that preceded the reporting year	**(42)**	(50)	**(14)**	(11)	**(28)**	(39)
Total change in accrued cost of claims	**1,211**	1,056	**383**	432	**828**	624
Payments to settle claims during the year:						
For events in the reporting year	**867**	780	**221**	256	**646**	524
For events preceding the reporting year	**314**	317	**189**	168	**125**	149
Total payments for period	**1,181**	1,097	**410**	424	**771**	673
Change in reserve for extraordinary risks and provision for unearned premiums, net of DAC	**(13)**	(5)	**15**	36	**(28)**	(41)
Change in provision for premium deficiency	**35**	-	**6**	-	**29**	-
Change due to a business combination (see Note 5A)	**245**	-	**104**	-	**141**	-
Balance at end of year	**1,797**	1,500	**823**	725	**974**	775

(a) Change in the accrued cost of claims for events preceding the reporting year - the decrease in the current and previous reporting years is mainly attributable to a positive development in claims from old loss years in the motor property sector

* The opening and closing balances include: outstanding claims plus provision for premium deficiency, reserve for extraordinary risks, unearned premium and net of deferred acquisition costs.

** The aggregate cost of claims for events in the reporting year, includes the balance of outstanding claims at the end of the reporting year, plus total claims payments during the Reporting Period, including direct and indirect expenses for claims settlement.

*** Payments for claims settlement include direct and indirect expenses for their settlement (general and administrative which are recorded in claims) allocated by the underwriting years.

Note 19 - Liabilities for insurance policies included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs

1. Gross in compulsory motor branches	As at December 31, 2021										
	Underwriting year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	In NIS million adjusted to CPI*										
Claims paid (in aggregate) at end of year (1)											
After one year	9	10	9	9	16	14	17	14	22	12	
After two years	58	60	67	70	82	85	93	93	86		
After three years	151	174	164	203	218	223	245	245			
After four years	284	332	319	347	402	395	472				
After five years	427	482	485	511	578	586					
After six years	558	628	647	686	766						
After seven years	667	759	779	856							
After eight years	764	891	899								
After nine years	871	1,046									
After ten years	990										
Estimate of accrued claims (including payments incl. accrual) at end of year **(1)											
After one year	1,122	1,133	1,138	1,159	1,243	1,358	1,465	1,455	1,232	1,594	
After two years	1,117	1,170	1,079	1,230	1,285	1,366	1,458	1,382	1,357		
After three years	1,155	1,126	1,146	1,280	1,303	1,363	1,434	1,533			
After four years	1,057	1,166	1,160	1,258	1,306	1,359	1,588				
After five years	1,081	1,173	1,178	1,274	1,315	1,486					
After six years	1,074	1,179	1,200	1,297	1,434						
After seven years	1,070	1,180	1,204	1,368							
After eight years	1,076	1,205	1,269								
After nine years	1,110	1,292									
After ten years	1,137										
Surplus (deficiency) relative to first year not including accumulation ***	(80)	(166)	(190)	(209)	(191)	(128)	(123)	(78)	(125)		(1,290)
Rate of deviation relative to first year not including accumulation, in percent	7.57%	14.74%	17.61%	18.03%	15.37%	9.43%	8.40%	5.36%	10.15%		11.54%
Cost of accrued claims as at December 31, 2021	1,137	1,292	1,269	1,368	1,434	1,486	1,588	1,533	1,357	1,594	14,058
Aggregate payments up to December 31, 2021	990	1,046	899	856	766	586	472	245	86	12	5,958
Balance of outstanding claims	147	246	370	512	668	900	1,116	1,288	1,271	1,582	8,100
Outstanding claims for years up to and including 2011 underwriting year											819
											8,919
Total liabilities for insurance contracts in compulsory motor and motor liabilities branches											9,006
Net of DAC											87
Total as at December 31, 2021											8,919

(1) Data for the last year added to each underwriting year also include data for the outstanding claims and claims paid of Shirbit, from the date of the acquisition of its activity (see Note 5A).

* The above amounts are presented in inflation-adjusted values to allow the development to be reviewed on the basis of real values.

** The estimate of aggregate claims at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.

*** The difference between the estimate of aggregate claims in the first year the first that does include the accrual and the estimate of aggregate claims at the reporting date.

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

2. In self-retention in compulsory motor and liabilities branches

	As at December 31, 2021										
	Underwriting year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	כ״סה
	In NIS million adjusted to CPI*										
Claims paid (in aggregate) at end of year (1)											
After one year	6	7	6	7	15	12	14	13	20	8	
After two years	39	39	42	51	69	73	79	76	73		
After three years	101	117	109	153	186	196	216	211			
After four years	192	218	209	265	339	348	413				
After five years	289	315	310	385	487	515					
After six years	378	414	415	512	652						
After seven years	451	498	497	639							
After eight years	514	578	572								
After nine years	577	685									
After ten years	657										
Estimate of accrued claims (including payments incl. accrual) at end of year **(1)											
After one year	703	711	689	803	1,039	1,164	1,239	1,236	996	1,155	
After two years	716	731	682	855	1,073	1,171	1,225	1,160	1,027		
After three years	743	723	723	897	1,102	1,172	1,212	1,227			
After four years	698	752	737	897	1,097	1,177	1,311				
After five years	711	760	741	908	1,097	1,232					
After six years	703	754	741	916	1,162						
After seven years	700	747	744	970							
After eight years	699	759	788								
After nine years	719	823									
After ten years	744										
Surplus (deficiency) relative to first year not including accumulation ***	(46)	(100)	(106)	(167)	(123)	(68)	(72)	9	(31)		(704)
Rate of deviation relative to first year not including accumulation, in percent	6.59%	13.83%	15.54%	20.80%	11.84%	5.84%	5.81%	(0.73%)	3.11%		8.21%
Cost of accrued claims as at December 31, 2021	744	823	788	970	1,162	1,232	1,311	1,227	1,027	1,155	10,439
Aggregate payments up to December 31, 2021	657	685	572	639	652	515	413	211	73	8	4,425
Balance of outstanding claims	87	138	216	331	510	717	898	1,016	954	1,147	6,014
Outstanding claims for years up to and including 2011 underwriting year											298
											6,312
Total liabilities for insurance contracts in compulsory motor and motor liabilities branches											6,378
Net of DAC											66
Total as at December 31, 2021											6,312

(1) Data for the last year added to each underwriting year also include data for the outstanding claims and claims paid of Shirbit, from the date of the acquisition of its activity (see Note 5A).

* The above amounts are presented in inflation-adjusted values to allow the development to be reviewed on the basis of real values.

** The estimate of aggregate claims at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.

*** The difference between the estimate of aggregate claims in the first year that does include the accrual and the estimate of aggregate claims at the reporting date.

Note 19 - Liabilities for insurance policies included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

3. Gross in compulsory motor branches

	As at December 31, 2021										
	Underwriting year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	כ"סה
	In NIS million adjusted to CPI*										
Claims paid (in aggregate) at end of year (1)											
After one year	6	6	5	6	9	9	10	11	7	5	
After two years	37	36	36	44	51	55	64	60	38		
After three years	93	104	100	137	135	150	173	166			
After four years	167	191	178	224	230	256	306				
After five years	231	255	241	293	307	345					
After six years	281	304	287	363	376						
After seven years	326	343	330	409							
After eight years	351	374	368								
After nine years	380	424									
After ten years	412										
Estimate of accrued claims (including payments incl. accrual) at end of year **(1)											
After one year	496	463	434	459	499	574	657	627	536	813	
After two years	499	462	406	491	510	562	616	567	603		
After three years	511	447	447	521	539	555	625	712			
After four years	458	483	474	537	542	581	782				
After five years	459	494	463	535	552	683					
After six years	439	475	440	535	645						
After seven years	430	454	416	575							
After eight years	417	437	451								
After nine years	422	488									
After ten years	444										
Surplus (deficiency) relative to first year not including accumulation ***	14	(41)	(45)	(116)	(146)	(109)	(125)	(85)	(67)		(720)
Rate of deviation relative to first year not including accumulation, in percent	(3.06%)	9.17%	11.08%	25.27%	29.26%	18.99%	19.03%	13.56%	12.50%		15.44%
Cost of accrued claims as at December 31, 2021	444	488	451	575	645	683	782	712	603	813	6,196
Aggregate payments up to December 31, 2021	412	424	368	409	376	345	306	166	38	5	2,849
Balance of outstanding claims	32	64	83	166	269	338	476	546	565	808	3,347
Outstanding claims for years up to and including 2011 underwriting year											126
											3,473
Total liabilities for insurance contracts in compulsory motor branches											3,499
Net of DAC											26
Total as at December 31, 2021											3,473

(1) Data for the last year added to each underwriting year also include data for the outstanding claims and claims paid of Shirbit, from the date of the acquisition of its activity (see Note 5A).
* The above amounts are presented in inflation-adjusted values to allow development to be reviewed on the basis of real values.
** The estimate of aggregate claims at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
*** The difference between the estimate of aggregate claims in the first year that does include the accrual and the estimate of aggregate claims at the report date.

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

4. In self-retention in compulsory motor branches

	As at December 31, 2021										
	Underwriting year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	כ"סה
	In NIS million adjusted to CPI*										
Claims paid (in aggregate) at end of year (1)											
After one year	5	5	5	6	9	9	10	11	7	5	
After two years	30	30	30	40	51	55	64	60	37		
After three years	76	84	81	124	135	150	173	165			
After four years	135	154	144	203	230	256	305				
After five years	187	206	195	265	307	344					
After six years	227	246	232	328	374						
After seven years	264	277	267	370							
After eight years	284	303	298								
After nine years	307	342									
After ten years	333										
Estimate of accrued claims (including payments incl. accrual) at end of year **(1)											
After one year	400	374	350	414	499	574	657	627	535	657	
After two years	407	378	327	443	510	562	616	567	522		
After three years	419	361	360	471	537	555	622	628			
After four years	370	389	383	486	536	581	722				
After five years	371	398	374	483	543	630					
After six years	355	383	355	483	591						
After seven years	347	366	336	523							
After eight years	337	353	370								
After nine years	341	397									
After ten years	359										
Surplus (deficiency) relative to first year not including accumulation ***	11	(36)	(43)	(109)	(92)	(56)	(65)	(1)	13		(378)
Rate of deviation relative to first year not including accumulation, in percent	(2.97%)	9.97%	13.15%	26.33%	18.44%	9.76%	9.89%	0.16%	(2.43%)		8.66%
Cost of accrued claims as at December 31, 2021	359	397	370	523	591	630	722	628	522	657	5,399
Aggregate payments up to December 31, 2021	333	342	298	370	374	344	305	165	37	5	2,573
Balance of outstanding claims	26	55	72	153	217	286	417	463	485	652	2,826
Outstanding claims for years up to and including 2011 underwriting year											101
											2,927
Total liabilities for insurance contracts in compulsory motor branches											2,952
Net of DAC											25
Total as at December 31, 2021											2,927

(1) Data for the last year added to each underwriting year also include data for the outstanding claims and claims paid of Shirbit, from the date of the acquisition of its activity (see Note 5A).
* The above amounts are presented in inflation-adjusted values to allow development to be reviewed based on real values.
** The estimate of aggregate claims at the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
*** The difference between the estimate of aggregate claims in the first that does not include the accrual and the estimate of aggregate claims at the report date.

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

5. Information about underwriting years in compulsory motor branch

	Underwriting year						
	2021	2020	2019	2018	2017	2016	2015
	NIS million						
For the year ended December 31:							
Gross premiums	645	555	632	653	560	475	482
Comprehensive income (loss) in retention for underwriting year, in aggregate	(56)	13	10	(28)	(44)	(75)	(37)
Cumulative effect of investment revenues on accrued comprehensive income in retention for underwriting year	30	58	82	103	97	97	86

6. Information about underwriting years in other liabilities insurance branches

	Underwriting year						
	2021	2020	2019	2018	2017	2016	2015
	NIS million						
For the year ended December 31:							
Gross premiums	899	869	969	962	913	858	842
Comprehensive income (loss) in retention for underwriting year, in aggregate	(28)	(26)	36	64	54	45	(13)
Cumulative effect of investment revenues on accrued profit in retention for underwriting year	24	51	93	116	131	130	102

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

C. Analysis of the development of estimated liabilities for insurance contracts, net of deferred acquisition costs (contd.)

7. Composition of comprehensive income (loss) in compulsory motor branch

	Comprehensive loss for current underwriting year	Comprehensive income (loss) for previous underwriting years	Comprehensive loss for current underwriting year	Comprehensive income (loss) for previous underwriting years
	Gross		Retention	
	NIS million			
For the year ended December 31				
2021	**(45)**	**(24)**	**(56)**	**(13)**
2020	(41)	142	(45)	133
2019	(52)	258	(55)	245

8. Composition of comprehensive income (loss) in other liabilities branches

	Comprehensive loss for current underwriting year	Comprehensive income (loss) for previous underwriting years	Comprehensive loss for current underwriting year	Comprehensive income for previous underwriting years
	Gross		Retention	
	NIS million			
For the year ended December 31				
2021	**(1)**	**(81)**	**(28)**	**97**
2020	(22)	37	(58)	79
2019	(49)	73	(77)	105

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

D. Analysis of the development of estimated liabilities for insurance contracts

1. Gross in property and other branches (including motor property)

	As at December 31										
	Loss Year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	כ"סה
	NIS million, adjusted to CPI November 2021 *										
Claims paid (in aggregate) at end of year: **											
After first year	743	852	757	748	666	617	679	671	799	867	
After second year	998	1,260	1,011	1,048	901	795	949	927	1,054		
After three years	1,034	1,366	1,060	1,100	954	848	986	967			
After four years	1,047	1,447	1,087	1,123	966	872	993				
After five years	1,057	1,455	1,092	1,124	971	881					
After six years	1,058	1,456	1,098	1,124	972						
After seven years	1,059	1,457	1,098	1,126							
After eight years	1,059	1,459	1,097								
After nine years	1,060	1,456									
After ten years	1,066										
Accrued claims (including payments) at end of year: **											
After first year	1,136	1,470	1,147	1,142	1,023	937	1,061	1,021	1,133	1,335	
After second year	1,139	1,517	1,144	1,192	1,035	930	1,098	1,045	1,179		
After three years	1,126	1,476	1,127	1,213	1,035	922	1,070	1,048			
After four years	1,106	1,484	1,125	1,218	1,014	907	1,067				
After five years	1,103	1,485	1,119	1,191	1,008	908					
After six years	1,097	1,480	1,113	1,183	989						
After seven years	1,099	1,474	1,109	1,176							
After eight years	1,079	1,467	1,100								
After nine years	1,078	1,459									
After ten years	1,072										
Estimate of accrued costs, as at December 31, 2021	1,072	1,459	1,100	1,176	989	908	1,067	1,048	1,179	1,335	11,333
Aggregate payments up to December 31, 2021	1,066	1,456	1,097	1,126	972	881	993	967	1,054	867	10,479
Balance of outstanding claims	6	3	3	50	17	27	74	81	125	468	854
Outstanding claims for years up to and including 2011 underwriting year											16
Total as at December 31, 2021											870

* The estimate of claims for each year was calculated by loss years. The above amounts are presented in values adjusted for inflation to allow for a review of the development based on real values.

** Data for the last year that was added to each loss year, also include data for the outstanding claims and claims paid of Shirbit, from the date of acquisition of its activity (see Note 5A).

Note 19 - Liabilities for insurance contracts included in the non-life insurance segment (contd.)

D. Analysis of the development of estimated liabilities for insurance contracts (contd.)

2. In self-retention in property and other branches (including motor property)

	As at December 31										
	Loss year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	כ"סה
	NIS million, adjusted to CPI November 2021 *										
Claims paid (in aggregate) at end of year: **											
After first year	491	510	505	513	450	454	461	494	536	646	
After second year	628	651	636	650	564	554	583	626	651		
After three years	647	669	660	652	579	564	596	637			
After four years	654	679	671	654	583	567	597				
After five years	657	681	672	654	586	569					
After six years	657	681	673	653	585						
After seven years	658	681	674	654							
After eight years	657	681	673								
After nine years	658	680									
After ten years	657										
Accrued claims (including payments) at end of year: **											
After first year	696	725	706	693	618	626	641	643	679	909	
After second year	694	722	703	699	619	616	634	646	681		
After three years	688	705	694	686	613	596	618	652			
After four years	681	696	691	679	598	582	614				
After five years	678	697	689	665	598	580					
After six years	674	696	682	662	590						
After seven years	676	690	681	658							
After eight years	662	684	675								
After nine years	662	681									
After ten years	661										
Estimate of accrued costs, as at December 31, 2021	661	681	675	658	590	580	614	652	681	909	6,701
Aggregate payments up to December 31, 2021	657	680	673	654	585	569	597	637	651	646	6,349
Balance of outstanding claims	4	1	2	4	5	11	17	15	30	263	352
Outstanding claims for years up to and including 2011 underwriting year											15
Total as at December 31, 2021											367

* The estimate of claims for each year was calculated by loss years. The above amounts are presented in values adjusted to inflation to allow for a review of the development based on real values.

** Data for the last year that was added to each loss year, also include data for the outstanding claims and claims paid of Shirbit, from the date of acquisition of its activity (see Note 5A).

Note 20 - Additional information about the life assurance and long-term savings segment

A. Liabilities for insurance contracts and investment contracts by exposure

1. Data as at December 31, 2021

	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		
	Up to 1990*	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
	NIS million						
By insurance exposure							
Liabilities for insurance contracts							
Annuity without guaranteed annuity options	17	171	1	6,005	-	-	6,194
Annuity with guaranteed annuity options:							
Up to May 2001	4,691	16,505	-	-	-	-	21,196
From June 2001	-	3,410	12	13,698	-	-	17,120
Annuity in payment	2,329	2,237	1,310	2,910	-	-	8,786
Capital (excl. option for annuity)	1,166	4,097	-	4,320	-	-	9,583
Supplementary reserve for annuity**	608	529	-	-	-	-	1,137
Other risk components	52	465	-	741	1,518	243	3,019
Total for insurance contracts	8,863	27,414	1,323	27,674	1,518	243	67,035
Liabilities for investment contracts	-	-	193	19,448	-	-	19,641
Total	8,863	27,414	1,516	47,122	1,518	243	86,676
By financial exposure							
Yield-dependent	192	27,243	-	46,769	489	37	74,730
Not yield-dependent ***	8,671	171	1,516	353	1,029	206	11,946
Total	8,863	27,414	1,516	47,122	1,518	243	86,676

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

** In addition to a supplementary reserve for annuity which is included in the liabilities for insurance contracts, there is a future liability of NIS 887 million which will be recognized in profit and loss over the remaining life of the policy until the age of retirement. For additional information, see Note 37

*** Liabilities which form an exposure for the Company in respect of a guaranteed minimum yield

Note 20 - Additional information about the life assurance and long-term savings segment (contd.)

A. Liabilities for insurance contracts and investment contracts by exposure (contd.)

1. Data as at December 31, 2020

	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		
	Up to 1990*	Up to 2003	Not yield-dependent	Yield dependent	Personal lines	Group	Total
	NIS million						
By insurance exposure							
Liabilities for insurance contracts							
Annuity without guaranteed annuity options	22	152	1	4,708	-	-	4,883
Annuity with guaranteed annuity options:							
Up to May 2001	4,644	14,787	-	-	-	-	19,431
From June 2001	-	3,092	11	12,307	-	-	15,410
Annuity in payment	2,036	1,672	1,357	2,441	-	-	7,506
Capital (excl. option for annuity)	1,256	4,014	-	3,541	-	-	8,811
Supplementary reserve for annuity**	609	441	-	-	-	-	1,050
Other risk components	63	451	-	688	1,365	270	2,837
Total for insurance contracts	8,630	24,609	1,369	23,685	1,365	270	59,928
Liabilities for investment contracts	-	-	198	16,194	-	-	16,392
Total	8,630	24,609	1,567	39,879	1,365	270	76,320
By financial exposure							
Yield-dependent	183	24,441	-	39,511	410	37	64,582
Not yield-dependent ***	8,447	168	1,567	368	955	233	11,738
Total	8,630	24,609	1,567	39,879	1,365	270	76,320

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

** In addition to a supplementary reserve for annuity which is included in the liabilities for insurance contracts, there is a future liability of NIS 806 million which will be recognized in profit and loss over the remaining life of the policy until the age of retirement. For additional information, see Note 37

*** Liabilities which form an exposure for the Company in respect of a guaranteed minimum yield

Note 20 - Additional information about the life assurance and long-term savings segment (contd.)

B. Results by policy category

1. Data For the year ended December 31, 2021

	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:							
Masorti/Meurav	11	19	-	-	-	-	30
Savings component	49	638	-	-	-	-	687
Other	18	200	-	3,524	1,296	140	5,178
Total	78	857	-	3,524	1,296	140	5,895
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(8)
Total							5,887
Financial margin including management fees - in terms of comprehensive income (2)	117	542	76	370	-	-	1,105
Payments and changes in liabilities for insurance contracts, gross	680	4,490	47	6,752	684	108	12,761
Payments and change in liabilities for investment contracts (3)	-	-	5	1,767	-	-	1,772
Profit from life assurance business	63	407	20	47	116	27	680
Other comprehensive income from life assurance business	11	-	55	1	3	-	70
Total comprehensive income from life assurance business	74	407	75	48	119	27	750
Profit from pension and provident							157
Other comprehensive income from pension and provident							2
Total comprehensive income from life assurance and long-term savings	-	-	-	-	-	-	909
Amounts received for insurance contracts recognized directly in insurance reserves	-	-	14	3,925	-	-	3,939
Annualized premium for insurance contracts - new business (4)	-	-	-	158	219	-	377
Single premium for insurance contracts	-	3	-	1,784	-	-	1,787
Annualized premium for investment contracts - new business (4)	-	-	-	53	-	-	53
Single premium for investment contracts	-	-	14	3,690	-	-	3,704
Transfers to Company for insurance contracts and investment contracts (5)	-	-	-	923	-	-	923
Transfers from Company for insurance contracts and investment contracts (5)	17	493	-	1,422	-	-	1,932

1. The products issued until 1990 (including increases in respect thereof) are mainly guaranteed yield and are mostly 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 the 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 percentage multiplied by the average reserve. The financial margin for non-yield dependent policies that were issued from 2004 onwards also includes the effect of the change in the discounting rates used for calculating the insurance liabilities. In this instance, investment revenues also include the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.
3. The line "payments and changes in liabilities for investment contracts" only includes the amount of profits (losses) from investments for investment contracts.
4. Increases in existing policies are not included as part of the premium paid for new business, but as part of the performance of the original policy.
5. Not including internal movement.

Note 20 - Additional information about the life assurance and long-term savings segment (contd.)

B. Results by policy category (contd.)

2. Data For the year ended December 31, 2020

	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:							
Masorti/Meurav	14	22	-	-	-	-	36
Savings component	52	647	-	3,552	-	-	4,251
Other	20	208	-	266	1,192	150	1,836
Total	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
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 (3)	-	-	12	387	-	-	399
Profit from life assurance business	57	107	160	13	27	26	390
Other comprehensive income (loss) from life assurance business	25	1	(8)	2	6	1	27
Total comprehensive income from life assurance business	82	108	152	15	33	27	417
Profit from pension and provident							127
Other comprehensive loss from pension and provident							(2)
Total comprehensive income from life assurance and long-term savings	-	-	-	-	-	-	542
Amounts received for insurance contracts recognized directly in insurance reserves	-	-	66	2,397	-	-	2,463
Annualized premium for insurance contracts - new business (4)	-	-	-	123	194	-	317
Single premium for insurance contracts	-	2	-	2,075	-	-	2,077
Annualized premium for investment contracts - new business (4)	-	-	-	39	-	-	39
Single premium for investment contracts	-	-	66	2,179	-	-	2,245
Transfers to Company for insurance contracts and investment contracts (5)				709			709
Transfers from Company for insurance contracts and investment contracts (5)	13	338		896			1,247

1. The products issued until 1990 (including increases in respect thereof) are mainly guaranteed yield and are mostly 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 the 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 percentage multiplied by the average reserve. The financial margin for non-yield dependent policies that were issued from 2004 onwards also includes the effect of the change in the discounting rates used for calculating the insurance liabilities. In this instance, investment revenues also include the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.
3. The line "payments and changes in liabilities for investment contracts" only includes the amount of profits (losses) from investments for investment contracts.
4. Increases in existing policies are not included as part of the premium paid for new business, but as part of the performance of the original policy.
5. Not including internal movement.

Note 20 - Additional information about the life assurance and long-term savings segment (contd.)

B. Results by policy category (contd.)

3. Data For the year ended December 31, 2019

	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:							
Masorti/Meurav	17	25	-	-	-	-	42
Savings component	59	677	-	3,640	-	-	4,376
Other	23	219	-	285	1,161	158	1,846
Total	99	921	-	3,925	1,161	158	6,264
Premiums for amounts deposited in a consolidated company as part of a defined benefit plan for the Group's employees							(9)
Total							6,255
Financial margin including management fees - in terms of comprehensive income (2)	258	388	107	305	-	-	1,058
Payments and changes in liabilities for insurance contracts, gross	536	3,554	257	5,741	629	147	10,864
Payments and change in liabilities for investment contracts (3)	-	-	-	1,402	-	-	1,402
Profit (loss) from life assurance business	91	189	(203)	56	37	2	172
Other comprehensive income (loss) from life assurance business	118	3	91	8	22	5	247
Total comprehensive income (loss) from life assurance business	209	192	(112)	64	59	7	419
Profit from pension and provident							127
Other comprehensive income from pension and provident							7
Total comprehensive income from life assurance and long-term savings	-	-	-	-	-	-	553
Amounts received for insurance contracts recognized directly in insurance reserves	-	-	18	3,311	-	-	3,329
Annualized premium for insurance contracts - new business (4)	-	-	-	135	147	-	282
Single premium for insurance contracts	1	3	-	2,053	-	-	2,057
Annualized premium for investment contracts - new business (4)	-	-	-	50	-	-	50
Single premium for investment contracts	-	-	18	3,067	-	-	3,085
Transfers to Company for insurance contracts and investment contracts (5)				671			671
Transfers from Company for insurance contracts and investment contracts (5)	12	238		594			844

1 The products issued until 1990 (including increases in respect thereof) are mainly guaranteed yield and are mostly 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 the 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 percentage multiplied by the average reserve. The financial margin for non-yield dependent policies that were issued from 2004 onwards also includes the effect of the change in the discounting rates used for calculating the insurance liabilities. In this instance, investment revenues also include the change in the fair value of available-for-sale financial assets which is recognized in the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees which are calculated based on the yield and the average balance of the insurance reserves.
3 The line "payments and changes in liabilities for investment contracts" only includes the amount of profits (losses) from investments for investment contracts.
4. Increases in existing policies are not included as part of the premium paid for new business, but as part of the performance of the original policy.
5. Not including internal movement.

Note 21 - Insurance liabilities in the health insurance segment

A. Insurance liabilities by financial exposure

Data as at December 31, 2021

	Long-term care (LTC)		Other		
	Personal lines	Group	long-term	short-term	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Yield-dependent	600	5,186	-	-	5,786
Other	5,117	820	1,575	171	7,683
Total	5,717	6,006	1,575	171	13,469

Data As at December 31, 2020

	Long-term care (LTC)		Other		
	Personal lines	Group	long-term	short-term	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Yield-dependent	532	4,719*	-	-	5,251
Other	4,443	695*	1,770	161	7,069
Total	4,975	5,414	1,770	161	12,320

* Reclassified

Note 21 - Insurance liabilities in the health insurance segment (contd.)

B. Insurance liabilities by insurance exposure

Data as at December 31, 2021

	Long-term care (LTC)		Other		
	Personal lines	Group	long-term	short-term	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Annuity in payment	1,045	4,023	-	-	5,068
Other risk components	4,672	1,983	1,575	171	8,401
Total	5,717	6,006	1,575	171	13,469

Data as at December 31, 2020

	Long-term care (LTC)		Other		
	Personal lines	Group	long-term	short-term	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Annuity in payment	864	3,490	-	-	4,354
Other risk components	4,111	1,924	1,770	161	7,966
Total	4,975	5,414	1,770	161	12,320

The principal coverages included in other short-term health insurance are foreign workers, overseas travel, insurance for sick days, personal accidents up to 12 months, etc.

The principal coverages included in other long-term health insurance are medical expenses, personal accidents over 12 months, critical illness, dental treatment, etc.

Note 21 - Insurance liabilities in the health insurance segment (contd.)

C. Results by policy category

Data for the year ended December 31, 2021

	Long-term care (LTC)		Other**		
	Personal lines	Group*	long-term***	short-term***	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	763	1,577	2,650	379	5,369
Payments and changes in liabilities for insurance contracts, gross	1,004	2,232	1,459	271	4,966
Profit (loss) from health insurance business	(19)	(75)	514	11	431
Other comprehensive income from health insurance business	69	5	30	-	104
Total comprehensive income (loss) from health insurance business	50	(70)	544	11	535
Annualized personal lines premium - new business	-	-	167	-	167

** Of this, personal lines premiums in the amount of NIS 1,888 million and group premiums in the amount of NIS 1,141 million.

Data for the year ended December 31, 2020

	Long-term care (LTC)		Other**		
	Personal lines	Group*	long-term***	short-term***	Total
	NIS million	NIS million	NIS million	NIS million	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
Profit (loss) from health insurance business	9	(95)	189	(40)	63
Other comprehensive income (loss) from health insurance business	21	-	(7)	-	14
Total comprehensive income (loss) from health insurance business	30	(95)	182	(40)	77
Annualized personal lines premium - new business	-	-	219	-	219

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

Note 21 - Insurance liabilities in the health insurance segment (contd.)

C. Results by policy category (contd.)

Data for the year ended December 31, 2019

	Long-term care (LTC)		Other**		
	Personal lines	Group	long-term**	short-term***	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Gross premiums	755	1,377	2,327	472	4,931
Payments and changes in liabilities for insurance contracts, gross	1,429	1,754	1,289	307	4,779
Profit (loss) from health insurance business	(633)	(48)	290	13	(378)
Other comprehensive income from health insurance business	60	13	42	1	116
Total comprehensive income (loss) from health insurance business	(573)	(35)	332	14	(262)
Annualized personal lines premium - new business	46	-	180	-	226

* On December 31, 2017, most of the group long-term care policies were discontinued. The insureds for whom the group long-term care insurance was discontinued were eligible to enter into a personal lines long-term care policy with Harel Insurance, without underwriting (under conditions of insurance continuity), within the time period specified in the conditions of the insurance. The right to exercise this continuity of insurance was not expected to significantly affect the Company's financial results in the Reporting Period. The Company believes that in view of the discontinuation of group long-term insurance, the losses arising from previous periods will moderate significantly.

** Of this, personal lines premiums in the amount of NIS 1,829 million and group premiums in the amount of NIS 970 million.

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

Note 22 - Changes in liabilities for yield-dependent and non-yield-dependent insurance contracts, investment contracts and health insurance

	Life assurance and long-term savings			
	Insurance contracts	Investment contracts	Total	Health insurance
	NIS million	NIS million	NIS million	NIS million
Balance as at January 1, 2020	56,949	16,376	73,325	11,577
Interest, linkage differences and investment profit (1)	2,522	389	2,911	581
Increase for premiums recognized in liabilities (2)	5,186	2,463	7,649	108
Decrease for management fees from accrual	(473)	(126)	(599)	-
Decrease for claims, redemptions and end of period	(3,047)	(2,710)	(5,757)	-
Changes on account of change in assumptions (4) (5)	(217)	-	(217)	11
Other changes (3)	(790)	-	(790)	43
Balance as at December 31, 2020	**60,130**	**16,392**	**76,522**	**12,320**
Interest, linkage differences and investment profit (1)	**7,511**	**1,774**	**9,285**	**1,048**
Increase for premiums recognized in liabilities (2)	**4,587**	**3,939**	**8,526**	**(160)**
Decrease for management fees from accrual	**(778)**	**(138)**	**(916)**	**-**
Decrease for claims, redemptions and end of period	**(3,026)**	**(2,326)**	**(5,352)**	**-**
Changes on account of change in assumptions (4) (5)	**-**	**-**	**-**	**(300)**
Other changes (3)	**(1,162)**	**-**	**(1,162)**	**561**
Balance as at December 31, 2021	**67,262**	**19,641**	**86,903**	**13,469**

(1) Interest, linkage differences and profit (loss) on investments - this item includes interest, linkage differences and investment profit (loss) for the balance at the beginning of the year, plus interest, linkage differences and investment profit (loss) in respect of premiums for saving only which were recorded during the Reporting Period.

(2) An increase for premiums recognized in liabilities - this premium does not include the premium recorded as an income for the Group. The premium includes the premium for saving and part of the premium on products with a fixed premium, net of management fees collected as a percentage of the premium. In the health segment, the premium includes the premium recognized in the reserve, net of the cost of the risk.

(3) Other changes - this item includes changes in the reserve for outstanding claims, reserve for time-based claims, IBNR, annuity in payment, etc. (based on the assumptions used at the end of the previous year. This item also includes the effect of interest, linkage differences and investment profit that was not included under "interest, linkage differences and investment profit" such as: interest, linkage differences, and investment profit on claims payments and premiums that are not saving, and reducing future profitability attributed to insurance liabilities in respect of the acquisition of the Eliahu insurance portfolio.

(4) Life assurance and long-term savings segment - the changes in 2020 are attributable to completion of a study regarding the age of retirement and exercising of annuity combined with the age-dependent model, which reduced the insurance liabilities by NIS 217 million. For additional information, see Note 37.

(5) Health segment - the changes in 2021 were affected by the completion of a study relating to the cost of claims in the personal lines health sector that led to a reduction of the insurance liabilities by NIS 300 million before tax. The changes in 2020 were affected by a study on cancellations in the personal-lines health sector, which increased the insurance liabilities by NIS 30 million and in the long-term care sector which reduced the insurance liabilities by NIS 19 million. For additional information, see Note 37.

Note 23 - Assets and Liabilities for Employee Benefits

Employee benefits include short-term benefits, post-employment benefits, other long-term benefits and severance benefits.

Post-employment benefits

Israel labor and severance pay laws require the Company to make severance payments to an employee upon dismissal or retirement or to make regular deposits with a defined contribution plan, under Section 14, as noted below. The Company's liabilities for said are treated as post-employment benefits.
The calculation of the Company's liability for employee benefits is based on a binding employment agreement and on the employees' salaries, which, in the opinion of management, create the right to receive severance compensation.

Post-employments benefits are generally financed by deposits to a defined benefit plan or to a defined contribution plan, as detailed below:

Defined contribution plans
Part of the severance payments are subject to Section 14 of Severance Pay Law, 1963, and accordingly, regular deposits by the Company with pension funds and / or insurance policies with insurance companies, exempt it from any additional liability to employees, for whom deposits were made, as noted above. These deposits and deposits with provident funds constitute defined contribution plans. Expenses incurred in respect of these defined contribution plans in 2021, 2020 and 2019 amounted to NIS 45 million, NIS 44 million and NIS 38 million, respectively, and were included within general and administrative expenses.

Defined benefit plans
Part of the severance payments which are not covered by deposits with the defined contribution plan, as stated above, are treated by the Company as a defined benefits plan, under which a liability for employee benefit is recorded and for which the Group deposits funds with central severance pay funds and appropriate insurance policies.

Plan assets
The plan's assets include assets held by a long-term employee benefit fund (provident fund for salaried employees and pension funds) as well as appropriate insurance policies.

A. Composition of liabilities for employee benefits, net

	As at December 31	
	2021	**2020**
	NIS million	**NIS million**
Liability for funded defined benefit plan	**389**	343
Liabilities for non-funded defined benefit plan - see Section C below	**31**	30
Net of fair value of plan's assets	**(119)**	(108)
Total liabilities, net, for defined benefit plans	**301**	265

Note 23 - Assets and Liabilities for Employee Benefits (contd.)

B. Information about defined benefit plans

1. Changes in the present value of the liability and the fair value of the assets for a defined benefit plan

	Obligation for a defined benefit plan		Fair value of plans' assets		Total liability (asset), net recognized for a defined benefit plan	
	2021	2020	2021	2020	2021	2020
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Balance as at January 1	**373**	392	**108**	110	**265**	282
Expenses recognized in profit or loss						
Cost of interest	**7**	11	**3**	2	**4**	9
Cost of ongoing service	**21**	18	**-**	-	**21**	18
Movement in wage tax	**2**	-*	**-**	-	**2**	-*
Expenses (income) recognized in other comprehensive income						
Actuarial loss (profit), attributed to changes in financial assumptions	**15**	(3)	**1**	1	**14**	(4)
Other actuarial profit	**(3)**	(9)	**-**	-	**(3)**	(9)
Actual yield net of interest income	**15**	(4)	**9**	(1)	**6**	(3)
Additional movements						
Benefits paid	**(27)**	(37)	**(6)**	(8)	**(21)**	(29)
Employer's contributions to plan	**-**	-	**3**	4	**(3)**	(4)
Transfers	**17**	5	**1**	-	**16**	5
Balance as at December 31	**420**	373	**119**	108	**301**	265

* Less than NIS 1 million

2. Possible, reasonable changes in the reporting date for one of the actuarial assumptions, assuming that the other assumptions remain unchanged, affect the liability for a defined benefit as follows:

	As at December 31, 2021	
	One-percent increase	One-percent decrease
	NIS million	NIS million
Rate of future wage increases	**17**	**(12)**
Departure rates	**(6)**	**8**
Discount rate	**(13)**	**15**

	As at December 31, 2020	
	One-percent increase	One-percent decrease
	NIS million	NIS million
Rate of future wage increases	15	(10)
Departure rates	(4)	5
Discount rate	(11)	13

Note 23 - Assets and Liabilities for Employee Benefits (contd.)

B. Information about defined benefit plans (contd.)

3. Key actuarial assumptions used to determine liability for the defined benefit plan

	2021	2020	2019
	%	%	%
Discount rate	**0.01-(0.37)**	0.49-0.78	0.22-0.58
Expected rate of salary increases (weighted average)	**2.3**	2.3	2.3

4. Additional information

a. Actual return on the plans' assets in 2021 is 13.2% (in 2020 - (0.1% and in 2019, 4.4%).

b. The Group's estimate of the expected deposits in 2022 in a funded, defined benefit plan is NIS 2 million.

c. The Group's estimate of the plan's duration at the end of the Reporting Period is 6.64 years and for 2020 is 5.95 years.

C. Liability for a non-funded defined benefit plan

	As at December 31	
	2021	2020
	NIS million	NIS million
Liability for early retirement	**10**	9
Liability for adjustment period	**21**	21*
	31	30

* Reclassified

Note 24 - Trade and other payables

	As at December 31	
	2021	2020
	NIS million	NIS million
Employees and other liabilities for wages and salaries	133	114
Payable expenses	360*	189
Suppliers and service providers	231	208
Government authorities and institutions	90	80
Reinsurer's share of DAC	98	89
Lease liabilities	80	74
	992	754
Insurance companies and brokers:		
Reinsurers' deposits	1,948	1,481
Other accounts	371	344
Total insurance companies and brokers	2,319	1,825
Insurance agents	390	389
Policyholders and members	249	204
Profit sharing for policyholders	33	40
Prepaid premiums	185	193
Interest and principal due - subordinated liability notes	6	5
Liabilities for investment in securities	596	372
Other	123	133
	1,582	1,336
Total other payables	4,893	3,915

For information about the assets and liabilities allocated by linkage bases, see Note 37.

* Of which NIS 100 million in respect of a dividend approved by the Company's Board of Directors on November 29, 2021 which was paid after the reporting date, on January 3, 2022. See Note 16.

Note 25 - Financial liabilities

This note provides information on the contractual terms of financial liabilities. Additional information regarding the Group's exposure to interest, foreign currency, and liquidity risks is presented in Note 37 - Risk management.

A. Financial liabilities

	Book value		Fair value	
	As at December 31		As at December 31	
	2021	2020	2021	2020
	NIS million	NIS million	NIS million	NIS million
Financial liabilities presented at amortized cost				
Bank loans *	**375**	453	**376**	474
Short-term credit from banks and others	**531**	1	**531**	1
Bonds *	**6,158**	5,506	**6,615**	6,027
	7,064	5,960	**7,522**	6,502
Financial liabilities stated at fair value through profit or loss				
Derivatives (1)	**165**	288	**165**	288
Short selling (2)	**3,216**	1,546	**3,216**	1,546
	3,381	1,834	**3,381**	1,834
Total financial liabilities	**10,445**	7,794	**10,903**	8,336
Subordinated liability notes issued for the purpose of compliance with the capital requirements	**5,137**	4,878		

* Including subordinated liability notes.

(1) Derivative instruments held to cover insurance liabilities as part of the Group's asset liability policy ("ALM"). Of the above, NIS 103 million and NIS 181 million at December 31, 2021 and 2020, respectively, are included within non-yield-dependent liabilities, and the balance is included in the Group's yield-dependent liabilities. Most of the amount stems from the management of exposure to foreign currency and the CPI by means of derivatives. Against these liabilities, the financial institutions deposited collateral under 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 275 million and NIS 469 million at December 31, 2021 and 2020, respectively, as collateral to cover its liabilities arising from this activity.

(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 1,884 million as part of this activity. The outstanding backing amounts as at December 31, 2021 are NIS 3,047 million.

B. The interest rates used to determine the fair value

	As at December 31	
	2021	2020
In percent		
Loans	**1.89**	1.9
Bonds	**1.02**	1.13

Note 25 - Financial liabilities (contd.)

C. Financial liabilities presented at amortized cost – additional information

Category of liability	Category of capital	Date of issue	Par value on date of issue (NIS M)	Issuing entity	Rating company	Rating	Linkage conditions	Marketable / non-marketable	Type of interest	% interest	Book value as at December 31, 2021 (NIS M)	Fair value as at December 31, 2021 (NIS M)	Dates of the principal payments	Dates of the interest payments	Final maturity date	Right to early redemption	Compliance with financial covenants
Loans from banks																	
Loan		05/09/2021	375	Bank			Shekel	Non-marketable	Fixed	2.37%	375	376	Semi-annual	Semi-annual	05/09/2035		See Section H(8)a
Total loans from banks											375	376					
Short-term credit from banks and others																	
Loan		02/12/2021	92	Bank			Shekel	Non-marketable	Variable	Prime	92	92	monthly	monthly	30/01/2022		See Section H(8)c
Loan		30/12/2021	85	Bank			Shekel	Non-marketable	Variable	Prime - 0.15%	85	85	monthly	monthly	30/01/2022		See Section H(8)c
On-call loan			354	Bank			Shekel	Non-marketable	Variable	0.7%	354	354	On-call	On-call	-		
Total Short-term credit from banks and others											531	531					
Bonds																	
Series 6 bonds	Hybrid Tier-3	04/04/2012 08/05/2012 01/01/2013 29/01/2014 05/06/2014	240	Harel Issuing	S&P Maalot	AA-	Shekel linked	marketable	Fixed	3.85%	255	277	On maturity date	Semi-annual	31/05/2025	31/05/2023	
Series 7 bonds	Hybrid Tier-3	04/04/2012 01/01/2013 20/07/2013 29/01/2014 05/06/2014	250	Harel Issuing	S&P Maalot	AA-	Shekel linked	marketable	Fixed	3.85%	268	299	On maturity date	Semi-annual	31/05/2026	31/05/2024	
Series 8 bonds	Hybrid Tier-3	25/06/2013 29/01/2014	225	Harel Issuing	S&P Maalot	AA-	Shekel linked	marketable	Fixed	2.8%	233	237	On maturity date	Semi-annual	31/05/2024	31/05/2022	
Series 9 bonds	Hybrid Tier-2	07/01/2015 19/01/2017	295	Harel Issuing	S&P Maalot	AA-	Shekel linked	marketable	Fixed	2.4%	289	348	On maturity date	Semi-annual	31/12/2028	30/06/2022 31/12/2025	
Series 10 bonds	Hybrid Tier-2	07/01/2015 19/01/2017	295	Harel Issuing	S&P Maalot	AA-	Shekel linked	marketable	Fixed	2.4%	287	355	On maturity date	Semi-annual	31/12/2029	30/06/2022 31/12/2026	
Series 11 bonds	Hybrid Tier-2	02/09/2015 21/09/2015	300	Harel Issuing	S&P Maalot	AA-	Shekel	marketable	Fixed	4.36%	297	348	On maturity date	Semi-annual	31/12/2030	30/06/2022 31/12/2027	
Series 12 bonds	Hybrid Tier-2	03/04/2016 25/07/2016	240	Harel Issuing	S&P Maalot	AA-	Shekel	marketable	Fixed	3.95%	235	274	On maturity date	Semi-annual	31/12/2031	30/06/2022 31/12/2028	
Series 13 bonds	Hybrid Tier-2	03/04/2016 25/07/2016	240	Harel Issuing	S&P Maalot	AA-	Shekel	marketable	Fixed	3.95%	235	276	On maturity date	Semi-annual	31/12/2032	30/06/2022 31/12/2029	
Series 14 bonds	Tier-2	25/01/2018 05/12/2018 02/12/2019	729	Harel Issuing	S&P Maalot	AA-	Shekel	marketable	Fixed	3.05%	729	773	On maturity date	Semi-annual	31/12/2033	31/12/2022 31/12/2030	
Series 15 bonds	Tier-2	25/01/2018 05/12/2018 13/12/2020	683	Harel Issuing	S&P Maalot	AA-	Shekel	marketable	Fixed	3.05%	681	718	On maturity date	Semi-annual	31/12/2034	31/12/2022 31/12/2031	
Series 16 bonds	Tier-2	18/04/2019	600	Harel Issuing	S&P Maalot	AA-	Shekel	marketable	Fixed	2.91%	596	645	On maturity date	Semi-annual	30/06/2029	30/06/2024 30/06/2026	
Series 17 bonds	Tier-2	02/12/2019	350	Harel Issuing	S&P Maalot	AA-	Shekel	marketable	Fixed	1.79%	347	351	On maturity date	Semi-annual	31/12/2030	31/12/2025 31/12/2027	
Series 18 bonds	Tier-2	14/12/2021	694	Harel Issuing	S&P Maalot	AA-	Shekel	marketable	Fixed	2.63%	685	688	On maturity date	Semi-annual	31/12/2035	31/12/2030 31/12/2032	

Note 25 - Financial liabilities (contd.)

C. Financial liabilities presented at amortized cost – additional information (contd.)

Category of liability	Category of capital	Date of issue	Par value on date of issue (NIS M)	Issuing entity	Rating company	Rating	Linkage conditions	Marketable / non-marketable	Type of interest	% interest	Book value as at December 31, 2021 (NIS M)	Fair value as at December 31, 2021 (NIS M)	Dates of the principal payments	Dates of the interest payments	Final maturity date	Right to early redemption	Compliance with financial covenants
Harel Deposit Series 1 bond		05/08/2019 11/09/2019 07/11/2019 10/02/2020 07/02/2021	656	Harel Exchange Traded Deposit Ltd.	Midroog	AAA	Shekel	marketable	Variable	Bank of Israel interest + 0.24%	662	664	On maturity date	Annual	04/08/2024	At any given moment with 37 days advance notice	
Harel Deposit Series 2 bond		23/01/2020	110	Harel Exchange Traded Deposit Ltd.	Midroog	AAA	Shekel	marketable	Fixed	1.2%	112	111	On maturity date	Annual	24/01/2027		
Harel Investments Series 1 bond		26/07/2021	250	Harel Investments	Midroog	Aa2	Shekel	marketable	Fixed	1.95%	247	251	On maturity date	Semi-annual	31/12/2035	31/03/2022	See Section H4
Total bonds											6,158	6,615					
Total											7,064	7,522					

The bonds include a condition whereby Harel Financing & Issuing may make early repayment of the bonds, or part thereof. The exercising of this right is subject to meeting one of the following conditions: (a) obtaining the Commissioner's approval; or (b) Harel Insurance must have surplus capital so that the recognized capital after the repayment is 120% of the required capital; or (c) concurrent with the early repayment, Harel Financing & Issuing will issue a capital instrument of the same or superior quality.

Note 25 - Financial liabilities (contd.)

C. Financial liabilities presented at amortized cost – additional information (contd.)

Category of liability	Category of capital	Date of issue	Par value on date of issue (NIS M)	Issuing entity	Rating company	Rating	Linkage conditions	Marketable / non-marketable	Type of interest	% interest	Book value as at December 31, 2021 (NIS M)	Fair value as at December 31, 2021 (NIS M)	Dates of the principal payments	Dates of the interest payments	Final maturity date	Right to early redemption
Bank loans																
Loan		25/11/2014	164	Bank			Shekel	Non-marketable	Fixed	3.14%	65	66	Semi-annual	Semi-annual	25/11/2022	
Loan		14/12/2014	250	Bank			Shekel	Non-marketable	Fixed	4.4%	225	245	Semi-annual	Semi-annual	14/12/2026	
Loan		25/11/2019	100	Bank			Shekel	Non-marketable	Variable	Bank of Israel interest + 0.3%	86	85	Semi-annual	Semi-annual	25/11/2026	
Loan		25/11/2019	90	Bank			Shekel	Non-marketable	Fixed	2.55%	77	78	Semi-annual	Semi-annual	25/11/2026	
Total loans from banks											453	474				
Loans from non-bank corporations																
Loan		07/03/2013	100	Institutional investor			Shekel linked	Non-marketable	Fixed	2.70%	-	-	Annual	Semi-annual	07/03/2019	
Loans from related parties								Non-marketable								
Loan		18/05/2015	10	interested party			Shekel	Non-marketable	Variable	3.05%	-	-	On maturity date	On maturity date	18/05/2020	
Loan			-	interested party			Shekel	Non-marketable			-	-				
Loan		18/08/2015	-	interested party			Shekel	Non-marketable	Variable	0.00%	-	-	Annual	Annual	17/08/2020	
Loan			1	interested party			Shekel			4.10%	-	-	On maturity date	On maturity date		
Loan			-	interested party			Shekel				-	-				
Loan			10	interested party			Shekel			3.05%	-	-	On maturity date			
Loan			15	interested party			Shekel			3.05%	-	-	On maturity date	On maturity date		
Loan		30/12/2019	4,000	interested party			Shekel	Non-marketable	Fixed	1.92%	-	-	Annual	monthly	30/12/2020	
Short-term credit from banks and others																
On-call loan			-	Bank			Shekel	Non-marketable	Variable	Prime-0.5%	1	1	On-call	On-call	-	
Bonds																
Series 1 bonds	Subordinated Tier-2	28/11/2006	650	Harel Issuing	Maalot	AA	Shekel linked	marketable	Fixed	4.65%	31	32	Annual	Annual	31/12/2021	-
Series 5 bonds	Hybrid Tier-2	25/05/2010 31/08/2011	399	Harel Issuing	Maalot	AA-	Shekel linked	marketable	Fixed	3.9%	432	438	On maturity date	Semi-annual	31/05/2024	31/05/2021
Series 6 bonds	Hybrid Tier-3	04/04/2012 08/05/2012 01/01/2013 29/01/2014 05/06/2014	240	Harel Issuing	Maalot	AA-	Shekel linked	marketable	Fixed	3.85%	250	271	On maturity date	Semi-annual	31/05/2025	31/05/2023
Series 7 bonds	Hybrid Tier-3	04/04/2012 01/01/2013 20/07/2013 29/01/2014 05/06/2014	250	Harel Issuing	Maalot	AA-	Shekel linked	marketable	Fixed	3.85%	263	293	On maturity date	Semi-annual	31/05/2026	31/05/2024
Series 8 bonds	Hybrid Tier-3	25/06/2013 29/01/2014	225	Harel Issuing	Maalot	AA-	Shekel linked	marketable	Fixed	2.8%	227	235	On maturity date	Semi-annual	31/05/2024	31/05/2022
Series 9 bonds	Hybrid Tier-2	07/01/2015 19/01/2017	295	Harel Issuing	Maalot	AA-	Shekel linked	marketable	Fixed	2.4%	280	331	On maturity date	Semi-annual	31/12/2028	30/06/2021 31/12/2025
Series 10 bonds	Hybrid Tier-2	07/01/2015 19/01/2017	295	Harel Issuing	Maalot	AA-	Shekel linked	marketable	Fixed	2.4%	278	336	On maturity date	Semi-annual	31/12/2029	30/06/2021 31/12/2026

Note 25 - Financial liabilities (contd.)

C. Financial liabilities presented at amortized cost – additional information (contd.)

Category of liability	Category of capital	Date of issue	Par value on date of issue (NIS M)	Issuing entity	Rating company	Rating	Linkage conditions	Marketable / non-marketable	Type of interest	% interest	Book value as at December 31, 2021 (NIS M)	Fair value as at December 31, 2021 (NIS M)	Dates of the principal payments	Dates of the interest payments	Final maturity date	Right to early redemption
Bonds (contd.)																
Series 11 bonds	Hybrid Tier-2	02/09/2015 21/09/2015	300	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	4.36%	297	359	On maturity date	Semi-annual	31/12/2030	30/06/2021 31/12/2027
Series 12 bonds	Hybrid Tier-2	03/04/2016 25/07/2016	240	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.95%	235	283	On maturity date	Semi-annual	31/12/2031	31/03/2021 31/12/2028
Series 13 bonds	Hybrid Tier-2	03/04/2016 25/07/2016	240	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.95%	234	283	On maturity date	Semi-annual	31/12/2032	31/03/2021 31/12/2029
Series 14 bonds	Tier-2	25/01/2018 05/12/2018 02/12/2019	729	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.05%	728	795	On maturity date	Semi-annual	31/12/2033	31/12/2022 31/12/2030
Series 15 bonds	Tier-2	25/01/2018 05/12/2018 13/12/2020	683	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	3.05%	681	736	On maturity date	Semi-annual	31/12/2034	31/12/2022 31/12/2031
Series 16 bonds	Tier-2	18/04/2019	600	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	2.91%	595	653	On maturity date	Semi-annual	30/06/2029	30/06/2024 30/06/2026
Series 17 bonds	Tier-2	02/12/2019	350	Harel Issuing	Maalot	AA-	Shekel	Marketable	Fixed	1.79%	347	354	On maturity date	Semi-annual	31/12/2030	31/12/2025 31/12/2027
Harel Deposit Series 1 bond		05/08/2019 12/09/2019 07/11/2019 10/02/2020	515	Harel Exchange Traded Deposit Ltd.	Midroog	AAA	Shekel	Marketable	Variable	Bank of Israel interest + 0.24%	518	518	On maturity date	Annual	04/08/2024	At any given moment with 37 days advance notice
Harel Deposit Series 2 bond		22/01/2020	110	Harel Exchange Traded Deposit Ltd.	Midroog	AAA	Shekel	Marketable	Fixed	1.2%	110	110	On maturity date	Annual	23/01/2027	
Total bonds											5,506	6,027				
Total											5,960	6,502				

The bonds include a condition whereby Harel Finance & Issues may make early repayment of the bonds, or part thereof. The exercising of this right is subject to meeting one of the following conditions: (a) obtaining the Commissioner's approval; or (b) Harel Insurance must have surplus capital so that the recognized capital after the repayment is 120% of the required capital; or (c) concurrent with the early repayment, Harel Finance & Issues will issue a capital instrument of the same or superior quality.

Note 25 - Financial liabilities (contd.)

D. Financial liabilities measured at fair value hierarchy for disclosure purposes only

	As at December 31, 2021		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Bonds	6,615	-	6,615
Short-term credit from banks and others	-	531	531
Bank loans	-	376	376
Total	6,615	907	7,522

	As at December 31, 2020		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Bonds	6,027	-	6,027
Short-term credit from banks and others	-	1	1
Bank loans	-	474	474
Total	6,027	475	6,502

E. Financial liabilities presented at amortized cost – information about linkage and interest

	Effective interest	
	As at December 31	
	2021	2020
Linkage bases		
CPI-linked	3.3%	3.5%
Shekel	2.5%	3.0%

Note 25 - Financial liabilities (contd.)

F. Fair value hierarchy of financial liabilities presented at fair value via profit or loss

The table below presents financial liabilities presented at fair value. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical instruments
Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
Level 3: inputs that are not based on observable market data (unobservable inputs).

	As at December 31, 2021		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives	11	154	165
Short selling	3,020	196	3,216
Total financial liabilities stated at fair value through profit or loss	3,031	350	3,381

	As at December 31, 2020		
	Level 1	Level 2	Total
	NIS million	NIS million	NIS million
Derivatives	4	284	288
Short selling	1,466	80	1,546
Total financial liabilities stated at fair value through profit or loss	1,470	364	1,834

G. Financial liabilities presented at fair value – interest rates used to determine the fair value

The fair value of the derivatives is measured using assessment techniques which include a method for discounting future cash flows determined by a company that provides interest rate quotes.

Note 25 - Financial liabilities (contd.)

H. Additional Information

1. Maalot rating

On March 1, 2021, Maalot announced that the capital assessment and rating ('ilAA+/ stable') for Harel Insurance remained unchanged after the announcement by Harel Insurance of the restructuring and dividend distribution policy, as specified in Note 16.

On November 30, 2021, Maalot announced affirmation of the 'ilAA+/ stable' rating for Harel Insurance. Maalot's announcement also included affirmation of the 'ilAA' rating for Series 1 liability notes of Harel Finance & Issues (a subsidiary of Harel Insurance). Additionally, an 'ilAA-' rating was affirmed for tier-2 and tier-3 capital issued by Harel Finance & Issues as part of Series 6-17 bonds. The rating outlook remained stable.

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 subordinated tier-2 capital (Series 1) and subordinated liability notes (hybrid tier-3 capital), Series 6-8 bonds issued by Harel Finance & Issues, a wholly owned subsidiary of Harel Insurance, and ratings of 'Aa3.il(hyb)' for subordinated liability notes (secondary capital and tier-2 capital) that were issued by Harel Finance & Issues as part of Series 5, 9 - 17 bonds, rating outlook stable.

On February 1, 2022, 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 subordinated tier-2 capital (Series 1) and subordinated liability notes (hybrid tier-3 capital), Series 6-8 bonds issued by Harel Finance & Issues, a wholly owned subsidiary of Harel Insurance, and ratings of 'Aa3.il(hyb)' for subordinated liability notes (secondary capital and tier-2 capital) that were issued by Harel Finance & Issues as part of Series 5, 9 - 17 bonds, rating outlook stable.

On March 2, 2022, after the reporting date, Midroog announced affirmation of the Company's rating of Aa2.il rating outlook stable as well as affirmation of the Aa2.il rating for Series 1 bonds issued by the Company.

3. Early repayment of bank loans

a) a) On November 25, 2021, the Company made early repayment of a bank loan in the amount of NIS 33 million. As a result of the foregoing, the Company recorded a loss from early repayment of an immaterial amount.

b) On September 5, 2021, the Company made early repayment of NIS 71 million, NIS 79 million and NIS 216 million of bank loans. As a result of the foregoing, the Company recorded a loss from early repayment in the total amount of NIS 16 million.

4. Issue of Series 1 bonds of the Company

In the Reporting Period, the Company published a shelf offering report according to a shelf prospectus from July 23, 2020. As part of the shelf offering report, the Company issued NIS 250 million par value bonds (Series 1) by way of the issue of a new series, for a total (gross) consideration of NIS 250 million.

The bonds were offered to the public in a uniform offering by way of a tender for the rate of interest that the Series 1 bonds will bear. The annual rate of interest determined in the tender is 1.95%, and accordingly the semi-annual interest rate payable for the unsettled balance of the Series 1 bonds is 0.975%.

Note 25 - Financial liabilities (contd.)

H. Additional Information (contd.)

4. Issue of Series 1 bonds of the Company (contd.)

The Series 1 bonds are due for repayment (principal) in 28 semi-annual installments, from June 30, 2022 through December 31, 2035 so that each of the first 27 payments will constitute 3.57% of the nominal value of the principal and the twenty-eighth and final payment will be 3.61% of the nominal value of the principal.

As part of the deed of trust of the Company's Series 1 bonds, the Company undertook that as long as the Series 1 bonds have not been fully repaid, it will not create a floating charge on all its assets, unless it received, in advance, the consent of the bond holders or, alternatively, at that date the Company creates such a lien for the Series 1 bond holders as well, of the same ranking. Additionally, regarding the Series 1 bonds, the Company undertook limitations pertaining to the distribution of a dividend, expansion of the Series 1 bond series and it also undertook to meet financial covenants in which the Company's equity, according to its financial statements, will not be less than NIS 3 billion and that the Company's net debt to asset ratio according to its separate financial statements will not be more than 50 percent. For additional information see the shelf offering report. At December 31, 2021, and at the date of publication of the financial statements, the Company is in compliance with the prescribed financial covenants.

For the purpose of this issuance, on July 5, 2021, Midroog announced a rating of Aa2.il, stable outlook, for the issue of the Series 1 bonds in the amount of NIS 250 million par value. Additionally, on March 2, 2022, after the reporting date, Midroog announced affirmation of an Aa2.il rating for the bonds, as noted.

5. Issue of Series 18 bonds of Harel Finance & Issues

In December 2021, Harel Finance & Issues raised NIS 694 million as part of a public offering of a new series of bonds (Series 18 bonds) in accordance with a shelf offering report of Harel Finance & Issues dated December 12, 2021, which was published according to a shelf prospectus of Harel Finance & Issues bearing the date February 25, 2020 ("the Shelf Offering Report" and "Shelf Prospectus", respectively). Under the conditions set out in the shelf prospectus and the shelf-offering report, the amount raised will be deposited with Harel Insurance, to be used at its discretion and for which it is responsible, and Harel Insurance has an undertaking towards the trustee for the bonds to comply with the payment conditions of the bonds. Additionally, the issued bonds were recognized by the Commissioner of the Capital Market, Insurance and Savings Authority as a tier-2 capital instrument held by Harel Insurance, all as detailed in the Shelf Prospectus and in the Shelf Offering Report.

6. Final redemption of Series 1 liability notes of Harel Finance & Issues

On December 31, 2021, final redemption was made of NIS 25,332,917 nominal value Series 1 liability notes of Harel Finance & Issues Following this redemption, no liability notes of this series remained in the Company's register.

7. Financial covenants

(a) On September 5, 2021, the Company took a bank loan in the amount of NIS 375 million bearing fixed annual interest of 2.37%. The loan principal and interest are payable in 28 consecutive and equal semi-annual installments from March 5, 2022. As part of the aforementioned loan agreement, the Company undertook to comply with the following financial covenants: (1) an undertaking not to pledge material assets; (2) not to transfer control in material companies; (3) the ratio of net financial debt to investment in investee companies will not be more than 0.35; (4) the ratio of net financial debt to equity will not be more than 0.5; (5) cash balances, investments in Makam (short-term), shekel and/or government funds and government bonds must be maintained in the amount of NIS 100 million; if the Company falls below this amount, it undertakes to deposit within seven

Note 25 - Financial liabilities (contd.)

H. Additional Information (contd.)

7. Financial covenants (contd.)

business days from the date of breach of this undertaking, shekel deposits the principal of which is not less at any time than the amount equal to the limit of the current maturities (principal and interest) for the 12 months following the date of the breach. At December 31, 2021, and at the date of publication of the financial statements, the Company is in compliance with the prescribed financial covenants.

(b) On financial covenants in respect of Series 1 bonds issued by the Company, see Note 25 above.

(c) In December 2021, a subsidiary of the Company took short-term loans from a bank in the total amount of NIS 92 million bearing fixed annual interest of 1.6% and a short-term loan from a bank of NIS 85 million, renewable every month and bearing fixed interest of 1.45% per year. Within the framework of these loans, the subsidiary undertook to comply with certain financial covenants, as follows: (1) the subsidiary's tangible equity, according to its definition in the loan agreement, shall not, at any time, be less than NIS 25 million; (2) the percentage of the subsidiary's tangible equity, according to its definition in the loan agreement, shall not, at any time, be more than 2.5%; (3) the rate of the subsidiary's financial debt to the bank from the subsidiary's financial debt, according to its definition in the loan agreement, shall not, at any time be more than 40%. At December 31, 2021, and at the date of publication of the financial statements, the subsidiary is in compliance with the prescribed financial covenants.

8. Full, early redemption of Series 5 bonds of Harel Finance & Issues

On May 11, 2021, 2021, the board of directors of Harel Finance & Issues, a wholly owned subsidiary of Harel Insurance, resolved to make full, early redemption, of the Series 5 bonds it had issued, which was implemented on May 31, 2021.

9. Bonds issued by a second-tier subsidiary of the 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 issue were NIS 221 million. In the reporting date, a request was received to perform a forced sale in the amount of NIS 78 million par value. The sale accounts for 10.62% of the total series. At the date of approval of the financial statements, the Company has worked to perform the sale in accordance with the provisions of the Deed of Trust.

On March 9, 2022, after the Reporting Period, Harel Exchange Traded Deposit issued an additional NIS 63 million par value Series 1 bonds to the public. The proceeds received for the bond issue amounted to NIS 64 million.

I. Unamortized issuance expenses

The outstanding liability notes at December 31, 2021 and 2020, are net of issuance and discounting expenses, net, for which the outstanding amount is NIS 57 and NIS 50 million for 2021 and 2020, respectively (issuance and discounting expenses are amortized according to the effective interest method.

Note 25 - Financial liabilities (contd.)

J. Maturity dates

	As at December 31	
	2021	**2020**
	NIS million	
First year	**799**	510
Second year	**299**	335
Third year	**974**	327
Fourth year	**44**	858
Fifth year and thereafter	**4,948**	3,930
Total	**7,064**	5,960

On the maturity dates of non-capitalized financial liabilities, see Note 37.

Note 26 - Earned premiums

	For the year ended December 31, 2021		
	Gross	Reinsurance	Retention
	NIS million	NIS million	NIS million
Premiums in life assurance	**5,887**	**187**	**5,700**
Premiums in health insurance	**5,369**	**307**	**5,062**
Premiums in non-life insurance	**3,690**	**1,331**	**2,359**
Premiums in foreign insurance	**490**	**89**	**401**
Inter-segment adjustments and offsets	**(4)**	**(3)**	**(1)**
Total premiums	**15,432**	**1,911**	**13,521**
Net of - change in outstanding unearned premiums	**(160)**	**(53)**	**(107)**
Total earned premiums	**15,272**	**1,858**	**13,414**

	For the year ended December 31, 2020		
	Gross	Reinsurance	Retention
	NIS million	NIS million	NIS million
Premiums in life assurance	6,116	166	5,950
Premiums in health insurance	4,933	286	4,647
Premiums in non-life insurance	3,326	1,166	2,160
Premiums in foreign insurance	511	96	415
Inter-segment adjustments and offsets	(4)	(4)	-
Total premiums	14,882	1,710	13,172
Net of - change in outstanding unearned premiums	69	(35)	104
Total earned premiums	14,951	1,675	13,276

	For the year ended December 31, 2019		
	Gross	Reinsurance	Retention
	NIS million	NIS million	NIS million
Premiums in life assurance	6,255	125	6,130
Premiums in health insurance	4,931	376	4,555
Premiums in non-life insurance	3,448	1,091	2,357
Premiums in foreign insurance	571	106	465
Inter-segment adjustments and offsets	(4)	(4)	-
Total premiums	15,201	1,694	13,507
Net of - change in outstanding unearned premiums	(97)	51	(148)
Total earned premiums	15,104	1,745	13,359

Note 27 - Net profit (loss) from investments, and financing income

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Profits (losses) from assets held to cover yield-dependent insurance liabilities			
Investment property	**225**	63	218
Financial investments:			
Marketable debt assets	**820**	192	1,054
Non-marketable debt assets	**652**	262	969
Shares	**4,019**	504	1,492
Other	**3,789**	1,729	2,722
Cash and cash equivalents	**(112)**	(96)	(83)
Total profits from assets held to cover yield-dependent liabilities, net	**9,393**	2,654	6,372
Profits (losses) from assets held to cover liabilities that are not yield-dependent, capital and other			
Income from investment property:			
Revaluation of investment property	**189**	(14)	172
Current revenues for investment property	**118**	92	112
Total income from investment property	**307**	78	284
Profits (losses) from financial investments, excluding interest and linkage differences, exchange rate differences and dividends for:			
Available-for-sale assets (A)	**577**	285	192
Assets presented at fair value through profit or loss (B)	**299**	(3)	147
Assets presented as loans and receivables (C)	**19**	(35)	(4)
Total profits from financial investments, excluding interest and linkage differences, exchange rate differences and dividends	**895**	247	335
Income from interest 1 and linkage differences from financial assets that are not measured at fair value through profit or loss (1)	**1,083**	671	813
Interest and linkage difference expenses from financial assets measured at fair value through profit or loss	**(10)**	(60)	(84)
Profit from exchange rate differences *	**159**	109	172
Income from dividends	**85**	26	29
Total profit from investments, net, and financing income	**11,912**	3,725	7,921
(1) The aforementioned revenues include interest for financial assets that are not presented at fair value through profit or loss whose value was impaired	**-**	1	1

* On exchange rate differences in respect of financial liabilities, see Note 34.

Note 27 - Net profit (loss) from investments, and financing income (contd.)

A. Net profit (loss) from investments for available for sale assets

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Net profit from securities sold	**601**	280	179
Net increases in value (impairments) recognized in profit or loss	**(24)**	5	13
Total profit from investments for available-for-sale assets	**577**	285	

B. Profit (loss) from investments in respect of assets presented at fair value through profit or loss

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Changes in fair value, net, including profit from sale:			
For assets designated upon initial recognition	**82**	17	66
For assets held for trade	**217**	(20)	81
Total profits (losses) from investments for assets presented at fair value through profit or loss	**299**	(3)	

C. Profit (loss) from investments for assets presented as loans and receivables

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Net increases in value (impairments) recognized in profit or loss	**19**	(35)	(4)
Total profits (losses) from investments for assets presented as loans and receivables	**19**		

D. Movements in the capital reserve in respect of available-for-sale assets

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Opening balance	**1,003**	875	312
Unrealized profits	**920**	356	950
Profit, net, from sale of securities	**(461)**	(297)	(127)
Impairment losses recognized in profit or loss	**51**	148	31
Effect of tax	**(166)**	(79)	(291)
Closing balance	**1,347**	1,003	875

Note 28 - Income from management fees

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Management fees in provident branch	**260**	247	257
Management fees in pension branch	**372**	333	331
Mutual fund management fees	**192**	169	173
Fixed management fees for life assurance contracts	**362**	317	305
Variable management fees for life assurance contracts*	**416**	156	265
Management fees for investment contracts	**138**	126	123
Total management fees from members and policyholders	**1,740**	1,348	1,454
Other management fees	**50**	36	33
Total income from management fees	**1,790**	1,384	1,487

* For additional information, see Note 3L(2).

Note 29 - Income from Commissions

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Reinsurance commission, net of the change in DAC, in respect of reinsurance	**318**	287	331
Insurance agencies' commission	**25**	22	23
Other commissions	**4**	3	4
Total income from commissions	**347**	312	358

Note 30 - Payments and changes in liabilities for insurance and investment contracts in retention

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
For life assurance contracts			
Claims paid and outstanding, cases of death, disability and other	**1,197**	1,046	1,106
Net of reinsurance	**104**	88	102
	1,093	958	1,004
Policies redeemed	**2,856**	2,218	1,763
Policies ended	**219**	220	224
Annuity	**597**	492	404
Total claims and other payments	**4,765**	3,888	3,395
Increase in liabilities for life assurance contracts (excluding change in outstanding) in retention	**8,026**	3,779	7,491
Increase in liabilities for investment contracts due to yield component and related expenses	**1,635**	274	1,283
Total change in liabilities and payments for insurance contracts and investment contracts in retention	**14,426**	7,941	12,169
Total payments and change in liabilities for non-life insurance policies			
Gross	**3,216**	2,305	2,367
Reinsurance	**892**	712	638
Retention	**2,324**	1,593	1,729
Total payments and change in liabilities for health insurance contracts			
Gross	**4,966**	4,191	4,779
Reinsurance	**453**	434	404
Retention	**4,513**	3,757	4,375
Total payments and change in liabilities for insurance contracts abroad			
Gross	**398**	375	411
Reinsurance	**41**	62	79
Retention	**357**	313	332
Total payments and change in liabilities for insurance contracts and investment contracts in retention	**21,620**	13,604	18,605

Note 31 - Commissions, marketing, and other acquisition costs

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Acquisition commissions	**995**	956	1,029
Other acquisition expenses	**659**	576	514
Change in DAC	**(154)**	(18)	(20)
Total acquisition costs	**1,500**	1,514	1,523
Other current commissions	**1,072**	996	955
Other marketing expenses	**159**	175	251
Total commissions, marketing expenses and other acquisition costs	**2,731**	2,685	2,729

Note 32 - General and Administrative Expenses

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Payroll and related expenses	**1,383**	1,253	1,282
Computerization expenses	**157**	148	136
Maintenance of buildings and equipment	**81**	100	110
Depreciation and amortization	**310**	267	246
Office operation expenses	**24**	22	38
Advertising and marketing	**75**	57	55
Professional and legal advice	**105**	109	84
Operating expenses	**1**	-	2
Stock exchange and distribution commissions	**50**	53	52
Bank expenses	**48**	45	46
Operating expenses for Group policy	**50**	50	50
Other	**98**	92	114
Total general and administrative expenses	**2,382**	2,196	2,215
Net of:			
Amounts classified under Change in liabilities and payments for insurance contracts	**254**	239	239
Amounts classified under Commissions, marketing expenses and other acquisition costs	**818**	751	765
Total general and administrative expenses	**1,310**	1,206	1,211
General and administrative expenses include expenses for automation in the amount of	**428**	378	348

Note 33 - Other Expenses

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Amortization of intangible assets	**11**	12	15
Loss from impairment of goodwill and intangible assets *	**-**	10	-
Other	**3**	3	1
Total other expenses	**14**	25	16

* Following the COVID-19 crisis and high volumes of redemptions in portfolio management activity, during the Reporting Period the Company reduced the outstanding amount of goodwill and value of management fees for this activity in 2020.

Note 34 - Financing Expenses

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Interest and linkage difference expenses for subordinated liability notes and liabilities to banks	**228**	170	168
Interest and linkage difference expenses for reinsurers	**61**	20	23
Net exchange rate differences for liabilities *	**(12)**	(23)	(28)
Interest expenses on lease liabilities	**3**	3	1
Other commissions and financing expenses	**1**	(1)	(1)
Total financing expenses, net	**281**	169	163

* On exchange rate differences in respect of financial investments, see Note 27.

Note 35 - Taxes on Income

A. Tax laws applicable to Group companies

1. General

Harel Insurance, Dikla Insurance Agency, EMI and the pension fund management companies, provident fund management companies and the other companies in the group are "financial institutions" within the definition of that term in the Value Added Tax Law - 1975 ("the VAT Law").

Taxes on income applicable to financial institutions include corporate tax and profit tax, as defined in the Value Added Tax Law.

Revenues earned by the company and the other investee companies are subject to corporate tax as defined in the Income Tax Ordinance.

B. Special tax arrangements for the insurance sector

Agreement with the tax authorities

On November 5, 2020, sector-based agreements were signed for 2017-2019 between the Israel Insurers Association and the Tax Authority ("the Sector-based Agreements"). There is no change in the Sector-based Agreements for these years compared with agreements from previous years, other than for subjects relating to provisions made in respect of implementation of the Winograd Committee recommendations and the change in accounting policy on the subject of calculating the LAT, that were taken into account as part of the tax liabilities for 2019-2020. These agreements did not affect and are not expected to significantly affect the Group's financial results.

C. Tax rates applicable to revenues of the Group companies

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

The statutory taxation rates applicable to financial institutions, including the subsidiaries which are financial institutions, from 2018 onwards are as follows: corporate tax at a rate of 23%, profit tax at a rate of 17%, in other words - a weighted tax rate of 34.19%.

In July 2021, a law memorandum was published amending the Income Tax Ordinance, which, among other things, discusses certain changes in Israel's tax laws, including changes on matters relating to the taxation of partnerships. At the date of the report, the legislative amendments pertaining to the taxation of partnerships have not yet been completed. Completion of the legislation is subject to various legislative processes in the Knesset, in the course of which the relevant legislative amendments may undergo more than a few changes.

The Group companies have begun, but have not yet completed, a review of the possible effects of the legislative amendments, if there are any, on the tax issues relevant to them

D. On a restructuring in the Group involving EMI, see Note 40.

E. Final Tax Assessments

Final tax assessments up to and including the 2018 tax year were issued for the Company and additional consolidated subsidiaries, except for certain companies for which a final assessment up to the end of the 2016 and 2017 tax years was issued.

F. Carry-forward losses for tax purposes

Certain subsidiaries have business losses for tax purposes which are carried forward to future tax years, for which no deferred taxes were recorded in the financial statements for 2021 and 2020 due to the expectation that they will not be utilized given the possibility of taxable income in the future. At December 31, 2021 and 2020, they amount to NIS 28 million and NIS 36 million, respectively.

Note 35 - Taxes on Income (contd.)

G. Composition of income tax expenses (revenues)

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Current taxes	**416**	357	70
Deferred taxes relating to creation and reversal of temporary differences (see also Section H below)	**88**	(57)	36
Taxes for previous years	**(18)**	(4)	(2)
	486	296	104

Note 35 - Taxes on Income (contd.)

H. Deferred taxes

1. Composition and movement of deferred taxes

	Deferred Acquisition Costs (DAC)	Employee benefits	Financial Instruments	Intangible assets	Losses for tax purposes	Other property	Total
	NIS million						
Outstanding deferred tax asset (liability) at January 1, 2020	(147)	28	(402)	(205)	40	(484)	(1,170)
Changes recognized in profit or loss	9	2	20	(2)	(3)	31	57
Changes recognized in other comprehensive income	-	(1)	(79)	-	-	2	(78)
Outstanding deferred tax asset (liability) at December 31, 2020	**(138)**	**29**	**(461)**	**(207)**	**37**	**(451)**	**(1,191)**
Changes recognized in profit or loss	**6**	**6**	**5**	**(8)**	**(4)**	**(93)**	**(88)**
Changes recognized in other comprehensive income	**-**	**-**	**(166)**	**-**	**-**	**10**	**(156)**
Addition as part of a business combination (see Note 5)	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Outstanding deferred tax asset (liability) at December 31, 2021	**(132)**	**35**	**(622)**	**(212)**	**33**	**(534)**	**(1,432)**

Note 35 - Taxes on Income (contd.)

H. Deferred taxes (contd.)

2. Deferred taxes are presented in the statement of financial position as follows:

	As at December 31	
	2021	2020
	NIS million	NIS million
Deferred tax assets	**18**	9
Deferred tax liabilities	**1,450**	1,200
	(1,432)	(1,191)

I. Reconciliation between the theoretical tax on the pre-tax profit and tax expenses

The reconciliation between the tax that would have been applicable had all income and expenses, profit and loss in the income statement been tax liable at the statutory rates applicable to financial institutions, and taxes on income recognized in the income statement:

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Profit before taxes on income	**1,698**	1,021	561
Total statutory tax rate applicable to financial institutions	**34.19%**	34.19%	34.19%
Tax computed according to statutory tax rate	**581**	349	191
Write-down for non-application of profit tax on companies that are not a financial institution	**(14)**	(13)	(20)
	567	336	171
Increase (decrease) in taxes on income attributable to the following:			
Expenses that cannot be deducted for tax purposes	**9**	5	9
Tax exempt and tax liable income at special tax rate	**-**	-	(6)
Group's share of profits of associates	**(61)**	(4)	(55)
Taxes for partnerships and foreign companies	**42**	(4)	47
Differences in basis of measurement	**(50)**	(22)	(60)
Increase (decrease) in losses for tax purposes for which deferred taxes were not recognized in the past	**(2)**	(9)	2
Taxes for previous years	**(18)**	(4)	(2)
Other	**(1)**	(2)	(2)
Taxes on income	**486**	296	104
Average, effective tax rate	**28.62%**	28.99%	18.54%

Note 36 - Profit per share

A. Basic profit per share

The calculation of basic profit (earnings) per share for the years ended December 31, 2021, 2020 and 2019, was based on the profit attributable to the Company's ordinary shareholders in the amount of NIS 1,209, NIS 724 million and NIS 457 million, respectively, divided by a weighted average of the number of ordinary shares in circulation in each of the years, as follows:

Weighted average of the number of ordinary shares

	For the year ended December 31		
	2021	**2020**	**2019**
	Number of shares in thousands		
Balance as at January 1	**214,379**	214,379	214,379
Effect of self-purchase) of shares, net	**(265)**	-	-
Weighted average of the number of ordinary shares used for calculating basic earnings per share	**214,114**	214,379	214,379

B. Diluted profit per share

Weighted average of the number of ordinary shares (diluted)

	For the year ended December 31		
	2021	**2020**	**2019**
	Number of shares in thousands		
Weighted average of number of ordinary shares used to calculate basic earnings per share	**214,114**	214,379	214,379
Weighted average of number of ordinary shares used to calculate diluted earnings per share	**214,114**	214,379	214,379

Profit attributed to holders of ordinary shares (diluted)

	For the year ended December 31		
	2021	**2020**	**2019**
	NIS million		
Diluted profit attributed to the Company's shareholders	**1,209**	724	457

Note 37 - Risk management

General

The Group's activity exposes it to a variety of risks, the most important of which are: insurance risks, market risks and credit risks. Liquidity risks, operating risks, legal risks, goodwill risks and business-related and other risks can be added to these risks. Various catastrophic events have broad repercussions for the different risks.

This Note includes, inter alia, a concise description of the risk-management policy, work processes for identifying, measuring and managing the risks and the existing controls in connection with the risks to which the Group is exposed.

A. Risk management policy and processes

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits, at the same time complying with the regulatory requirements and adhering for the Group's business targets, for its goodwill and for preserving its financial robustness.

The Group's risk management policy is based on:

- Corporate governance which is built on three lines of defense: management of the business segments, control and risk management entities, and internal controls.
- Clearly defined allocation of responsibility and delegation of powers in relation to the activity entailed in risk taking by the Group's entities.
- Determining limitations and exposure limits to risks.
- Defining an equity management plan, including a safety net over and above the capital requirements.
- Implementation of a risk management framework which includes activity to identify, measure, estimate and monitor risks and new points of risk.
- Maintaining a reasonable internal control environment which is written into clear procedures and arrangement of oversight and risk control, allowing for the distribution, offsetting, and/or transfer of risks to another entity, and limiting them to a pre-defined level.
- Support for decision making processes by reporting on the risk profile for the relevant entities.

Harel manages its risks taking a group view and the risk manager is responsible for the risk management of Harel Insurance and the financial institutions it controls as well as the risk management of Harel Finance. The risk manager works independently of the business units, taking an objective view of the risks, and works in conjunction with other support units.

The functions of the risk manager include, *inter alia*, responsibility to ensure that work processes are in place to identify, evaluate, measure and report the risks, and to address the risks that are inherent in the operating segments and new products and in significant transactions

The Board of Directors and the boards of the subsidiaries supervise the business activities that involve risk-taking and the Company's risk management procedures by establishing risk management policy and strategy. Risk management includes, inter alia, risk-management procedures and limits to exposure to risks, as well as the manner of compliance with defined procedures and exposure limitations.

The Board of Directors regularly receives reports, and examines information relating to risk management in the various sectors. This information includes, inter alia, risk studies and controls, and the degree of exposure to the various risks vis-à-vis limitations and significant changes in the Company's risk profile. In addition, the Board of Directors receives reports on quantitative indices of the risks and estimates their potential effect on the Company's future financial position and the equity it is required to hold against these risks. These effects are calculated using internal models, extreme tests, and sensitivity analyses.

Note 37 - Risk management (contd.)

A. Risk management policy and processes (contd.)

At the end of 2012, a Group Board of Directors' committee for risk management was established. Its functions include the discussion of subjects relating to risk management and it formulates recommendations for the Board of Directors. From 2019, in accordance with the regulatory instructions, joint meetings in the risk management committee were prohibited as a result of which separate risk management committees were established for insurance and for pension and provident. The committee operates in accordance with the requirements of section 11 in Financial Institutions Circular 2018-9-31 regarding "Board of Directors of Financial Institutions".

The Group's financial institutions hold a quarterly reporting procedure in which officers in the various areas of activity report on material changes in the Group's risk profile to the risk manager and she in turn reports to management and the Board of Directors.

The methods and work procedures employed in relation to risk management are regularly examined and revised, taking into account the Group's risk-management policy, changes in the business environment in Israel and worldwide, and the instructions and requirements of the regulator.

Capital requirements apply to the Group's insurance companies by virtue of the Solvency II-based economic solvency regime. In the context of the rules governing the distribution of a dividend, the Board of Directors established a capital buffer over and above the regulatory capital requirements, to enable the companies to absorb unforeseen losses that might occur in equity and in the capital requirements, due to changes in the key risk factors to which the Company is exposed. The safety net was created, taking into account the nature of the activity of Harel Insurance, the experience accumulated in periods of crisis and also taking into account various loss scenarios.

The Group makes efforts to improve the tools is uses to monitor the different forms of risk and many of the Group's work procedures are regulated by means of detailed procedures. Furthermore, the Group invests considerable resources in the training and allocation of manpower, computerization and work procedures relating to risk management, in compliance with published, binding regulations, and by implementing the Group's risk management goals and objectives.

The following describes policy and work procedures relating to the identification, measurement and assessment, control and amortization, monitoring and reporting of the different risks to which the Group is exposed.

Note 37 - Risk management (contd.)

A. Risk management policy and processes (contd.)

Market and liquidity risks

The financial risks are managed by distributing them between investment channels, lines of business, issuers and among assets in Israel and foreign assets, reviewing and analyzing the assets before an investment decision is made and during the life of the investment, and by meeting the exposure limitations.

Various limitations to the exposure to market risks, which are designed to limit the damage which may be caused as a result of unforeseeable changes in markets, relate, inter alia, to the maximum amounts to be invested in shares, real-estate funds, to maximum exposure to corporate bonds consistent with their rating, to maximum exposure to an individual investment, exposure to linkage sectors and interest exposure. Market risk management policy is subject to the Investment Regulations.

Market risks were quantified and assessed using an automated system in the risk management department. The calculations relate to market risks in members' portfolios and in the Nostro investment portfolios of the Group's financial institutions from the accounting and economic perspective. The main instrument used for measuring market risk is various extreme scenarios that provide an indication of possible loss in the Nostro and in members' portfolios. These scenarios are based on historical or hypothetical events and their underlying assumptions are periodically revised in line with changes in the economic environment, the risk factors and characteristics of the portfolios.
In members' portfolios, the different investment portfolios are assessed against benchmark portfolios, by means of various risk indices. The liquidity risk is managed at investment portfolio level by means of limitations that are consistent with the type and size of the portfolio and liquidity indices that include warning thresholds.

In the nostro portfolio, exposure stemming from the characteristics of assets is addressed separately from those of liabilities (ALM). The review and management of the correlation between the assets and liabilities include an analysis of sensitivity to different market scenarios.

Reports concerning the risk and exposure indices as against the set limitations are presented to the investment committees and support the decision-making and investment management processes.

Moreover, the audit unit and investment division conduct ongoing audits regarding compliance with the investment regulations and investment policy of the different investment portfolios.

The investment policy and restrictions concerning the Nostro investments of companies in the capital market and financial services wing that manage the Nostro portfolios, is determined by the relevant boards of directors and supervised by the various control entities. Furthermore, regarding companies in the capital market and financial services wing, the investment policy is set taking into account, among other things, the needs of the customers, regulation, and prospectus-related commitments.

For information about sensitivity to market risks, see Section C below. For information about sensitivity to liquidity risks, see Section D below.

Note 37 - Risk management (contd.)

A. Description of risk management methods and processes (contd.)

Insurance risks

The insurance risks are also spread, reduced or limited by means of underwriting procedures and rules for accepting business, as well as by means of reinsurance arrangements.
The different risk management processes in non-life insurance, include, *inter alia*: actuarial costing and assessment of insurance commitments, the costing of new products and collective agreements, underwriting procedures and restrictions in the various business units, procedures for handling claims, determining and managing reinsurance, and monitoring the profitability of coverages in the policies. Procedures for identifying and controlling new and existing actuarial risks are performed by means of risk surveys and periodic reports from the appointed actuaries.

In addition, comprehensive, periodic studies and reviews are conducted to test the Group's exposure to various risks such as earthquakes in general insurance, and trial studies regarding risks such as mortality, morbidity, cancellations, and the like, in life and health insurance.

A quantitative assessment of the insurance risks is performed by examining scenarios for the key risk factors to which the Company is exposed.

For information about sensitivity to insurance risks, see Section E below.

Credit risks

The Company's policy for the management of credit risk is based on distributing and diversifying the credit portfolio and controlled management of the risks, with the purpose of attaining an appropriate return for the risk taken, based on defined limitations, while at the same time understanding the Company's risk management profile and detailing the areas of responsibility of the entities involved in the process of identifying, measuring, monitoring and controlling the credit risk. The framework for providing and management credit also includes procedures and methodologies, that must be followed.

The credit activity performed by the investment division is subject to the Investment Regulations and Commissioner's circulars on credit risk management and based on policy defined by the boards of directors of the Group's financial institutions. The Investment Regulations prescribe exposure limits to a single borrower and group of borrowers, as well as the providing of credit according to categories of collateral, etc. The Commissioner's circulars on credit risk management provide a framework for procedural, professional, and operating support and their purpose is to ensure that control and oversight mechanisms are in place for management of the credit risks to which the financial institution is exposed.

A specific estimate of the credit risk for a non-marketable debt is prepared in the credit system in the investment division, using an expert--guided rating model based on a methodology similar to that used by the rating companies. The model approved by the Ministry of Finance.

Pursuant to an amendment to the provisions of the Consolidated Circular, Chapter 4, Section 5 - Management of Investment Assets, dated November 26, 2020, financial institutions that satisfy the conditions set out in the provision will consider their rating model to be an internal rating model which has been approved by the Commissioner, except for the categories of credit for which an internal rating model is not recognized. The provision obligates the Board of Directors or designated committee appointed by the Board of Directors to approve and oversee the internal rating model. Approval for an internal rating model which was validated by the Commissioner prior to publication of the circular will expire on December 31, 2022. However, financial institutions may continue to rate their credit even after this date until that credit is finally repaid, provided that the conditions of the credit are not changed in a manner that increases the amount of the credit or prolongs the repayment period.

Note 37 - Risk management (contd.)

A. Description of risk management methods and processes (contd.)

Credit risks (contd.)

At the level of the overall portfolio, the Risk Management Department quantifies the credit risks inherent in the investment assets by reviewing the average rating of the non-governmental debt in these portfolios, and estimating and presenting the Expected Loss (EL) and the Unexpected Loss (UL) in respect of the non-marketable credit risks. At individual transaction level - an expert risk management opinion is received for new areas of activity and significant large or complex transactions, based on the defined parameters.

In the investment division, the non-marketable credit management unit that undertakes the risk is segregated from the independent unit that controls the activity. The process of monitoring borrowers' solvency and the quality of collateral is carried out as part of the work processes for approving credit approved by the boards of directors. Regarding marketable credit, solvency, the quality of the collateral and problematic debts are monitored.

Regarding credit risk in exposure to reinsurers, the policy of exposure to reinsurers is approved every year by the boards of directors of the Group's insurance companies, based on the Commissioner's circular on this subject.
For information about the exposure to credit risks, see Section G below.

Operating risks

Operating risk is an integral part of all activities, products, systems and work processes carried out in the Company. Awareness and management of the operating risk at all levels is therefore important.

Managers at the Company's different management echelons are responsible for the ongoing management of operating risk and taking action to minimize the risk. The managers receive professional support from the risk management department which is charged with directing the methodology and implementation of the policy, from the overall perspective. Some of the operating risks are managed by other control entities, for example head of the SOX, compliance and enforcement department, the head of information security and head of business continuity.

The Company routinely assesses its exposure to operating risks and takes measures to reduce them. The risk management department conducts an independent assessment of operating risks, with particular emphasis on fraud and embezzlement risks, IT and cyber risks, and business continuity risks.

An information system for the management of operating risk supports all the risk management processes: management of the process of reporting and investigating events, conducting risk studies based on a risk assessment methodology, ongoing update of risk maps, management of amortization and control plans by means of reports

In addition to the on-going control activity of work procedures, the Group has designated control units which test compliance with procedures by different entities, with the limits defined and provisions of law, and which assist the operations managers to meet their operating risks responsibilities.

There are also automated controls in the operating systems aimed at limiting exposure to operating risk.

The nature of the activity, organizational structure and hierarchy of powers that set the Company apart, as well as the volume of funds that it manages, also expose it to the possibility of fraud and embezzlement by entities within and outside the Company. Regarding the management of fraud and embezzlement risks, the Company operates in accordance with the provisions of Section 5, Part 3, Chapter 1 of the Consolidated Circular concerning fraud and embezzlement. The Company has defined a policy that includes a methodical work framework to prevent, detect, report and respond to fraud and embezzlement that mitigates losses from such events. The key policies are reflected in the Company's work processes, actual work procedures and ethical code, the purpose of which is to guide the Company's employees regarding conduct, discipline and ethics in the work place.

Note 37 - Risk management (contd.)

A. Description of risk management methods and processes (contd.)

Operating risks (contd.)

Regarding legal risks, including compliance risks, the Company's Corporate Counsel is responsible for managing the legal risk, and where necessary she takes legal advice from outside sources and provides support and answers for all the legal aspects of the Company's activity. In this context, ongoing management of the legal risk is reflected mainly in providing ongoing legal advice to the Company's competent organs on the different subjects entailed in its operations, in preparing agreements and insurance policies, in managing the Company's legal knowledge, including updating the relevant entities of changes in the various statutory provisions and regulations that may affect the work of the Company, in adapting agreements and procedures to these changes, and routinely revising the agreements and documents that the Company uses, and in coordinating class actions against the Company and supervising the professional entities that handle these actions on the Company's behalf.

In order to satisfy the Company's responsibility for compliance with the requirements of the Law, the Company has appointed a Compliance and Enforcement Officer who assists Company employees in fulfilling their responsibility to comply with the provisions relevant to them. The Company defined an enforcement plan, as part of the implementation of the Law to Improved Enforcement in the Capital Market, which amends the Supervision of Financial Services (Insurance) Law, 1981, and the Supervision of Financial Services (Provident Funds) Law, 2005, and it appointed entities to be responsible for implementing and overseeing implementation of the plan.

Pursuant to the provisions of the Prohibition on Money Laundering Order and Financial Institutions Circular on the subject of the management of money laundering risks, the Company established a risk management policy on the subject and appointed an official to take responsibility for fulfilling obligations, based on the regulatory requirements, so as to ensure that an appropriate organizational infrastructure and measures to mitigate the risk are in place. The Company also formulated procedures for the implementation of a policy to manage money laundering and terror financing risks, and it updated relevant procedures to ensure that they address, among other things, the KYC process, classification of accounts that are high-risk for money laundering and terror financing, ensure that ongoing controls are in place and that records and reports are kept properly. Additionally, the Company adopted a risk-based approach so as to identify, estimate and effectively deal with money laundering and terror financing risks, in which context a survey was conducted to identify and assess the money laundering and terror financing risks in its different activities.

The IT system is a key component of the Company's proper management and operation. The Company's Board of Directors approved a policy document on the subject of IT management.

IT risks are routinely assessed both in relation to the management of significant IT processes and to the information and infrastructure systems. Risks arising from significant IT processes are handled as part of the control approach applied by Harel Hamishmar Computers, pursuant to Financial Institutions Circular on "Management of Information Technologies by Financial Institutions". The risk management department, together with Harel Hamishmar Computers, perform periodic studies to assess the potential impact of IT risks on the Company's core processes.

The Company's activity is exposed to cyber risks that could arise from unauthorized users, disruption of activity as a result of tampering with network activity or the shutdown of services, damage to systems, theft of digital assets, penetration of malicious codes or malware, penetration of the system or the divulging of information. The Company's approach to the management of cyber risks and data security consists of three layers: technology protection, the handling of events, and a layer of regulation, organization and methods (O&M). In addition to operating deployment, the company has purchased insurance cover against computer crime which includes cyber events. The Company operates in accordance with the provisions of a financial institutions circular on "Management of Cyber Risks by Financial Institutions" that defines principles for the management of cyber risks by financial institutions and mandates the management of such risks.

Note 37 - Risk management (contd.)

A. Description of risk management methods and processes (contd.)

Operating risks (contd.)

The instructions address the following, among others: corporate governance - positions and areas of responsibility, risk assessment, cyber protection, detection and control, system security, communications and operation, user and password management, outsourcing, cloud computer services, physical and environmental security, security of channels of communication with customers and outside entities.

Regarding information security and cyber risks, and consistent with the circular on "Management of Cyber Risks by Financial Institutions", the boards of directors of the Group's financial institutions adopted and approved a policy on the management of cyber risks. The risk management department, together with Harel Hamishmar Computers, performs a periodic study of the Company's exposure to cyber risks.

Consistent with a Financial Institutions Circular on the subject of outsourcing, the Company established a policy and formulated work processes which, among other things, include guidelines and criteria for defining activity as significant, principles for entering into outsourcing agreements and mechanisms to effectively oversee, monitor and control significant activities that are outsourced.

The Group's deployment for further DRP activity and business continuity takes place at two levels: deployment for a failure of the computer systems, deployment for a catastrophe at head office and deployment for a situation involving the unavailability of employees. Furthermore, the Group drills potential catastrophe events in which selected logistic processes are tested and key systems and software programs are run from the alternative site.

During the COVID-19 crisis, the Company deployed regarding automation and operation to facilitate extensive business continuity and work from home in a pandemic situation.

B. Regulatory requirements

Management of the Group's insurance and financial risks is guided by regulatory requirements which have been published in recent years, and include, among others:

- Provisions of the Consolidated Circular, Chapter 10 - Risk Management
- Provisions of a financial institutions circular regarding the board of directors of a financial institution which includes a requirement to establish a policy on exposure to risks, exposure limits, procedures and instruments for the measurement and control of risks
- Provisions of the Consolidated Circular on credit risk management and on the management of exposure to reinsurers
- Provisions of the Solvency II based economic solvency regime in Israel.
- Provisions concerning the handling of specific categories of operating risks: embezzlement and fraud, management of cyber risks and IT risks, business continuity management, compliance risks, money laundering, outsourcing, and control over financial reporting (SOX).
- Various instructions included in the TASE Regulations.

Note 37 - Risk management (contd.)

C. Market risks

Market risk is the risk that the fair value or future cash flows of financial assets, financial liabilities, or insurance liabilities will change as a result of changes in market prices. Market risks include, inter alia, risks relating to interest rates, share price, credit margins, real estate prices, changes in the CPI and foreign currency.

1. Yield-dependent contracts

Yield-dependent liabilities are liabilities for contracts where the insurance benefits to which the beneficiary is entitled are dependent on the yield generated by certain investments made by the Company, net of management fees, as follows:

- Regarding policies issued until 2004 - fixed management fees and variable management fees of 15% on the real yield after deduction of fixed management fees.
- Regarding policies issued in or after 2004 - fixed management fees.

Regarding the assets and liabilities in respect of these products, the insurance companies do not have direct exposure for changes in the interest rate, in the fair value of investments or the CPI, other than a possible effect on the K factor in profit-sharing policies. This exposure was included in the table in Section 2 below. The effect of the financial results on the insurance company's profit is limited to the exposure derived from variable management fees which change according to fluctuations in yields credited to the policyholders (for policies issued until 2004), and the overall volume of liabilities, from which the fixed management fees of the insurer regarding all yield dependent products are derived.

In view of the foregoing, the sensitivity tests and repayment dates of the liabilities specified in the following sections do not include yield-dependent contracts.

Any 1% change in the real return on the investments which are part of the yield-dependent contracts issued until 2004, for which the volume of liabilities at December 31, 2021 is NIS 27.2 billion, affects management fees by about NIS 36 million. The effect of this change on policies issued in or after 2004 is insignificant.

2. Sensitivity tests relating to market risks

The following is a sensitivity analysis in relation to the effect of changes in these variables on profit (loss) for the period, and equity. The sensitivity analysis is based on the carrying amount (book value) and not on the economic value.

The sensitivity analysis is conducted with respect to financial assets, financial liabilities, and insurance and investment contract liabilities for the relevant risk variable, at each reporting date, assuming that all other variables remain constant. Thus, for example, a change in interest assumes that all other parameters are unchanged. The sensitivity analysis does not include the effect of yield dependent contracts as noted above. In addition, said changes do not reflect any significant or a lasting impairment in value of assets presented at amortized cost or of available-for-sale assets, and accordingly impairment loss were not included in respect of these assets.

The sensitivity test reflects only direct effects, without any secondary effects.

Notably, the sensitivities are not linear, such that changes which are greater or smaller than those described below are not necessarily a simple extrapolation of the effect of those changes.

Note 37 - Risk management (contd.)

C. Market risk (contd.)

2. Sensitivity tests relating to market risks (contd.)

	As at December 31, 2021							
	Interest rates (1,2,3)		Investments in capital instruments (4,7)		% change in CPI CPI (8)		% change in foreign currency exchange rate (6)	
	1%+	1%-	10%+	10%-	1%+	1%-	10%+	10%-
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Profit and loss	**705**	**(1,725)**	**12**	**(12)**	**(25)**	**25**	**(136)**	**136**
Comprehensive income (equity) (5)	**143**	**(1,072)**	**347**	**(348)**	**(25)**	**25**	**63**	**(63)**

	As at December 31, 2020							
	Interest rates (1,2,3) *		Investments in capital instruments (4,7)		% change in CPI CPI (8)		% change in foreign currency exchange rate (6)	
	1%+	1%-	10%+	10%-	1%+	1%-	10%+	10%-
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Profit and loss	548	(1,758)*	7	(7)	(29)	29	(91)	91
Comprehensive income (equity) (5)	147	(1,292)*	301	(301)	(29)	29	59	(59)

* Restated due to a technical error

(1) The sensitivity analysis with respect to changes in the interest rate also refers to instruments at fixed interest and instruments with variable interest. Regarding fixed-interest instruments, the sensitivity analyses are in relation to the book value of the instruments, and regarding the instruments with variable interest, the sensitivity analyses refer to the effect on performance during the current year.

(2) According to the instruction in the circular on testing the adequacy of the reserve (LAT), the interest rate curves applied in calculating sensitivity are based on a risk-free interest rate curve at the reporting date. This curve is based on yields to redemption for marketable government bonds which are published by Mirvah Hogen, which was awarded the tender for price quotes. The interest rate curves are the same as those published by that company, up to the LLP point in the 25th year. Beyond this point, interest rate curves are determined by extrapolation based on the Smith-Wilson method as far as the last Ultimate Forward Rate (UFR), which was determined at 60 years. From this point on, the forward rate is fixed.

Note 37 - Risk management (contd.)

C. Market risk (contd.)

2. Sensitivity tests relating to market risks (contd.)

(3) The analysis of sensitivity to interest rates also included the possible effect on the insurance liabilities. The effect of a 1% decrease in the interest rate on profit and comprehensive income for insurance liabilities that are included in the sensitivity test is estimated at NIS 1,790 million (NIS 1,809 million at December 31, 2020). The effect of a 1% increase in the interest rate on profit and comprehensive income for insurance liabilities that are included in the sensitivity test is estimated at NIS 757 million (588 million at December 31, 2020).

As part of the calculation of the insurance liabilities, from time to time the Group tests the interest rates used for calculating the insurance liabilities, in relation to the characteristics of the liability, the relevant average duration, and the appropriate interest rate for each category of liability. Additionally, there is exposure to changes in the discounting interest rates due to a test of the adequacy of the reserves which is included in the calculation of the insurance liabilities in life and health insurance and application of the best practice in calculating the insurance liabilities in non-life insurance.

An analysis of the sensitivity to interest rate changes included the effects of changes in the said discounting interest rates. The sensitivity analysis also included fixed and variable interest marketable bonds, non-marketable debt assets and variable interest financial liabilities, derivative instruments and structured products. The note on direct risk below includes cash, debt assets, liabilities for insurance policies and other investment contracts and financial liabilities.

The percentage of assets out of all assets that are not yield dependent to which a sensitivity test was applied is 35%.

(4) Investments in instruments which have no fixed cash flow, or alternatively where the Company has no information on cash flow (based on the definitions in IFRS7, do not include investments in affiliates).

(5) Sensitivity analyses in relation to equity also give expression to the effect on profit or loss for the period.

(6) The main foreign currency is the US dollar, as noted in the linkage balance in Section I below.

(7) In view of the Finance Ministry's instructions in Insurance Circular 2011-1-1, mutual funds that invest in debt assets were included in the sensitivity to investments in capital instruments.

(8) Pursuant to the Finance Ministry's instructions in Insurance Circular 2011-1-1, the test of sensitivity to the CPI does not include the reserve for unearned premiums.

3. Direct interest rate risk

Direct interest risk is the risk that a change in the market interest rate will cause a change in the fair value or cash flows from the asset or liability. This risk refers to assets that are settled in cash. The addition of the word "direct" emphasizes the fact that a change in the interest rate can also affect other types of assets, but not directly, such as the effect of a change in the interest rate on share prices.

Note 37 - Risk management (contd.)

C. Market risk (contd.)

3. Direct interest rate risk (contd.)

Following is a list of the assets and liabilities by exposure to interest rate risks:

	As at December 31, 2021		
	Not yield-dependent (1)	Yield dependent	Total
	NIS million	NIS million	NIS million
Assets with direct interest risk			
Marketable debt assets	13,579	21,155	34,734
Non-marketable debt assets:			
Hetz bonds	4,779	156	4,935
Other	11,850	15,821	27,671
Other financial investments	357	933	1,290
Cash and cash equivalents	2,625	5,012	7,637
Reinsurance assets	5,056	186	5,242
Total assets with direct interest risk	38,246	43,263	81,509
Assets without direct interest risk (2)	17,877	38,285	56,162
Total assets	56,123	81,548	137,671
Liabilities with direct interest risk			
Financial liabilities	10,374	61	10,435
Liabilities for insurance contracts and investment contracts (3)	31,127	80,516	111,643
Other	301	-	301
Total liabilities with direct interest risk	41,802	80,577	122,379
Liabilities without direct interest risk (4)	5,817	582	6,399
Equity	8,893	-	8,893
Total equity and liabilities	56,512	81,159	137,671
Total assets net of liabilities and equity	(389)	389	-
Off-balance sheet risk	1,896	2,789	4,685

(1) In non-yield-dependent life assurance, most of the liability is for yield-guaranteed policies which are partially backed by Hetz designated bonds issued by the Bank of Israel throughout the policy period. The Company therefore has overlapping financial cover for part of the liabilities with respect to interest and linkage over the life of the policies. At December 31, 2021, the designated bonds cover approximately 55.3% of all the non-yield-dependent liabilities in life assurance that were issued until 1990.
For the Company's other investments in life assurance business, there is exposure to the interest rates that may apply when refinancing the investments whose duration might be less than the average lifespan of the insurance liabilities. For these products and for ongoing claims in payment in work disability insurance, calculation of the insurance liability is based on the tariff interest rate.

(2) Assets with no direct interest rate risk include shares, funds, fixed assets and land for rent, deferred acquisition costs and other property as well as balance sheet groups of financial assets for which the interest rate risks is relatively low (premiums due, current balances of insurance companies, and trade and other receivables).

Note 37 - Risk management (contd.)

C. Market risk (contd.)

3. Direct interest rate risk (contd.)

(3) The method of determining the discounting interest rate applied in calculating the insurance liabilities in life assurance and non-life assurance is detailed in subsection E in this Note in the section relating to key assumptions made for the purpose of the actuarial assessment.

(4) Liabilities without direct interest rate risk include reserves for tax, various debit and credit balances, etc.

Note 37 - Risk management (contd.)

C. Market risk (contd.)

3. Direct interest rate risk (contd.)

	As at December 31, 2020		
	Not yield-dependent (1)	Yield dependent	Total
	NIS million	NIS million	NIS million
Assets with direct interest risk			
Marketable debt assets	11,067	21,331	32,398
Non-marketable debt assets:			
Hetz bonds	5,147	140	5,287
Other	9,928	14,605	24,533
Other financial investments	*257	*760	1,017
Cash and cash equivalents	2,921	3,452	6,373
Reinsurance assets	*4,182	*158	4,340
Total assets with direct interest risk	33,502	40,446	73,948
Assets without direct interest risk (2)	*15,235	*30,563	45,798
Total assets	48,737	71,009	119,746
Liabilities with direct interest risk			
Financial liabilities	7,421	106	7,527
Liabilities for insurance contracts and investment contracts (3)	*28,886	*69,833	98,719
Other	265	-	265
Total liabilities with direct interest risk	36,572	69,939	106,511
Liabilities without direct interest risk (4)	4,755	726	5,481
Equity	7,754	-	7,754
Total equity and liabilities	49,081	70,665	119,746
Total assets net of liabilities and equity	(344)	344	-
Off-balance sheet risk	1,544	2,459	4,003

* Reclassified

(1) In life assurance which is not yield dependent, most of the liability is for yield-guaranteed policies which are partially backed by Hetz designated bonds issued by the Bank of Israel throughout the policy period. The Company therefore has overlapping financial cover for part of the liabilities with respect to interest and linkage over the life of the policies. At December 31, 2020, the designated bonds cover approximately 61.2% of all the non-yield-dependent liabilities in life assurance that were issued until 1990.
For the Company's other investments in life assurance business, there is exposure to the interest rates that may apply when refinancing the investments whose duration might be less than the average lifespan of the insurance liabilities. For these products and for ongoing claims in payment in long-term care and work disability insurance, calculation of the insurance liability is based on the tariff interest rate.

(2) Assets with no direct interest rate risk include shares, funds, fixed assets and land for rent, deferred acquisition costs and other property as well as balance sheet groups of financial assets for which the interest rate risks is relatively low (premiums due, current balances of insurance companies, and trade and other receivables).

(3) The method of determining the discounting interest rate applied in calculating the insurance liabilities in life assurance and non-life assurance is detailed in Section E in this Note in the section relating to key assumptions made for the purpose of the actuarial assessment.

(4) Liabilities without direct interest rate risk include reserves for tax, various debit and credit balances, etc.

Note 37 - Risk management (contd.)

D. Liquidity risks

Liquidity risk is the risk that the Company may be forced to dispose of its assets at an inferior price in order to meet its obligations.

The Group is exposed to risks relating to uncertainty regarding the date on which it will be required to pay claims and other benefits to its policyholders relative to the volume of money available for this purpose at that time. However, a significant part of its insurance liabilities in the life assurance segment is not exposed to liquidity risks because of the nature of the insurance policies, as described below. It should be noted, however, that the possible need to raise funds in unexpectedly and within a short period, may require rapid disposal of significant assets at sale prices which do not necessarily reflect their market values.

Yield dependent policies - life assurance – according to the conditions of the contracts, their owners are entitled to receive the value of said investments and nothing more. Accordingly, if the value of the investments decreased for any reason whatsoever, there will be a similar decrease in the Company's liabilities. Accordingly, the Group is not exposed to any liquidity risks.

Contracts which are not yield-dependent – in life assurance – 12.2% of the life assurance portfolio is policies which are not yield dependent but guarantee an agreed yield. These policies are backed partially by earmarked bonds issued by the Bank of Israel. The Company may sell these bonds when redemption of these policies is required.

The Group's liquidity risk is therefore mainly attributable to outstanding assets that are not earmarked bonds and are not assets against yield-dependent contracts. At the report date, these assets account for 22% (NIS 25 billion) of all Group assets. Of these asset balances, about NIS 5.3 billion are marketable securities available for immediate disposal.

1. Management of assets and liabilities

The Group manages its assets and liabilities in accordance with the Insurance Supervision Law and subsequent regulations.

The following tables summarize the maturity dates of undiscounted insurance and financial liabilities of the Group since the amounts are not discounted, they are not consistent with the balance of insurance and financial liabilities in the Statement of Financial Position.

The maturity dates of life assurance and health liabilities are included in the tables as follows:

- Savings money based on their contractual maturity dates, namely - retirement age, excluding cancellation discounts, assuming that the entire saving will be withdrawn as lump sum and not as an annuity.
- Liabilities for annuities in payment, work disability in payment, long-term care in payment and healthcare based on the projected payment dates according to the actuarial estimate.
- The liability in respect of outstanding claims and the risk reserves in respect of life assurance and health insurance contracts are reported in the column "no defined repayment date".
- Maturity dates of non-life insurance liabilities were included in the tables in accordance with projected maturity dates, based on the Group's actuarial estimates.
- Insurance liabilities in grouped property branches and in branches not signed by the actuary are included in the column with a repayment date of " up to 3 years".
- Maturity dates of financial and investment contract liabilities were included on the basis of their contractual maturity dates. If the counter-parties to these contracts are entitled to choose the timing of the settlement, the liability is included on the basis of the earliest date when the Group may be required to settle its liability.

Note 37 - Risk management (contd.)

D. Liquidity risks (contd.)

2. Liabilities for life assurance contracts* and health insurance contracts

2. Liabilities for life assurance* and health insurance contracts

	Up to one year	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 and up to 15 years	More than 15 years	Without any defined maturity date	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
As at December 31, 2021	**3,603**	**4,597**	**3,127**	**1,510**	**1,008**	**7,120**	**20,965**
As at December 31, 2020	3,477	4,274	3,146	1,610	1,076	6,744	20,327

.Not including flow for yield-dependent contracts*

3. Liabilities for non-life insurance contracts

	Up to 3 years	More than 3 and up to 5 years	More than 5 years	Without any defined maturity date	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
As at December 31, 2021	**5,756**	**2,021**	**2,745**	**197**	**10,719**
As at December 31, 2020	5,203	1,689	2,484	238	9,614

4. Financial liabilities and liabilities for investment contracts

	Up to one year	More than one and up to 5 years	More than 5 and up to 10 years	More than 10 and up to 15 years	More than 15 years	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
As at December 31, 2021						
Financial liabilities	**4,309**	**3,093**	**3,172**	**833**	**7**	**11,414**
Liabilities for investment contracts *	**19,641**	**-**	**-**	**-**	**-**	**19,641**
As at December 31, 2020						
Financial liabilities	2,405	2,539	3,331	712	9	8,996
Liabilities for investment contracts *	16,393	-	-	-	-	16,393

* Liabilities of up to one year include liabilities for yield-dependent investment contracts. At December 31, 2021 and 2020, these outstanding liabilities amounted to NIS 19,448 and NIS 16,194 million, respectively, and are due for repayment upon request (on-call). These liabilities were classified as repayable up to a year, despite the fact that in practice their actual repayment dates could be many years later..

Note 37- Risk management (contd.)

D. Liquidity risks (contd.)

5. Liabilities for lease contracts

	Average effective interest rate	Up to one year	1-5 years	More than 5 months	Total
	%	NIS million	NIS million	NIS million	NIS million
At December 31, 2021					
Lease liabilities	**1.4%-2.7%**	**28**	**42**	**14**	**84**
At December 31, 2020					
Lease liabilities	1.4%-2.7%	28	38	12	78

E. Insurance risks

The insurance risk includes, inter alia:

Underwriting risks: The risk of incorrect pricing because of deficiencies in the underwriting process, and the gap between the risk when pricing and determining the premium, and actual occurrence, such that the premiums collected are not sufficient to cover future claims and expenses. These differences may result from random changes in business results and changes in the average cost of claims and/or claim frequencies, as a result of various factors.

Reserve risks: The risk of incorrect evaluation of insurance liabilities which may lead to a situation where the actuarial reserves are inadequate to cover all liabilities and claims. The actuarial models are used by the Group to evaluate its insurance liabilities, are based on the assumptions that patterns of conduct and past claims are an indication of future events. The Company's exposure consists of the following risks:

1. Model risk - the risk of choosing an incorrect model for pricing and/or evaluating insurance liabilities.
2. Parameter risk - the risk of using incorrect parameters, including a risk that the amount that will be paid for settlement of the company's insurance liabilities, or that the date of settlement of the insurance liability, will be different than expected.

Catastrophe risk: Exposure to an isolated event of great significance (catastrophe) such as natural perils and disasters, war, terror or earthquake that will result in accumulated loss on a large scale. The most significant catastrophe to which the Group is exposed to an earthquake in Israel.

At the date of the report, the maximum anticipated loss in non-life insurance business as a result of exposure to single large loss or accumulative loss for a particularly large event, under a maximum probable loss (MPL) of 2.46% is NIS 16,642 million gross and NIS 162 million in self-retention. In accordance with the Company’s risk management policy, the Company acquires more extensive reinsurance cover to cover a particularly large loss with the probability of maximum loss and accordingly, the actual cover is higher than the maximum loss noted above.

For information about the various insurance products for which the insurer has exposure to insurance risk, see details of insurance liabilities, by insurance risk, in Note 3C - Additional information about the non-life insurance sector.

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies

A. General

The following is at a description of the various insurance products and assumptions that are used for calculating the liabilities, by product type.

As a rule, and in accordance with the Commissioner's provisions, insurance liabilities are calculated by the actuary, using accepted actuarial methods and consistent with previous years. These liabilities are calculated in accordance with relevant coverage data such as age and sex of the insured party, policy period, commencement date of the insurance, type of insurance, periodic premium, and the sum insured.

B. Actuarial methods for calculating insurance liabilities

1. "Adif" and "Investment Track" plans.

   These policies have an identified savings' component. The basic and principal reserve is the amount of accumulated savings accrued plus yield in accordance based on the policy conditions, as follows:

   - Fund linked to the return on the investment portfolio (yield dependent contracts).
   - Fund linked to the CPI plus a guaranteed fixed interest or entitlement to a guaranteed yield, against matching assets (guaranteed yield policies).

   With respect to other insurance components attached to these policies (disability, death, long-term care, etc.) - the insurance liability is calculated separately as stated below.

2. "Me'urav" polices and the like (plans of the "Traditional" type)

   "Me'urav" and similar policies combine a savings component in the event that the insured party is still alive at the end of the policy term, with a risk component for death over the policy term. The insurance liability for these products is calculated for all coverage, using discounted cash flows for expected claims, including payment at the end of the term, less expected future premiums. This calculation is based on the assumptions used in pricing the products and/or assumptions based on claims experience, including interest rates ("tariff interest") and mortality or morbidity tables, (see also sub-section e.2 below). The calculation was made using the "Net Premium Reserve" method which does not include under expected receipts, the component that was included in the premium tariff to cover commissions and expenses, and on the other hand, does not deduct expected expenses and commissions. The reserve for yield-dependent traditional products is calculated in accordance with returns actually earned less management fees.

3. Liabilities for annuities in payment out are calculated pursuant to life expectancy, based on updated mortality tables which were prepared after considering the group's experience, with the help of data published by the Ministry of Finance actuary in a circular issued by the Commissioner. For additional information, see Note 3C above

4. Liabilities for whole-life annuities in respect of policies in force (in payment and paid up) that have not yet reached the exercising of the annuity stage, or have reached the age of retirement but payment has not yet commenced, is calculated in accordance with the probability of withdrawal of the annuity for the anticipated life expectancy, on the basis of updated mortality tables. When updating the mortality tables, there is a gradual increase of the liability for annuity taking into account expected profit from the policies, until the insureds reach retirement age, in accordance with circulars issued by the Commissioner. The lower the guaranteed annuity coefficients in the policies, the greater the required increase. For additional information, see Note 3C above.

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies (contd.)

B. Actuarial methods for calculating insurance liabilities (contd.)

5. Other life assurance policies and health policies insurance include pure risk products (work disability, death, long-term care, critical illness, incapacity etc.) which are sold as stand-alone policies or are attached to basic policies such as "Adif," Investment Track or "Masorti". Liabilities for these policies are calculated using actuarial methods. For some of these policies, the calculation is made using the Gross Premium Reserve in which the expected flow of receipts includes all premium components less expected commissions and expenses. Regarding on-going claims, in work disability insurance, the insurance liability is calculated based on the anticipated duration of the payment period, discounted using the tariff interest.

   The insurance liability in the long-term care policies purchased as part of the transaction to acquire the operations of Eliahu is calculated using the Net Premium Reserve Method, in view of the different specifications of this policy, relative to Harel's existing plans.

6. Liabilities for ongoing claims in payment in long-term care (LTC) and work disability (P.H.I.) insurance are calculated are calculated on the basis of individual assessments for each claim, based on the following parameters: amount of monthly compensation, the maximum period for payment of the claim, seniority of the claim and status of the claim. A reserve for IBNR is added to this amount, which is calculated statistically on the basis of past experience.

7. Insurance liabilities for group insurance include a reserve for IBNR (claims incurred but not yet reported), a provision for continuity and a provision for future loss, as necessary.

8. Liabilities for outstanding claims in health insurance are calculated based on the Company's experience.

9. Liabilities for outstanding life-assurance claims consist principally of provisions for outstanding claims for death, based on the sum at risk.

10. The liabilities for outstanding claims in respect of IBNR claims in life assurance and health insurance are usually calculated based on the Company's experience.

11. Special provision is recorded if the Liability Adequacy Test, described in Note 3C shows that it is necessary.

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies (contd.)

C. Key assumptions used for calculating insurance liabilities

1. Discounting rate

For Meurav and similar insurance policies ("Traditional") (see 1B above) and pure risk products with fixed premiums, the interest rate that serves for discounting is as follows:

- For insurance policies backed partially by earmarked bonds, tariff interest of between 3% and 5%, CPI-linked.
- For yield-dependent products, issued from 1991 onwards, tariff interest of 2.5%, linked. In accordance with terms of the policies, changes in interest rates will be charged to the insured parties.
- For the active life reserve in personal lines long-term health and LTC products – a tariff interest rate of 2.5%, linked.

The discounting interest rate may change due to significant changes in the interest rate in the economy for the long term.

On the revised discounting interest rates, see Note 3C.

2. Mortality and morbidity rates

A. The mortality rates used in the calculation of insurance liabilities for death of policyholders before they reach retirement age (i.e. not including the death of insureds who receive annuities and monthly compensation for work disability or long-term care) are generally the same as the rates used in determining the tariff.

B. The liability for whole-life annuity payments for insureds who are already receiving an annuity is calculated in accordance with revised mortality tables published by the actuary in the Finance Ministry. These tables are also used for the mortality calculations for insureds who have not yet begun to receive an annuity from the expected date for receiving the annuity. Up to the anticipated date for receiving the annuity, a revised mortality table is used which is calculated on the basis of the Company's experience.

The mortality tables published by the Finance Ministry's actuary are also used when conducting a Liability Adequacy Test, described in Note 3C.

An increase in the assumption of mortality rates, due to an increase in the actual mortality rate, to a level that exceeds the existing assumption, will lead to a reduction in the insurance liabilities for all-life annuity payments. It should be noted that the last few decades have seen an opposite trend of increases in longevity and decreases in mortality. The mortality assumption which is used to calculate annuity liabilities takes into account a discount for future increases in longevity.

C. Morbidity rates consider the frequency of claims for critical illness, work disability, long-term care, operations and hospitalization, incapacity because of accident, etc. These rates were set on the basis of the Company's experience.

An increase in the assumptions for morbidity rates will result in an increase in the insurance liability for incidence from critical illness, disability, long-term care, operations, hospitalization and incapacity due to accidents.

Note 37- Risk management (contd.)

E. Insurance risks (contd.)

1. Insurance risk in life assurance and health insurance policies (contd.)

C. Key assumptions used for calculating insurance liabilities (contd.)

3. Annuity take-up rates
   Life assurance policies, which include a savings component, were managed, for money deposited up to 2008, in two tracks: a capital track and an annuity track. From 2008, all policies are annuity based. In some policies, the insured party may choose the track upon retirement. As the amount of insurance liability is different in each of the two tracks, the Company must determine the percentage of insurance plans in which the policyholders choose the annuity track. This rate is set in accordance with the instructions of the Capital Market, Insurance and Savings Authority, with adjustments for the Company's experience. For additional information, see Section E2 below.

4. Cancellation Rates
   The rate of cancellation affects the insurance liabilities, in respect of some health insurance contracts and all-life annuity contracts during the period before payments begin. Cancellation of insurance policies could result from cancellation initiated by the Company because the payment of premiums has ceased, or due to surrender by the policyholders. The assumptions regarding cancellation rates are based on the Company's experience, the type of product, the lifespan of the product and sales trends.

5. Sensitivity tests in life assurance and health insurance

The sensitivity tests refer to the assumptions underlying the calculation of the insurance liabilities in the books.

	As at December 31, 2021							
	Cancellation Rates (Redemptions, Settlements, Reductions)		Morbidity Rate		Mortality Rate		Annuity take-up Rate*	
	10%+	10%-	10%+	10%-	10%+	10%-	5%+	5%-
	NIS million							
Profit (Loss)	42	(54)	(480)	444	1,138	(1,573)	(74)	74

	As at December 31, 2020							
	Cancellation Rates (Redemptions, Settlements, Reductions)		Morbidity Rate		Mortality Rate		Annuity take-up Rate*	
	10%+	10%-	10%+	10%-	10%+	10%-	5%+	5%-
	NIS million							
Profit (Loss)	80	(102)	(581)	517	1,045	(1,517)	(68)	68

* For the amount of the supplementary reserve for annuity, see Note 20A.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

2. Changes in the key assumptions used for calculating the insurance liabilities in the life assurance segment and health insurance segment

In the reporting year, some of the assumptions used for assessing the reserves were revised, based on the cumulative experience acquired by the Company.

Following are principle effects on the financial results in the life and health segments:

	2021	2020	2019
	NIS million	NIS million	NIS million
Life assurance segment			
Revised assumptions in relation to take-up of Gimla	-	217	-
Application of a circular on revised mortality tables	-	-	(91)
Revised cancellation assumptions	-	-	(27)
Total effect of changes in key assumptions in life assurance segment	-	217	(118)
Health insurance segment			
Personal lines health			
Revised assumptions in relation to cancellation rate	-	(30)	-
Revised assumptions in relation to morbidity rate	-	-	112
Study relating to the cost of claims (a)	**300**	-	-
	300	(30)	112
Personal lines LTC			
Application of a circular on revised mortality tables	-	-	70
Revised assumptions in relation to cancellation rate	-	19	-
	-	19	70
Total effect of changes in the key assumptions in the health insurance segment	**300**	(11)	182
Total effect of changes in the key assumptions in the life and health segments before tax	**300**	206	64
Total effect of changes in the key assumptions in the life and health segments after tax	**197**	136	42

(a) Completion of a study relating to the cost of claims in the personal lines health sector

In the Reporting Period, a study relating to the cost of claims in the personal lines health sector was completed. The effect of the foregoing led to a reduction of the insurance liabilities by NIS 300 million before tax.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies

The following is an analysis of various insurance products, methods and assumptions used in calculating liabilities in accordance with product type.

The Group has insurance contracts in the field of non-life insurance, mainly in the compulsory motor sectors, liabilities, motor property (CASCO), and property insurance.

Compulsory motor insurance policies cover the policyholder and the driver for all liabilities that they may incur under the Compensation for Road Accident Victims Law, 1975, due to physical injury as a result of the use of the motor vehicle, to the driver, to passengers of the vehicle, or to pedestrians injured by the vehicle. Compulsory motor vehicle claims are "long tail", that is – a long time lag from the date of the event until final settlement of the claim.

Liability insurance is geared to cover debts of an insured party for damage that he may cause to a third party. The main types of insurance include - third party, employers' liability, professional liability, product liability, and directors and officers (D&O) liabilities. The timing of submitting the claim and settlement is affected by a number of factors such as type of coverage, policy terms, legislation, and legal precedents. Generally, liability claims are "long tail".

Policies that insure against motor vehicle damage and third party motor property damage grant the insured party coverage for property damage. The coverage is generally limited to the value of the vehicle that was damaged. The premium for motor vehicle property insurance requires approval, as does the policy in general, by the Commissioner, and is an actuarial and partially differential rate (which is not uniform for all insured parties and is adjusted for risk). Said tariff is based on a number of parameters, those related to the vehicle of the insured policyholder (such as type of vehicle, year of manufacture, etc.), and those related to the specifications of the insured party (age of the driver, claims experience etc.). The underwriting process is performed partially by means of the actual tariff and through a set of procedures designed to check the insured's claims experience, which include presentation of proof of "no-claims" from the previous insurer for the last three years, proof of updated protection, which are integrated automatically during the issue of the policies.

In most cases, motor vehicle insurance policies are issued for a period of one year. In addition, in most cases, claims against these policies are settled close to the date of the insurance event.

Property insurance is intended to grant the insured party coverage against physical damage to his property and loss of profit following damage to his property.

The main risks that are covered by the policies are - risk of fire, explosions, burglary, earthquakes and natural perils. Property insurance sometimes includes cover for loss of profit following physical damage to the property. Property insurance is an important part of residential, business, engineering, and cargo (maritime, land, air) insurance policies. In most cases, claims against these policies are settled close to the date of the insurance event.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

A. Principles for calculating the actuarial estimate in non-life insurance

General

(a) Liabilities for non-life insurance contracts include the following key components:

- provision for unearned premiums
- premium deficiency
- outstanding claims
- and net of - deferred acquisition costs

The provision for unearned premiums and deferred acquisition costs is calculated independent of any assumptions, and accordingly is not exposed to any reserve risk. Regarding the manner of calculating the provisions, see Note 3.

(b) In accordance with the Commissioner's instructions, in the grouped and non-grouped branches, outstanding claims are calculated by the actuary responsible for non-life insurance, using accepted actuarial methods consistent with the previous year. The actuary has the discretion to choose the appropriate actuarial method for all insurance branches, and for each event year/underwriting year, based on the extent to which the method is appropriate for the branch. Sometimes a combination of methods is used. The evaluations are based primarily on experience with developments in claims payments and/or developments in the amount payments and individual evaluations. The evaluations include assumptions regarding the cost of an average claim, claim handling costs, and frequency of claims. Additional assumptions may relate to changes in interest rates, timing of payments, payments of claims including direct and indirect costs to settle claims, less subrogation and deductibles.

(c) The use of actuarial methods based on claim development is appropriate mainly when there is stable and adequate information on claims payments and/or individual evaluations in order to evaluate the total estimated cost of the claim. If information on actual claims experience is not sufficient, the actuary, occasionally, makes use of a weighted calculation, taking into account known estimates (in the company and/or the branch) and actual claims development. A greater weight is given to an estimation based on experience gained over time and additional information on claims.

(d) Qualitative evaluations and discretion are also used regarding the possibility that past trends will not continue in the future. For example - following a non-recurring event, internal changes such as a change in the portfolio mix, in underwriting policy, and procedures on handling claims, and for the effect of external factors such as legal decisions, legislation etc. When these changes are not fully reflected in past experience, the actuary updates the models and/or makes specific provisions on the basis of statistical and/or legal evaluations, as relevant.

(e) In other branches where an actuarial model is not applied, the provision is based (gross and on retention) on professional opinions prepared by company experts, and on recommendations of legal counsel.

(f) The re-insurers' share of outstanding claims is estimated taking into account the type of treaty (proportionate/not proportionate), actual claims experience and the premium that was transferred to the reinsurer.

(g) The estimate of outstanding claims for the Company's share of the Pool, in incoming business and co-insurance received from other insurance companies (leading insurers) was based on a calculation made by the Pool or by the other insurers.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

B. Actuarial methods used in the key branches of insurance

Actuarial estimates are based mainly on information in respect of claims paid and individual estimates that also include direct expenses for claims settlement, net of subrogation and deductibles. Notably, in accordance with instructions of the Commissioner of Insurance, the provisions must also include indirect costs for claims settlement for all underwriting years.

(a) Property loss sector (excluding insurance for the work of building contractors, natural perils and terror damages) and comprehensive household (including mortgage banks) branches

The models used by the group include - a payments development model, outstanding claims development model, a quantitative claims model (with use of the following methods - "Link Ratios", "Chain Ladder") and averages for a development period up to two and a half years, plus a tail for any subsequent development period. For old, open claims, (with a loss year before two and half years ago), the Group takes the contingent claims as they were valued by the claims department in non-life insurance. Extraordinary events are treated separately.

In the comprehensive homeowners sector (including mortgage banks), a stochastic model is used to estimate the reserve (Bootstrap model) for the purpose of compliance with the Commissioner's position on the best practice for calculating non-life insurance reserves.

(b) Motor property branch

1. Accidents

The models used by the group include - a payments development model, outstanding claims development model, a quantitative claims model (using the following methods - "Link Ratios", "Chain Ladder") and averages for development terms up to two and a half years, plus a tail for any subsequent development period.

In respect of old and open claims (where damage was more than two and a half years ago), the group accepts the outstanding claims as evaluated by the non-life insurance claims division.

Extraordinary events are treated separately.

2. Total loss / theft

In respect of known claims, the outstanding claims are as they were estimated by the non-life claims department.

Regarding unreported claims, the number of claims not yet reported is determined using the Link Ratios and Chain Ladder methods. The cost of claims is determined by the averages method. The calculation is made on a gross basis, before the reinsurer's share. The reinsurer's share in proportional contracts is calculated in accordance with the reinsurance treaties.

In the motor property sector, a stochastic model is used to estimate the reserve (Bootstrap model) for the purpose of compliance with the Commissioner's position on the best practice for calculating non-life insurance reserves.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

B. Actuarial methods used in the key branches of insurance (contd.)

(c) Compulsory motor

The models used by the group include - a payments development model, outstanding claims development model, a quantitative claims model (with use of the following methods - "Link Ratios", "Chain Ladder"), and averages for development periods of up to 17 years, plus a tail for subsequent periods of development. For later underwriting years the company uses the Bornhuetter - Ferguson (BF) method. In addition, the standard deviation is calculated using the Thomas Mach method.

In respect of old and open claims the company includes the amount of outstanding claims, as estimated by the non-life insurance claims division. The reserve for the company's share in the residual insurance arrangement ("the Pool") is based on a calculation prepared by the Pool.

A stochastic model is used to estimate the reserve (Bootstrap model) for the purpose of compliance with the Commissioner's position on the best practice for calculating non-life insurance reserves.

(d) Liabilities branches - employers' liability, third party liability (including facultative claims), professional liability (including doctors and managers liability) and product liability.

The models used by the group include - a payments development model, outstanding claims development model, a quantitative claims model (using the following methods - "Link Ratios", "Chain Ladder"), and averages for development periods of up to 17 years, plus a tail for subsequent periods of development. For later underwriting years the company uses the Bornhuetter-Ferguson (BF) method. In addition, standard deviations are calculated using the Thomas Mach method.

In respect of old open claims, outstanding claims are included as estimated by the non-life insurance claims division. In the liabilities sectors, excluding third party liability, the provision in respect of facultative claims is the maximum between total of outstanding claims, as estimated individually by the non-life insurance claims division, and total outstanding claims calculated using said actuarial model. In the third party liability the provision for facultative claims is made based on a separate actuarial model.

The calculation is made gross, before the reinsurers' share. The reinsurers' share is calculated in accordance with the agreements. In XOL reinsurance - the company takes into consideration the estimates of the known big claims, as well as the premium paid to reinsurers in recent years.

A stochastic model is used to estimate the reserve (Bootstrap model) for the purpose of compliance with the Commissioner's position on the best practice for calculating non-life insurance reserves.

(e) Provisions based on other evaluations (non-actuarial)

In accordance with the Commissioner's instructions, Harel Insurance also examined the calculation of the actuarial provisions for the following sectors: work performed by building contractors, natural perils, terror losses and sale guarantees. Due to a lack of statistically significant information, an actuarial model was not applied in these branches. The outstanding claims with respect to these branches were included based on estimates that included the following components:

1. Known outstanding claims, including an appropriate provision for settlement and handling expenses up to the end of the period, and which have not yet been paid at the date of the financial statements. This provision is based, mainly, on an individual evaluation of each claim according to an opinion received from the Company's attorneys and its experts handling the claims.
2. Provision for claims incurred but not yet reported (IBNR) and provision for claims incurred but not enough reported (IBNER) is based on Harel Insurance's actual experience.

Note 37 - Risk management (contd.)

E. Insurance risks (contd.)

3. Insurance risk in non-life insurance policies (contd.)

C. Key assumptions used in preparing the actuarial evaluations

1. The actuarial models are based on data adjusted to the date of the report, under the basic assumption that in future, the cost of claims will increase by the amount of the increase in the CPI and provisions will be discounted in accordance with the best practice instructions and the risk-free interest rate curve adjusted to the non-liquid nature of the liabilities, and taking into account the difference between the fair value and book value of the non-marketable assets.
2. A supplement is included for the risk margin in the liabilities branches which is based on a calculation of standard deviation using the Thomas Mack method.
3. Claims development tail - use is made of a tail, as described above.

4. Changes in the key assumptions used to calculate the insurance liabilities for non-life insurance contracts

On a revision of the interest rates used for discounting, see Note 3C.

In the past year, no other significant changes were made in the model and the actuarial assumptions used for calculating the insurance liabilities.

Note 37 - Risk management (contd.)

F. Risks Involved in Financial Activities

Financial activity exposes the group to various risks the most important of which are: market risk (including foreign currency risk and fair value risk in respect of interest rates, and index risks), credit risk, liquidity risk and operating risk.

1. Market risk

The Company's subsidiaries in the financial services sector are directly or indirectly involved in such areas as investment management, portfolio management, financial products, mutual fund management and hedge fund management, and therefore operate in a capital market characterized by fluctuations, arising, inter alia, from the effects of political, governmental, security and economic factors in Israel and the world, over which the Group has no control. Such fluctuations, together with the fact that some of the companies cover their obligations with derivatives, which are more volatile, influence the scope of public activity in the capital markets and the prices of securities. Market risk is defined as "the risk of losses on and off balance-sheet positions attributable to changes in market prices".

2. Credit risk

The companies are exposed to the credit risks of various bodies, including institutions in which cash and securities have been deposited and subsequently used to borrow securities that are assets of the subsidiaries, or their customers, as well as bodies that have issued derivatives that are purchased by the subsidiary. When subsidiaries deposit securities with a foreign bank or broker, the exposure arises from the fact that should the foreign bank or broker become insolvent, a significant amount of time may pass before the subsidiaries are able to retrieve the securities that were deposited, as above, if at all.

3. Operating risks

An operating risk is defined as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events".

Operating risk is an integral part of all activities, products, systems and work processes carried out in the Company. Awareness and management of the operating risk at all levels is therefore important.

Managers at the Company's different management echelons are responsible for the ongoing management of operating risk and taking action to minimize the risk, with professional support from the risk management and control department. Some of the operating risks are managed by other control entities, for the compliance officer, the head of information security and head of deployment for crisis management.

The Company routinely assesses its exposure to operating risks and takes measures to reduce them.

4. Liquidity risk

Harel Finance Group works to maintain the existing balance between the ongoing financing it receives and existing flexibility, by using overdraft facilities and loans from banks and others.

Liquidity risk reflects the exposure to a situation in which there is a shortage of cash or available sources of credit for the purpose of conducting activity, at times when the issuer has an immediate need for liquid assets.

5. Interest rate risk

Likewise, there are risks in operations involving financial instruments that stem from changes in the interest rates. Sometimes, interest rates are a parameter in pricing derivative financial instruments, and are used by the Group to manage its investments. An unexpected change in the interest rate may cause the Group a gain or loss attributable to its holding of financial instruments, the prices of which changed as a result of the interest rate change.

Note 37 - Risk management (contd.)

F. Risks Involved in Financial Activities (contd.)

6. Risk in respect of changes in the underlying assets and indices

In their activity in securities, commodities, financial instruments and derivative assets, the Company and the subsidiary aim to hedge the exposure to changes in the underlying assets (share indices, bond indices, stocks, commodities and/or futures contracts), although such activity is not risk free. As noted above, in this activity the Company is exposed to changes in the underlying assets, the most important of which are outlined below:

Changes in the price of the underlying assets - a change in the price of the underlying assets exposes the Company and/or the subsidiary to losses or profits on amounts in which the Company is exposed from to time to time to those underlying assets.

Sharp fluctuations in the underlying asset - sharp fluctuations in the underlying asset of derivative assets in the short term cause an increase in the premiums paid on the purchase of options, which reflect the market uncertainty and might affect the scope of the assets and liabilities of the Company and/or the subsidiary for options that are created and/or acquired, and this in turn may positively or negatively affect the business results stemming from this activity.

Suspension of trade and trading difficulties - the suspension of trade and/or other trading difficulties in the underlying assets or options or future contracts, such as low volumes of trade, may make it impossible to perform transactions and/or conversions and may create a situation in which open positions cannot be closed and daily balancing operations cannot be performed.

7. Interest rate changes

Activity in financial instruments includes risks arising from changes in the interest rates in Israel and/or abroad and from changes in the interest rates on deposits in Israel and/or abroad. Interest rates are one of the parameters used to price derivative financial instruments, and may be used by the Group for managing its investments. Unexpected changes in the interest rates may cause the Company and/or the subsidiary a gain or loss arising from the holding of financial instruments, the prices of which change as a result of these interest rate changes. To reduce the Company's exposure to interest rate changes, the Company reserved the right to change the interest rates which are subtracted from or added to the price of the ETNs that the Company issues to the public.

8. Change in standard deviation (SD)

Changes in the SD inherent in options on the indices that are tracked by the ETNs issued by the Company or on any component of the futures contracts or on shares that are tracked by the ETNs issued by the Company, might, in the event of a purchase or a sale, affect the business results arising from this activity. These changes are sometimes caused by an excess or absence of volatility in the underlying asset. To reduce the Company's exposure to changes in the SD, the Company hedges and limits its risk in the activity by means of options that are not part of whole contracts.

9. Compromising the tracking of changes in the underlying asset

Compromising the Company's ability to track the changes in the underlying asset or securities included in the underlying asset, as applicable, might create a situation in which the Company is unable to hedge the exposure to changes in the underlying asset. In light of the fact that this damage may occur, in part due to a failure of the computer systems used by the Company, the Company attempts to reduce this exposure, in part by means of backup systems.

10. Change in weight of securities in the index in index-related events

On pre-arranged dates, the TASE adjusts the weights and changes the mix of the index in accordance with criteria known in advance. When the Company does not make the necessary weight adjustment, an exposure may be created for the Company which might cause losses.

Note 37 - Risk management (contd.)

F. Risks Involved in Financial Activities (contd.)

11. Changes in the return on cash surpluses

The use of derivative instruments to cover the Company's obligations towards ETN holders creates cash surpluses that are invested in financial instruments which provide a different return depending on the pricing of the derivative assets. A change in the return received on the cash balances, whether due to a reduction and/or increase in interest rates in Israel and/or abroad, or to a change in the interest rate margins applied in Israel and/or abroad, might have a positive or negative impact on the Company's business results and on ability to pay for the conversion or sale to ETN holders of any particular series. To reduce the Company's exposure to interest rate changes, the Company reserved the right to change the interest rates which are subtracted from or added to the price of the ETNs that the Company issues to the public.

12. Changes in the players and improvement of the capital market

Subject to the limitations that apply to the activity of the Company and/or the subsidiary in the financial instruments sector, the Company and/or the subsidiary attempt to take advantage of opportunities such as price differences arising from the lack of sophistication of the capital market. The expected entry of additional entities to trading in financial instruments and improvement of the capital market might limit such opportunities, and this may negatively affect the Company's business results.

13. Price discrepancies between derivative assets and the underlying assets

On index products (and for their underlying assets) for which there are derivate assets and the Company is fully or partially covered in relation to these index products by means of the aforementioned derivatives, there is a risk of creating discrepancies between the prices of the derivative assets on the relevant underlying assets and the relevant underlying assets. A direct outcome could be that the Company's business results are compromised and it is unable to pay the conversion or exercised amounts or the proceeds of the conversion to the holders of these index products.

14. Short trading

Short trading increases the Company's exposure to securities with low tradability, suspension of trading or other marketable difficulties. To reduce this risk, the Company adopted a policy of reducing its exposure to securities and underlying assets.

15. Unexpected conversion or sale by a significant part of the ETN holders

If a significant part of the holders of ETNs of a particular series wish to convert / sell the ETNs on a date not foreseen by the Company, there is a risk of the Company's ability to convert / exercise all the assets and transfer to the ETN holders the full proceeds of the conversion / sale on that date.

16. Breach event relating to one series of ETNs

The risk that a breach event relating to one series of ETNs will affect the holders of ETNs in the other series. To reduce the serious exposure, the Company takes action to create legal segregation between the Company's obligations towards the holders of each series of index products that it issues, in part by pledging the relevant assets for each series in favor of the Company's obligations in connection with that series.

17. Business licenses

Given that the Company's activity involves the holding of financial instruments that track indices or futures contracts, the use of the index or futures contracts requires a license. Expiry of the license to use any particular index or futures contract might cause the Company to perform a forced conversion or forced sale, as applicable, of the relevant ETNs.

Note 37 - Risk management (contd.)

F. Risks Involved in Financial Activities (contd.)

18. Change in the leverage of complex certificates

In notes that are leveraged in points, the percentage change is volatile - it is reduced when the underlying asset increases and increases when the underlying asset decreases. These complex certificates might create market exposure and cause losses as a result of a sharp change in the underlying asset. Additionally, in ETNs that are comprised of several underlying assets, an increase in one asset may cause an increase in its relative weight in the total value of the ETN and reduce the weight of the other underlying assets, and vice versa. This could create a mix that differs from the basic mix of the note and as a result change the risk entailed in holding the note. Furthermore, on the quarterly balancing date, the Company is required to take action to adjust the weights of the backing asset in accordance with the basic weights. If such action is not taken on time, an exposure is created to the underlying asset.

19. Risk due to regulatory changes

The advertising and distribution of the Company's products among investors are subject to regulatory restrictions that may delay expansion of the Company's activity and penetration of its products among private investors. Furthermore, changes in legislation and standards relating to securities in general and financial products in particular might compromise the Company's ability to operate in this operating segment and adversely affect the Company's profitability in this segment, including as a result of costs incurred by the Company due to these regulatory changes, as in the case of a requirement to provide additional equity.

20. Currency exposure

In ETNs in which the underlying asset is not traded in shekels, there may be surplus or short currency exposure that could cause losses or gains (in shekel terms) as a result of fluctuating exchange rates. Additionally, currency adjusted notes are typically characterized by quanto risk - for information see Section 21 below.

21. Risk of exposure in respect of quanto

Where the backing asset is not linked to the currency of the note, changes in the price of the backing asset or the currency to which it is linked create positions in the underlying asset or the currency to which the backing asset is linked.

Note 37 - Risk management (contd.)

G. Information about credit risks

1. Distribution of debt assets, by location

	As at December 31, 2021		
	Marketable	Non-marketable	Total
	NIS million	NIS million	NIS million
In Israel	**12,919**	**15,980**	**28,899**
Abroad	**660**	**649**	**1,309**
Total debt assets	**13,579**	**16,629**	**30,208**

	As at December 31, 2020		
	Marketable	Non-marketable	Total
	NIS million	NIS million	NIS million
In Israel	10,201	14,431	24,632
Abroad	866	644	1,510
Total debt assets	11,067	15,075	26,142

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating levels

1. Debt assets in Israel

	Local rating*				
	As at December 31, 2021				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets in Israel					
Marketable debt assets					
Government bonds	7,970	-	-	-	7,970
Corporate bonds	4,343	592	3	11	4,949
Total debt assets marketable in Israel	12,313	592	3	11	12,919
Non-marketable debt assets					
Government bonds	4,779	-	-	-	4,779
Corporate bonds	1,025	23	5	-	1,053
Deposits in banks and financial institutions	4,149	-	-	-	4,149
Other debt assets by collateral:					
Mortgages	-	-	-	823	823
Loans on policies	-	-	-	9	9
Loans for which shares that confer control are pledged	106	82	-	-	188
Other sureties	1,533	2,649	147	649	4,978
Not secured	-	-	-	1	1
Total debt assets not marketable in Israel	11,592	2,754	152	1,482	15,980
Total debt assets in Israel	23,905	3,346	155	1,493	28,899
Of this - debt assets with an internal rating **	502	1,947	152	-	2,601

* The sources for the rating level in Israel are the rating companies approved by the Commissioner. The rating figures were converted to the rating symbols used by S&P, based on generally accepted conversion coefficients. Each rating incorporates the entire range, e.g.: an A rating comprises A- to A+.

** Pursuant to Commissioner's circulars 2007-9-15 and 2007-9-16, the Group has organizational and administrative credit management infrastructure. In this context the Company monitors and assesses all the debt assets in which it invests. Debt assets which do not have an external rating from a rating company are rated internally by the Group, see Section G3 below.

The debt assets presented in the tables below as internally rated assets are those for which there is no external rating.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating levels (contd.)

1. Debt assets in Israel (contd.)

	Local rating*				
	As at December 31, 2020				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets in Israel					
Marketable debt assets					
Government bonds	5,922	-	-	-	5,922
Corporate bonds	3,731	508	13	27	4,279
Total debt assets marketable in Israel	9,653	508	13	27	10,201
Non-marketable debt assets					
Government bonds	5,147	-	-	-	5,147
Corporate bonds	1,001	15	9	-	1,025
Deposits in banks and financial institutions	2,536	-	-	-	2,536
Other debt assets by collateral:					
Mortgages	-	-	-	746	746
Loans on policies	-	-	-	14	14
Loans for which shares that confer control are pledged	125	136	-	-	261
Other sureties	1,605	1,811	-	1,285	4,701
Not secured	-	-	-	1	1
Total debt assets not marketable in Israel	10,414	1,962	9	2,046	14,431
Total debt assets in Israel	20,067	2,470	22	2,073	24,632
Of this - internally rated debt assets **	544	1,039	9	-	1,592

* The sources for the rating level in Israel are the rating companies approved by the Commissioner. The rating data were converted to the rating symbols of S&P, based on generally accepted conversion coefficients. Each rating incorporates the entire range, e.g.: an A rating comprises A- to A+.

** Pursuant to the Commissioner's circulars 2007-9-15-and 2007-9-16, the Group has the organizational and management infrastructure for credit management. In this context, the Company monitors and reviews all the debt assets in which it invests. The Group prepares an internal rating for debt assets where no external rating is issued by a rating company, see Section G3 below.

The debt assets presented in the tables below as internally rated debt assets are those for which there is no external rating.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating levels (contd.)

2. Debt assets abroad

	International rating *				
	As at December 31, 2021				
	A- and higher	BBB to BBB+	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets abroad					
Marketable debt assets					
Government bonds	11	24	83	-	118
Corporate bonds	37	463	42	-	542
Total debt assets marketable abroad	48	487	125	-	660
Non-marketable debt assets					
Corporate bonds	-	-	-	9	9
Deposits in banks and financial institutions	-	-	76	-	76
Other debt assets	261	76	27	200	564
Total debt assets not marketable abroad	261	76	103	209	649
Total debt assets abroad	309	563	228	209	1,309
Of this – internally rated debt assets **	261	77	27	-	365

	International rating *				
	As at December 31, 2020				
	A- and higher	BBB to BBB+	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets abroad					
Marketable debt assets					
Government bonds	176	28	64	-	268
Corporate bonds	71	524	3	-	598
Total debt assets marketable abroad	247	552	67	-	866
Non-marketable debt assets					
Deposits in banks and financial institutions	-	-	111	-	111
Other debt assets	209	51	20	253	533
Total debt assets not marketable abroad	209	51	131	253	644
Total debt assets abroad	456	603	198	253	1,510
Of this - internally rated debt assets **	209	51	20	-	280

* The sources for the rating level abroad are the rating companies approved by the Commissioner – Moody's S&P, and Fitch. Each rating incorporates the entire range, e.g.: an A rating comprises A- to A+.

** Pursuant to the Commissioner's circulars 2007-9-15-and 2007-9-16, the Group has the organizational and management infrastructure for credit management. In this context, the Company monitors and reviews all the debt assets in which it invests. The Group prepares an internal rating for debt assets where no external rating is issued by a rating company, see Section G3 below.

The debt assets presented in the following table as internally rated debt assets are those for which there is no external rating.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating level (contd.)

3. Credit risk on other assets in Israel

	Local rating*				
	As at December 31, 2021				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Loans to equity accounted investees **	-	-	-	28	28
Other receivables (1)	253	-	-	950	1,203
Deferred tax assets	18	-	-	-	18
Current tax assets	2	-	-	-	2
Other financial investments	306	-	-	992	1,298
Cash and cash equivalents	2,367	77	-	-	2,444
	2,946	77	-	1,970	4,993

	Local rating*				
	As at December 31, 2020				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Loans to equity accounted investees **	-	-	-	26	26
Other receivables (1)	331	-	-	715	1,046
Deferred tax assets	9	-	-	-	9
Current tax assets	6	-	-	-	6
Other financial investments	259	-	-	1,258	1,517
Cash and cash equivalents	2,598	93	-	-	2,691
	3,203	93	-	1,999	5,295

* The sources for the rating level in Israel are the rating companies approved by the Commissioner. The rating data were converted to the rating symbols of S&P, based on generally accepted conversion coefficients. Each rating incorporates the entire range, e.g.: an A rating comprises A- to A+.

** Included within investment in equity accounted investees.

(1) Of this amount, NIS 277 million and NIS 426 million at December 31, 2021 and 2020, respectively, are in respect of assets for yield-dependent contracts.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating level (contd.)

4. Credit risk for other assets abroad

	International rating *				
	As at December 31, 2021				
	A- and higher	BBB to BBB+	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Loans to equity accounted investees **	-	-	-	308	308
Other receivables (1)	2	20	-	26	48
Other financial investments	48	-	-	2,249	2,297
Cash and cash equivalents	133	1	47	-	181
	183	21	47	2,583	2,834

	International rating *				
	As at December 31, 2020				
	A- and higher	BBB to BBB+	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Loans to equity accounted investees **	-	-	-	303	303
Other receivables	2	136	-	62	200
Other financial investments	5	-	-	1,716	1,721
Cash and cash equivalents	79	1	150	-	230
	86	137	150	2,081	2,454

* The sources for the rating level abroad are the rating companies approved by the Commissioner - Moody's, S&P and Fitch. Each rating incorporates the entire range, e.g.: an A rating comprises A- to A+.

** Included within investment in equity accounted investees.

(1) Of this amount, NIS 1 million at December 31, 2021 is in respect of assets for yield-dependent contracts.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating level (contd.)

5. Credit risks for off balance-sheet instruments in Israel

	Local rating*				
	As at December 31, 2021				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Unutilized credit facilities***	**474**	**1,151**	**19**	**153**	**1,797**
Financial guarantees provided that are not accounted for as insurance contracts**	**-**	**48**	**-**	**-**	**48**
Total credit exposure for guarantees and unutilized credit facilities	**474**	**1,199**	**19**	**153**	**1,845**

	Local rating*				
	As at December 31, 2020				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Unutilized credit facilities***	358	232	-	840	1,430
Financial guarantees provided that are not accounted for as insurance contracts**	-	42	-	-	42
Total credit exposure for guarantees and unutilized credit facilities	358	274	-	840	1,472

* The sources for the rating level in Israel are the rating companies approved by the Commissioner. The rating data were converted to the rating symbols of S&P, based on generally accepted conversion coefficients. Each rating incorporates the entire range, e.g.: an A rating comprises A- to A+.

Regarding off-balance-sheet credit exposure, it is noted that this table does not include guarantees issued by banks, at the request of companies of the group, in favor of third parties, to comply with commitments vis-à-vis tenders in which the companies participated, and as part of their regular operations.

** At December 31, 2021, there are no guarantees provided to companies abroad (at December 31, 2020, there are no guarantees provided to companies abroad).

*** Most of the securities are internally rated.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

2. Assets by rating level (contd.)

6. Credit risks for off balance-sheet instruments abroad

	International rating *				
	As at December 31, 2021				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Unutilized credit facilities	25	48	9	17	99
	25	48	9	17	99

	International rating *				
	As at December 31, 2020				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Unutilized credit facilities	-	11	9	94	114
	-	11	9	94	114

* The sources for the rating level abroad are the rating companies approved by the Commissioner - Moody's, S&P, and Fitch. Each rating incorporates the entire range, e.g.: an A rating comprises A- to A+.

3. Additional information about credit risks

1. Pursuant to the Commissioner's approval from November 11, 2015, Harel Insurance will be able to allocate capital on account of non-marketable debt assets that were rated in accordance with the internal credit rating model under the Supervision of Financial Services (Insurance) (Minimum Equity Required of an Insurer), 1998, as of the fourth quarter of 2015.

   The Commissioner's approval dated November 11, 2015 further stipulated that the Company's internal rating is not valid for estimating non-marketable credit for financial institutions, including banks and insurance companies; credit backed by an underlying asset; credit provided to companies involved in real-estate construction and non-marketable credit for financing projects, and that for all the above, Harel Insurance will not be permitted to reduce the surplus equity allocation.

   The approval further stipulates that if the loan is rated by an external source, capital must be allocated according to the lower of the ratings.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

3. Additional information about credit risks (contd.)

2. On November 26, 2020, financial institutions circular 2020-9-19 was published concerning an amendment to the Consolidated Circular - Chapter 4, Section 5 - Management of Investment Assets - Internal Rating Model" ("the Circular"). The main points of the amendment are intended to promote credit rating professionalism and expertise within the financial institutions. Among other things, the Circular stipulates the following:

   (a) Financial institutions which satisfy the conditions set out in Appendix C to the Circular, will treat their rating model as an internal rating model which has been approved by the Commissioner, except for the categories of credit for which an internal rating model is not recognized, for example: credit for banks, other financial institutions and loans to members or insureds.

   (b) Excluding those topics pertaining to an internal rating model from the overall investment policy which the Board of Directors must approve.

   (c) Accordingly, the Board of Directors will be allowed to appoint a designated committee for the internal credit rating model to be charged with approving and supervising the internal rating model. It will also determine the number of transactions to be rated by a rating company in parallel with the rating based on an internal model The Board of Directors or committee will determine the frequency of the reporting with respect to the validation processes, changes in the model and provided that the reporting date is near the end of the model validation process (this in lieu of the present reporting frequency which is at least once a year).

   The provisions of the circular apply to all financial institutions effective from their date of publication.

   Approval for an internal rating model which was validated by the Commissioner prior to publication of the circular will expire on December 31, 2022. However, financial institutions may continue to rate their credit even after this date until that credit is finally repaid, provided that the conditions of the credit are not changed in a manner that increases the amount of the credit or prolongs the repayment period. Furthermore, a credit rating which is affected by changes in the model must be re-assessed and re-rated within 12 months, instead of 6 months, by December 31, 2022.

3. There is a difference in the rating scales for debt assets in Israel and debt assets abroad. In 2009, the rating companies published a conversion scale between the local rating and the international rating.

4. Information about credit risks in this note does not include assets yield-dependent contracts that are presented in a separate note.

5. On reinsurers' balances, see Section I – reinsurance assets.

6. On the balance of outstanding premiums due, see Note 12.

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

4. Exposure to economic sectors for investments in marketable and non-marketable financial debt assets

	As at December 31, 2021			As at December 31, 2020		
	Balance sheet credit risk		Off-balance sheet	Balance sheet credit risk		Off-balance sheet
	NIS million	% of Total	NIS million	NIS million	% of Total	NIS million
Economic branch						
Industry	**362**	**1.2%**	**-**	408	1.6%	-
Construction and real estate	**6,128**	**20.3%**	**1,541**	5,299	20.2%	1,310
Electricity and water	**793**	**2.6%**	**105**	888	3.4%	127
Commerce	**187**	**0.6%**	**16**	206	0.8%	16
Hotels and tourism	**107**	**0.4%**	**6**	107	0.4%	6
Transportation and storage	**157**	**0.5%**	**12**	186	0.7%	8
Communications and computer services	**272**	**0.9%**	**-**	311	1.2%	1
Banks	**6,878**	**22.8%**	**-**	5,077	19.4%	-
Financial services	**629**	**2.1%**	**50**	448	1.7%	24
Other business services	**796**	**2.6%**	**157**	906	3.5%	39
Public services	**116**	**0.4%**	**-**	140	0.5%	13
Private individuals	**903**	**3.0%**	**-**	829	3.2%	-
Other	**13**	**-**	**9**	-	-	-
	17,341	**57.4%**	**1,896**	14,805	56.6%	1,544
State bonds	**12,867**	**42.6%**	**-**	11,337	43.4%	-
	30,208	**100%**	**1,896**	26,142	100%	1,544

Note 37 - Risk management (contd.)

G. Information about credit risk (contd.)

5. Exposure to economic branches for investments in equity instruments

	As at December 31, 2021					
	Listed on TA-125	Listed on Yeter share index	Non-marketable	Abroad	Total	% of total
	NIS million					
Economic branch						
Industry	126	75	93	55	349	13.9%
Construction and real estate	206	42	76	69	393	15.7%
Electricity and water	86	-	-	22	108	4.3%
Commerce	98	8	-	4	110	4.4%
Transportation and storage	-	-	-	57	57	2.3%
Communications and computer services	182	1	54	83	320	12.8%
Banks	748	-	-	9	757	30.2%
Financial services	264	16	-	4	284	11.3%
Other business services	55	16	59	-	130	5.1%
Total	1,765	158	282	303	2,508	100%

	As at December 31, 2020					
	Listed on TA-125	Listed on Yeter share index	Non-marketable	Abroad	Total	% of total
	NIS million					
Economic branch						
Industry	114	147*	42	166	469	28.8%
Construction and real estate	187	6	61	70	324	19.9%
Electricity and water	-	6	-	36	42	2.6%
Commerce	62	6	-	7	75	4.6%
Hotels and tourism	-	-	-	6	6	0.4%
Transportation and storage	-	-	-	7	7	0.4%
Communications and computer services	117	-*	36	75	228	14.0%
Banks	198	-	-	11	209	12.8%
Financial services	17	20	-	78	115	7.1%
Other business services	83	20	52	-	155	9.4%
Total	778	205	191	456	1,630	100%

* Reclassified

Note 37 - Risk management (contd.)

H. Geographical risks

	Government bonds	Corporate bonds	Shares	ETFs	Mutual funds	Investment property	Other investments (*)	Total balance sheet exposure	Derivatives in delta terms	Total
	As at December 31, 2021									
	NIS million									
List of countries / regions to which the exposure is more than 1% of the total investments:										
Britain	-	58	-	-	1	107	420	586	12	598
Germany	-	-	65	2	2	-	952	1,021	4	1,025
United States	(196)	166	345	64	451	41	2,586	3,457	112	3,569
Israel	9,766	6,062	1,903	56	112	2,121	13,953	33,973	27	34,000
Other	114	244	185	28	117	-	5,023	5,711	19	5,730
Total	9,684	6,530	2,498	150	683	2,269	22,934	44,748	174	44,922

	Government bonds	Corporate bonds	Shares	ETNs	Mutual funds	Investment property	Other investments (*)	Total balance sheet exposure	Derivatives in delta terms	Total
	As at December 31, 2020									
	NIS million									
List of countries / regions to which the exposure is more than 1% of the total investments:										
Britain	-	34	2	2	2	106	295	441	5	446
Germany**	-	-	65	2	3	-	824**	894	1	895
United States	(80)	271	401	81	452	48	2,344	3,517	91	3,608
Israel	10,057	5,313	815	67	409	1,906	11,727	30,294	(6)	30,288
Other**	100	264	83	34	163	-	4,061**	4,705	7	4,712
Total	10,077	5,882	1,366	186	1,029	2,060	19,251	39,851	98	39,949

* Other investments include reinsurance assets, investments in associate companies, cash and other financial investments that were not included in the other columns.

** Reclassified

Note 37 - Risk management (contd.)

I. Reinsurance

1. General

The Group insures part of its business with reinsurers, most of which are foreign reinsurance companies. However, reinsurance does not release the direct insurers from their obligations to their policyholders under the insurance policies.

The Group is exposed to risks from uncertainty regarding the ability of the reinsurers to pay their share of liabilities for insurance policies (reinsurance assets) and their debts for claims paid. This exposure is managed by regularly monitoring the position of the reinsurers in the global market and whether they meet their financial commitments.

The Group is exposed to a concentration of credit risk to a single reinsurer, because of the structure of the reinsurance market and the limited number of reinsurers holding appropriate ratings.

In accordance with guidelines issued by the Commissioner, the boards of directors of the Group's insurance companies, set out, once a year, a framework for maximum exposure to reinsurers, with whom the Group has and/or will have agreements, based on international ratings. The Group manages its exposure by evaluating each re-insurer separately.

Additionally, the Group's exposure is well distributed among the various reinsurers, and the primary reinsurers hold high international ratings.

Note 37 - Risk management (contd.)

I. Reinsurance (contd.)

2. Information about exposure to credit risks of reinsurers

As at December 31, 2021

	Rating	Total premiums to reinsurers for 2021	Debit (credit) balances net (B)	Reinsurance assets in life assurance	Reinsurance assets in health insurance	Reinsurance assets in property insurance	Reinsurance assets in liabilities insurance	Reinsurers' deposits	Total Exposure (A) (C)	Debts in arrears between six months and a year
		NIS million								
Rating group (D)										
AA- and higher										
Zurich Insurance Company	AA-	467	(11)	-	3	240	899	33	1,098	-
Swiss Re	AA-	229	13	132	181	71	461	304	554	-
National Indemnity	AA+	8	9	-	-	6	205	66	154	-
Scor	AA-	198	92	16	847	12	83	783	267	-
Other		376	(95)	97	313	184	198	423	274	2
		1,278	8	245	1,344	513	1,846	1,609	2,347	2
A										
LEXINGTON	A+	-	8	-	-	-	132	-	140	-
Watford Re	A-	-	2	-	-	-	75	-	77	-
Korean Re	A	114	(24)	-	2	83	71	49	83	-
LLOYDS UNDERWRITER	A+	39	(10)	-	2	15	37	1	43	-
Other		378	(79)	9	21	262	332	186	359	2
		531	(103)	9	25	360	647	236	702	2
Less than BBB- or not rated		102	(8)	-	4	74	175	103	142	5
		1,911	(103)	254	1,373	947	2,668	1,948	3,191	9

(a) Total exposure to the reinsurers is: net debit (credit) balances, reinsurance assets, net of the deposits and net of the letters of credit received from the reinsurers to guarantee their liabilities. The balances do not include balances of insurance companies for co-insurance.
(b) After deducting provision for doubtful debts in the amount of NIS 3.7 million.
(c) Total provision for doubtful debts plus reduction of the reinsurers' share of the outstanding claims and reserves is NIS 3.7 million, accounting for 0.12% of the total exposure.
(d) The ratings were determined in accordance with a rating issued by recognized rating companies such as S&P, Moody's, etc. The different ratings were converted to the S&P rating scale according to a key defined in the Ways of Investment Regulations.
(e) Total exposure of the reinsurers to earthquake events with an MPL of 2.46% is NIS 16,480 million, of which the most significant reinsurer accounts for 27%.
(f) There are no other reinsurers in addition to those listed above which account for more than 10% of the overall exposure of the reinsurers or which account for more than 10% of the total reinsurance premiums for 2021.
(g) The unrated group includes balances for outstanding claims through brokers up to and including 2003 for whom the exposure is NIS 47,000.

Note 37 - Risk management (contd.)

I. Reinsurance (contd.)

2. Information about exposure to credit risks of reinsurers (contd.)

As at December 31, 2020

	Rating	Total premiums to reinsurers for 2020	Debit (credit) balances net (B)	Reinsurance assets in life assurance	Reinsurance assets in health insurance	Reinsurance assets in property insurance	Reinsurance assets in liabilities insurance	Reinsurers' deposits	Total Exposure (A) (C)	Debts in arrears between six months and a year
		NIS million								
Rating group (D)										
AA- and higher										
Zurich Insurance Company	AA-	409	(18)	-	3	229	752	24	942	-
Swiss Re	AA-	201	(32)	120	129	42	413	217	455	-
National Indemnity	AA+	7	13	-	1	9	258	89	192	-
Scor	AA-	193	104	15	699	23	49	655	235	-
Other		345	(94)	87	284	173	130	365	215	-
		1,155	(27)	222	1,116	476	1,602	1,350	2,039	-
A										
LEXINGTON	A+	-	-	-	-	-	142	-	142	-
Korean Re	A	95	(4)	-	2	83	30	27	84	-
Watford Re	A-	1	2	-	-	-	74	-	76	-
LLOYDS UNDERWRITER	A+	36	(13)	-	-	13	49	1	48	-
Other		312	(58)	8	18	218	152	83	255	-
		444	(73)	8	20	314	447	111	605	-
Less than BBB- or not rated		111	(9)	-	4	76	55	20	106	-
		1,710	(109)	230	1,140	866	2,104	1,481	2,750	-

(a) Total exposure to reinsurers is: net debit (credit) balances, reinsurance assets, net of the deposits and net of the amount of credit notes received from the reinsurers as a guarantee of their liabilities. The balances do not include the balances of insurance companies in respect of co-insurance.
(b) After amortization of the provision for doubtful debts in the amount of NIS 4.2 million.
(c) Total provision for doubtful debts plus a decrease of the reinsurers' share of the outstanding claims and reserves amounts to NIS 4.2 million, which accounts for 0.15% of the exposure.
(d) The ratings were determined based on a rating issued by recognized rating companies such as Moody's, S&P, etc. The different ratings were converted to the S&P rating scale using a key determined in the Ways of Investment Regulations.
(e) The total exposure of the reinsurers to earthquakes with MPL of 2.4% is NIS 13,858 million, of which the share of the most significant reinsurer is 26.9%.
(f) There are no other reinsurers in addition to those listed above for whom the exposure is more than 10% of the overall exposure of the reinsurers or for which the premium is more than 10% of all premiums paid to reinsurers for 2020.
(g) The unrated group includes balances in respect of outstanding claims through brokers up to and including 2003, for which the exposure is NIS 47,000.

Note 37 – Risk management (contd.)

J. Assets and liabilities according to linkage bases

	As at December 31, 2021					
	In NIS unlinked	In NIS CPI-linked	In foreign currency or linked to FC *	Non-financial and other items	Liabilities for yield-dependent contracts	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Assets						
Intangible assets	-	-	-	2,244	-	2,244
Deferred tax assets	-	-	-	18	-	18
Deferred Acquisition Costs	-	-	37	2,628	2	2,667
Fixed assets	-	-	-	1,380	-	1,380
Investments in equity accounted investees	-	-	-	1,385	-	1,385
Investment property for yield-dependent contracts	-	-	-	-	1,963	1,963
Other investment property	-	-	-	2,269	-	2,269
Reinsurance assets	624	4,230	202	-	186	5,242
Trade and other receivables	635	34	301	-	281	1,251
Current tax assets	-	2	-	-	-	2
Premiums due	7	976	215	-	254	1,452
Financial investments for yield-dependent contracts	-	-	-	-	73,850	73,850
Other financial investments:						
Marketable debt assets	3,428	9,371	780	-	-	13,579
Non-marketable debt assets	5,277	10,679	673	-	-	16,629
Shares	-	-	-	2,508	-	2,508
Other	169	182	-	3,244	-	3,595
Total other financial investments	8,874	20,232	1,453	5,752	-	36,311
Cash and cash equivalents for yield-dependent contracts	-	-	-	-	5,012	5,012
Other cash and cash equivalents	2,185	-	440	-	-	2,625
Total assets	12,325	25,474	2,648	15,676	81,548	137,671

* Most of the policies issued by the Group are denominated in shekels and the exposure to changes in exchange rates is insignificant. Where there is exposure to exchange rates, it is mainly the result of exposure to the dollar and euro.

Note 37 – Risk management (contd.)

J. Assets and liabilities according to linkage bases (contd.)

	As at December 31, 2021					
	In NIS unlinked	In NIS CPI-linked	In foreign currency or linked to FC *	Non-financial and other items	Liabilities for yield-dependent contracts	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Total equity	-	-	-	8,893	-	8,893
Liabilities						
Liabilities for non yield-dependent insurance contracts and investment contracts	1,785	28,631	711	-	-	31,127
Liabilities for yield-dependent insurance contracts and investment contracts	-	-	-	-	80,516	80,516
Deferred tax liabilities	-	-	-	1,450	-	1,450
Liabilities for employee benefits, net	301	-	-	-	-	301
Trade and other payables	3,363	2	946	-	582	4,893
Current tax liabilities	-	46	-	-	-	46
Financial liabilities	6,632	3,447	199	106	61	10,445
Total liabilities	12,081	32,126	1,856	1,556	81,159	128,778
Total equity and liabilities	12,081	32,126	1,856	10,449	81,159	137,671
Total balance sheet exposure, net	244	(6,652)	792	5,227	389	-
Exposure to underlying assets through derivatives in delta terms	400	3,783	(4,357)	174	-	-
Total exposure	644	(2,869)	(3,565)	5,401	389	-

* Most of the policies issued by the Group are denominated in shekels and its exposure to changes in exchange rates is insignificant. Where there is exposure to exchange rates, it is mainly the result of exposure to the dollar and euro.

Note 37 – Risk management (contd.)

J. Assets and liabilities according to linkage bases (contd.)

	As at December 31, 2020					
	In NIS unlinked	In NIS CPI-linked	In foreign currency or linked to FC *	Non-financial and other items	Liabilities for yield-dependent contracts	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Assets						
Intangible assets	-	-	-	1,810	-	1,810
Deferred tax assets	-	-	-	9	-	9
Deferred Acquisition Costs	-	-	43	2,468	2	2,513
Fixed assets	-	-	-	1,380	-	1,380
Investments in equity accounted investees	-	-	-	1,245	-	1,245
Investment property for yield-dependent contracts	-	-	-	-	1,802	1,802
Other investment property	-	-	-	2,060	-	2,060
Reinsurance assets	457	3,554**	171	-	158**	4,340
Trade and other receivables	405	3	417	-	421	1,246
Current tax assets	-	6	-	-	-	6
Premiums due	20	771	306	-	248	1,345
Financial investments for yield-dependent contracts	-	-	-	-	64,607	64,607
Other financial investments:						
Marketable debt assets	2,409	7,647	1,011	-	-	11,067
Non-marketable debt assets	4,427	9,913	735	-	-	15,075
Shares	-	-	-	1,630	-	1,630
Other	175	61**	10**	2,992**	-	3,238
Total other financial investments	7,011	17,621	1,756	4,622	-	31,010
Cash and cash equivalents for yield-dependent contracts	-	-	-	-	3,452	3,452
Other cash and cash equivalents	2,338	-	583	-	-	2,921
Total assets	10,231	21,955	3,276	13,594	70,690	119,746

* Most of the policies issued by the Group are denominated in shekels and the exposure to changes in exchange rates is insignificant. Where there is exposure to exchange rates, it is mainly the result of exposure to the dollar euro.

** Reclassified

Note 37 – Risk management (contd.)

J. Assets and liabilities according to linkage bases (contd.)

	As at December 31, 2020					
	In NIS unlinked	In NIS CPI-linked	In foreign currency or linked to FC *	Non-financial and other items	Liabilities for yield-dependent contracts	Total
	NIS million	NIS million	NIS million	NIS million	NIS million	NIS million
Total equity	-	-	-	7,754	-	7,754
Liabilities						
Liabilities for non yield-dependent insurance contracts and investment contracts	1,244	26,920**	722	-	-	28,886
Liabilities for yield-dependent insurance contracts and investment contracts	-	-	-	-	69,833**	69,833
Deferred tax liabilities	-	-	-	1,200	-	1,200
Liabilities for employee benefits, net	265	-	-	-	-	265
Trade and other payables	2,562	4	623	-	726	3,915
Current tax liabilities	-	99	-	-	-	99
Financial liabilities	4,400	2,897	109	282	106	7,794
Total liabilities	8,471	29,920	1,454	1,482	70,665	111,992
Total equity and liabilities	8,471	29,920	1,454	9,236	70,665	119,746
Total balance sheet exposure, net	1,760	(7,965)**	1,822**	4,358**	25**	-
Exposure to underlying assets through derivatives in delta terms	1,133	3,259	(4,490)	98	-	-
Total exposure	2,893	(4,706)	(2,668)	4,456	25	-

* Most of the policies issued by the Group are denominated in shekels and the exposure to changes in exchange rates is insignificant. Where there is exposure to exchange rates, it is mainly the result of exposure to the dollar and euro.
** Reclassified

Note 37 - Risk management (contd.)

K. Information about financial investments for yield-dependent contracts

1. Composition of investments by linkage bases

	As at December 31, 2021				
	in NIS Not linked	in NIS CPI-linked	in foreign currency or linked to FC	Non-financial and other items	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Investment property	-	-	-	1,963	1,963
Cash and cash equivalents	3,208	-	1,804	-	5,012
Marketable debt assets	7,486	10,986	2,683	-	21,155
Non-marketable debt assets	7,641	6,194	2,142	-	15,977
Shares	-	-	-	17,393	17,393
Other financial investments	607	133	1	18,584	19,325
Other	535	186	-	2	723
Total assets	19,477	17,499	6,630	37,942	81,548
Exposure to underlying assets through derivative instruments in delta terms	14,249	274	(23,490)	8,967	-

	As at December 31, 2020				
	in NIS Not linked	in NIS CPI-linked	in foreign currency or linked to FC	Non-financial and other items	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Investment property	-	-	-	1,802	1,802
Cash and cash equivalents	2,579	-	873	-	3,452
Marketable debt assets	6,937	11,327	3,067	-	21,331
Non-marketable debt assets	7,289	5,421	2,035	-	14,745
Shares	-	-	-	13,322	13,322
Other financial investments	276	287*	24*	14,622*	15,209
Other	669	477	-	2	1,148
Total assets	17,750	17,512	5,999	29,748	71,009
Exposure to underlying assets through derivative instruments in delta terms	10,063	59	(15,990)	5,868	-

* Reclassified

Note 37 - Risk management (contd.)

K. Information about financial investments for yield-dependent contracts (contd.)

2. Credit risk for assets in Israel

	Local rating*				
	As at December 31, 2021				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets in Israel:					
Government bonds	13,398	-	-	-	13,398
Other debt assets - marketable	4,079	1,197	23	91	5,390
Other debt assets - not marketable	4,743	4,650	7	4,632	14,032
Total debt assets in Israel	22,220	5,847	30	4,723	32,820
Of which – internally rated debt assets	1,369	2,563	7	-	3,939

	Local rating*				
	As at December 31, 2020				
	AA- and higher	A+ to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets in Israel:					
Government bonds	12,731	-	-	-	12,731
Other debt assets - marketable	4,486	1,141	86	115	5,828
Other debt assets - not marketable	4,571	4,280	20	4,249	13,120
Total debt assets in Israel	21,788	5,421	106	4,364	31,679
Of which – internally rated debt assets	1,309	2,088	20	-	3,417

The book value is an approximation of the maximum credit risk. Consequently the “total” column represents the maximum credit risk.

* The sources for the rating level in Israel are the Maalot and Midroog rating companies. Data from Midroog was transferred to rating symbols according to accepted conversion coefficients. Each rating incorporates the entire range, e.g. A comprises A- to A+.

Note 37 - Risk management (contd.)

K. Information on financial investments for yield-dependent contracts (contd.)

3. Credit risks for assets abroad

	International rating *				
	As at December 31, 2021				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets abroad:					
Total debt assets abroad	**977**	**2,215**	**583**	**537**	**4,312**
Of which – internally rated assets	**803**	**298**	**153**	**-**	**1,254**

	International rating *				
	As at December 31, 2020				
	A- and higher	BBB to BBB-	Less than BBB-	Not rated	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Debt assets abroad:					
Total debt assets abroad	900	2,402	526	569	4,397
Of which – internally rated assets	624	201	95	-	920

The book value is an approximation of the maximum credit risk. Consequently the "total" column represents maximum credit risk.

* The sources for the rating level abroad are the rating companies approved by the Commissioner – Moody's, S&P, and Fitch. Each rating incorporates the entire range, e.g. A comprises A- to A+.

Note 38 - Balances and transactions with interested and related parties

A. Controlling Shareholders and Subsidiaries

At the date of the report, the Company's controlling shareholders, Mssrs. Yair Hamburger, Gideon Hamburger and Nurit Manor ("the Controlling Shareholders"), hold 46.94% of the Company's voting rights and issued share capital. The controlling shareholders hold the Company through G.Y.N. Financial Consulting & Investment Management 2017 LP, which they fully own and control, and which they hold, as limited partners, through private, companies, wholly owned by each of the Controlling Shareholders ("the GYN Partnership") and they also hold the general partner in the GYN Partnership.

During the normal course of business, the Company and its investees perform transactions with the entities who are considered the controlling shareholders or in which those entities considered to be the controlling shareholders have a personal interest, including transactions with companies in which the Company's controlling shareholders have a personal interest, as well as commitments to perform transactions that are under ordinary commercial conditions, as part of the rendering of services by the Group to the controlling shareholders and their investee companies (e.g. insurance, long-term savings products and financial services) to the extent that these transactions constitute negligible transactions in accordance with the procedure adopted by the Company, as defined in Article 41(A3)(1) to the Securities (Annual Financial Reports) Regulations, 2010, they are not detailed separately in these reports.

On March 23, 2022 and March 28, 2022, the Audit Committee and Board of Directors, respectively, determined that a transaction with a controlling shareholder will be deemed a negligible transaction if it meets all the following conditions:

(a) It is not an extraordinary transaction (according to the meaning of this term in the Companies Law).

(b) In respect of insurance transactions, long-term savings and finances: the rules relating to benefits applied to the controlling shareholders are also applied to all the Group's employees, as approved by the Board of Directors.

(c) The sum insured in the Company's self-retention in each policy does not exceed NIS 10 million and the sum insured in each policy does not exceed NIS 50 million. This limitation does not apply to savings policies.

(d) Other agreements, the cumulative cost of which for the Group is not more than NIS 100,000.

It is stipulated that any transaction for the rendering of services by a controlling shareholder or his relative will not be classified as a negligible transaction. It is further stipulated that separate transactions, which are interdependent, so that in practice they are part of the same transaction, will be considered a single transaction.
Transactions that meet the above negligibility transactions do not require special approval.

B. Benefits and bonuses for key management personnel (including directors)

The Group's senior officers are entitled, in addition to their salaries, to non-cash benefits (company car, etc.). The Group deposits funds on their behalf with a defined benefit plan and defined contribution plan for the purpose of post-employment benefit payments.

Note 38 - Balances and transactions with interested and related parties

B. Benefits and bonuses for key management personnel (including directors) (contd.)

When the general meeting approved the Company's compensation policy on October 12, 2020, it was determined that the policy applies to incumbent directors in the Company and/or its subsidiaries, such that they are entitled to compensation for serving on the Board of Directors and the committees it appoints, as defined in the Companies (Rules Concerning Compensation and Expenses for External Directors) Regulations, 2000 ("External Directors Compensation Regulations") and they are not entitled to any additional bonus or compensation. In addition to the provisions prescribed in the External Directors Compensation Regulations, the compensation for external directors serving the Company and its subsidiaries, is also subject to the provisions prescribed in Regulation 2 of the Companies (Matters Not Constituting an Interest) Regulations, 2006 ("Interest Regulations"). The limitation prescribed in Regulation 2 of the Interest Regulations does not apply to directors who serve the Company and its subsidiaries and who are not external directors. If a director is appointed to another position which is not membership of the Board of Directors and/or committees appointed by the Board of Directors, the compensation will be determined in accordance with the nature of the position and will be submitted for the approval of the general meeting.

The salaries of directors who are not external directors will not be more than the salaries of the Company's external directors, other than directors who are controlling shareholders in the Company and their employment conditions are approved by the Company's general meeting, as specified in Section 3 below.

1. The Company's compensation policy

In view of the experience gained regarding the Company's compensation policy and the regulatory changes that occurred on the subject of compensation, on October 12, 2020, after having been approved by the Compensation Committee and Board of Directors, the Company's general meeting approved the revised compensation policy of the Company ("Compensation Policy"). The Compensation Policy is in compliance with the limitations prescribed in the Compensation for Executives of Financial Institutions (Special Approval and Non-allowance of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016 ("Wage Limitation Law").

The purpose of the compensation policy is to motivate and direct the senior managers in line with the Company's goals and strategic plan, emphasizing increased competition in the recruitment and retention of quality manpower in the Group's senior management positions. All this with the goal of creating long-term economic value for the Company and its shareholders. The compensation policy was devised, taking into account, *inter alia*, the size of the Company and the nature of its operations, advancement of the Company's goals, strategy, long-term work plan and risk-management policy, as well as the employment conditions and bonuses that were Company practice in previous years, generally accepted salary and compensation levels among Israel's insurance and finance companies and other large companies in the Israeli economy, and also on the basis of other organizational considerations.

The compensation policy relates to different categories of officers, and also the manner of compensating the Company's serving directors.

The compensation policy addresses a range of employment conditions for officers who are not directors, including the following components: (a) the compensation to be determined for each officer in line with his seniority, knowledge, experience, qualifications and contribution to the Group's results, and based on the defined benchmark group; (b) it was determined that a margin will be maintained between the CEO's salary and that of the other officers who are subordinate to the CEO; (c) minimum ratios were defined between the fixed components in the employment conditions and the overall employment conditions; (d) it was determined that a fixed salary component may be paid which does not entitle the recipient to social benefits; (e) provisions were prescribed concerning performance-linked annual bonuses, including the maximum amount of such bonuses for the CEO and for officers who are subordinate to the CEO;

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

1. The Company's compensation policy (contd.)

(f) provisions were prescribed concerning the possibility of paying special bonuses, which are not related to the annual bonuses, for outstanding performance in special projects. These special bonuses are designed for officers who are not the CEO, a director or controlling shareholder and they are limited in the budget to an insignificant amount; (g) provisions were prescribed concerning a capital (lump-sum) bonus, which is intended to encourage the officers to continue working for the Company and identify with the Company's interests; (h) provisions were prescribed concerning insurance and indemnity for officers and directors; (i) the compensation policy includes a limitation on the maximum cost of employment of the Company's officers; (j) provisions were prescribed concerning termination of employment conditions, including with respect to the following components: (i) severance pay at a maximum rate of up to 200% (double that required by law), subject to meeting conditions of seniority and other conditions; (ii) an advance notice period (of termination) of no more than 6 months; (iii) an adjustment bonus of up to 6 monthly salaries; (iv) compensation for a non-competition commitment. It was determined that a non-competition agreement will be drawn up in exceptional cases only and subject to the conditions set out in the compensation policy.

Information about the annual bonuses: the annual performance-linked bonus plan will consider the Company's financial position. Accordingly, payment of the annual bonus will be contingent on satisfying the threshold conditions set out in the Compensation Policy. Furthermore, to prevent the taking of short-term risks, the scope of the performance-linked bonuses was limited by a multiple of the salaries. It was also determined that the annual performance-linked bonus will be based, among other things, on long-term measurement. The Compensation Policy therefore stipulates that some of the parameters, as will be determined in advance, will be measured with respect to the current annual bonus (50%) and also with respect to the two years preceding it (30% for the previous year and 20% for the year before that).

The annual performance-linked bonus includes a discretionary component which provides for a supplement of 20% of the normative (performance-linked) amount of the bonus. The sum of this component will not exceed three monthly salaries and it may also be paid even if the threshold conditions for payment of the performance-linked bonus are not satisfied.

The compensation policy includes a provision whereby the Company will generally honor existing agreements, even where they deviate from the compensation policy, unless the compensation policy contains a different specific instruction.

On October 6, 2021, the Company's general meeting approved an amendment to the compensation policy whereby, in the event of an allotment of options, the exercise price will not be linked to the Consumer Price Index. The other provisions of the compensation policy, as approved in October 2020, are unchanged.

The Company's compensation policy stipulates that it will serve as a guideline (but is not binding) also for the Company's key subsidiaries. For information about the compensation policy that was adopted by the Group's financial institutions, see Section 2 below.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

2. Compensation policy for the Group's financial institutions

In November 2013, the Company's subsidiaries that are financial institutions ("the Financial Institutions"), adopted a compensation policy which is based on the Company's compensation policy. The compensation policy of the Group's financial institutions was revised several times, over the years, in accordance with the updated regulatory provisions that were published, including publication of a Commissioner's circular amending the provisions of the Consolidated Circular, Part 1, Section 5, Chapter 5, entitled "Compensation" ("the Circular"), which updates and abolishes the circular "Compensation Policy in Financial Institutions" and the circular "Compensation Policy in Financial Institutions - Amendment" ("Compensation Policy Circular"), and integrates them in the Consolidated Circular, in accordance with the relevant regulations formulated in this sector, including in accordance with the provisions of the Wage Limitation Law and its subsequent regulations, and the directives of the Supervisor of Banks that were revised accordingly.

The compensation policy of the financial institutions also applies to some of the executives in the Company who also serve as senior officers in Harel Insurance.

In view of the experience gained in applying the Compensation Policy for the financial institutions and the changes proposed in the Company's compensation policy, in August 2020 the Compensation Committee and boards of directors of the financial institutions approved updates to the compensation policy of the financial institutions.

Main points of the Compensation Policy of the financial institutions:

The Compensation Policy addresses the employment conditions of the officers and functionaries in their entirety, including the following components: (a) the fixed compensation to be determined for each officer and key functionary will be determined in accordance with his seniority, knowledge, experience and qualifications and his contribution to the Group's results, and based on the defined benchmark group; (b) the compensation may comprise several key components: fixed salary, annual, performance-linked bonus, guaranteed bonus, lump-sum bonus, special bonuses as well as indemnification and insurance costs; (c) minimum ratios were defined between the fixed components of the employment conditions and the total employment conditions; (d) provisions were prescribed concerning the composition of the annual bonus consisting of a measurement-based component as well as a discretionary component which allows a supplement of up to 20% of the amount of the performance-linked the bonus; (e) provisions were prescribed concerning the possibility of paying special bonuses, which are unrelated to the annual bonuses, for exceptional performance on special projects. These special bonuses are intended for officers who are not the CEO, a director or controlling shareholder and they are limited by a budget of an insignificant amount; (f) provisions were prescribed regarding a lump-sum bonus the purpose of which is to encourage continuation of the work of the Company officers and to create a sense of identity with the Company's interests; (g) provisions were prescribed concerning insurance and indemnity for officers and directors; (h) the policy includes provisions concerning the nature of the spread and deferral of the annual bonus as well as provisions concerning reimbursing the Company for amounts that were paid as annual bonuses; (i) the Compensation Policy includes a limitation on the maximum cost of employment for officers and key functionaries in the Company; (j) provisions were prescribed concerning termination of the employment conditions, which include reference to the following components: (1) severance pay will be at a maximum rate of up to two 200%) (100% over and above the amount required by law), subject to meeting certain seniority and other conditions; (2) an advance notice period which will not be more than 6 months; (3) an adjustment bonus of up to 6 salaries; and (4) compensation for a non-competition undertaking.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

2. Compensation policy for the Group's financial institutions (contd.)

Information about the annual bonuses: the annual performance-linked bonus plan will consider the Company's financial position. Accordingly, payment of the annual bonus will be contingent on satisfying the threshold conditions set out in the Compensation Policy. Furthermore, to prevent the taking of short-term risks, the scope of the performance-linked bonuses was limited by a multiple of the salaries. It was also determined that the annual performance-linked bonus will be based, among other things, on long-term measurement. The Compensation Policy therefore stipulates that some of the parameters, as will be determined in advance, will be measured with respect to the current annual bonus (50%) and also with respect to the two years preceding it (30% for the previous year and 20% for the year before that).

Additionally, the policy includes provisions concerning compensation for Company directors as well as compensation for Company employees who are not officers or key functionaries.

The Compensation Policy prescribes a provision whereby as a rule, the Company will honor existing agreements and employment conditions, even if they deviate from the Compensation Policy, unless the Compensation Policy specifically prescribes a different provision.

3. Employment conditions of the Controlling Shareholders

The Company's General Meeting, which took place on October 12, 2020, re-approved the employment conditions of the Company's controlling shareholders. The approval of the general meeting was preceded by the approval of the Compensation Committee and Board of Directors on August 13, 2020 and August 31, 2020, respectively. The re-approval did not involve any change in the employment conditions of the controlling shareholders. The employment conditions that were approved are consistent with the Company's compensation policy. The provisions of the new employment conditions for the controlling shareholders will be effective from December 1, 2020, for an undefined period. Notwithstanding the foregoing, the parties may terminate the agreement at any time, by giving 30 days advance notice.

Under present law at the date of this report, the agreement with Mr. Yair Hamburger, Mr. Gideon Hamburger and Mr. Yoav Manor must be re-approved three years after the commencement of the agreement (December 1, 2020), given that they are controlling shareholders in the Company, unless the law changes and/or Mr. Yair Hamburger, Mr. Gideon Hamburger and Mr. Yoav Manor are no longer included among the controlling shareholders.

(a) Employment conditions - Mr. Yair Hamburger:

Mr. Yair Hamburger has been head of Harel Insurance and Finance Group since its establishment. Yair Hamburger has served as Chairman of the Company's Board of Directors since its establishment and chairman of Harel Insurance.[1] Additionally, Yair Hamburger holds the following positions in Harel Group: member of the board of directors of Interasco Societe Anonyme General Insurance Company S.A.G.I. in Greece; member of the board of directors of Turk Nippon Sigorta S.A. in Turkey; Chairman of the board of directors of Harel Financing & Issuing; member of the board of directors of Harel Finance Holdings Ltd.; member of the board of directors of Harel Mutual Funds Ltd.; member of the non-yield dependent (Nostro) investment committee of the Group's financial institutions and a director in other companies in the Group. Mr. Yair Hamburger serves the Company and its subsidiaries in a full-time capacity and does not hold any other business positions beyond those in Harel Group.

[1] Mr. Hamburger served as Chairman of the Board of Harel Insurance until June 30, 2021. Since July 1, 2021, Mr. Hamburger has served as a director in Harel Insurance.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(a) Employment conditions – Mr. Yair Hamburger (contd.)

Mr. Yair Hamburger's salary: For serving the Company, and in accordance with his employment conditions approved by the Company's general meeting on November 12, 2020, Yair Hamburger is entitled to a monthly salary of NIS 160,000 (NIS 161,112 correct to the reporting date). The monthly salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary each year.

Fringe benefits: Mr. Yair Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 689,385 at December 31, 2021). Should Mr. Hamburger choose to buy a more expensive car, he will pay the difference in cost. Yair Hamburger is not entitled to full grossing up of the cost of his vehicle. The Company makes provision for social benefits in respect of the monthly salary according to generally accepted standards for pension, severance pay and work disability or, if he so chooses, pays the value of these social benefits. Likewise, Yair Hamburger is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense). Yair Hamburger is entitled to 13 days convalescence a year and to 22 days paid vacation a year. Unutilized vacation days, including in respect of the period of Yair Hamburger's employment from the commencement date of his employment for the Company will be accumulated and may be redeemed when his employment terminates. Mr. Yair Hamburger is entitled to 30 days annual paid sick leave, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Yair Hamburger is not entitled to participate in the Company's stock options plan. Additionally, it is stipulated that Mr. Yair Hamburger is not entitled to any additional remuneration for serving as a director in Group companies. Yair Hamburger is entitled to a letter of indemnity which was first granted to him as part of the resolutions passed by the Company and approved by the general meeting in July 2006 and like the Company's other senior officers, and it is included in the D&O insurance drawn up by the Company, under the same conditions as the Company's other directors and senior officers.

Annual bonus: Mr. Yair Hamburger is not entitled to an annual bonus.

Post-employment conditions: Upon termination of the employment relationship for any reason whatsoever, Yair Hamburger will be entitled to compensation in the amount of severance to which he is entitled by law in the event of dismissal, less any amounts accrued on his behalf for severance pay in the provident fund/managers' insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger ("Severance Pay"). Upon terminating his employment in the Company for any reason whatsoever, Mr. Yair Hamburger is entitled to double severance pay, i.e. an additional 100% compensation (over and above the statutory compensation).

Pursuant to the provisions of the compensation policy for the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued for the period of employment after December 31, 2016, will be paid in installments, based on the provisions of the compensation policy for the Group's financial institutions as follows: a third of the deferred amount will be paid 12 months from the end of the year in which Mr. Yair Hamburger retires; a third of the deferred amount will be paid 24 months from the end of the year in which Mr. Yair Hamburger retires; a third of the deferred amount will be paid 42 months from the end of the year in which Mr. Yair Hamburger retires.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(a) Employment conditions - Mr. Yair Hamburger (contd.)

Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: (1) no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that, in retrospect, was found did not materially reflect the actual exposure of the financial institution or the members' monies; (2) based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; (3) Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met. It is stipulated that the advance notice period is 30 days only. Mr. Yair Hamburger is not entitled to an adjustment period or adjustment fee.

Non-competition undertaking: Mr. Yair Hamburger undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

(b) Employment conditions – Mr. Gideon Hamburger:

Mr. Gideon Hamburger has held senior positions in Harel Group since its establishment. Gideon Hamburger currently holds the following key positions in Harel Group: member of the Company's Board of Directors and Company president; member of the board of directors of Interasco Societe Anonyme General Insurance Company S.A.G.I. in Greece; member of the board of directors of Harel Finance Holdings Ltd.; member of the board of directors of Harel Financing & Issuing. Additionally, Mr. Gideon Hamburger in involved in reinsurance matters both for Harel Insurance and the Group's other insurance companies.

Gideon Hamburger serves the Company and its subsidiaries in a full-time capacity and does not hold any other business positions other than those in Harel Group.

Mr. Gideon Hamburger's salary: For serving the Company, and in accordance with his employment conditions approved by the Company's general meeting on October 12, 2020, Gideon Hamburger is entitled to a monthly salary of NIS 127,000 (NIS 127,779 correct to the reporting date). The monthly salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary each year.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(b) Employment conditions – Mr. Gideon Hamburger (contd.)

Fringe benefits: Mr. Gideon Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 689,385 at December 31, 2021). Should Gideon Hamburger choose to buy a more expensive car, he will pay the difference in cost. Gideon Hamburger is not entitled to full grossing up of the cost of his vehicle. The Company makes provision for social benefits in respect of the monthly salary according to generally accepted standards for pension, severance pay and work disability or, if he so chooses, pays the value of these social benefits. Likewise, Gideon Hamburger is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense). Gideon Hamburger is entitled to 13 days convalescence a year and to 22 days annual paid vacation. Unutilized vacation days, including in respect of the period of Mr. Gideon Hamburger's employment from the date his employment for the Company commenced, will be accumulated and may be redeemed when his employment terminates. Mr. Gideon Hamburger is entitled to 30 days annual paid sick leave, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Gideon Hamburger is not entitled to participate in the Company's stock options plan. Additionally, it is stipulated that Mr. Gideon Hamburger is not entitled to any additional remuneration for serving as a director in Group companies. Gideon Hamburger received a letter of indemnity as part of the resolutions passed by the Company and approved by the general meeting in July 2006 and it is included in the D&O insurance drawn up by the Company, under the same conditions as the Company's other directors and senior officers.

Annual bonus: Mr. Gideon Hamburger is not entitled to an annual bonus.

Post-employment conditions: Upon termination of the employment relationship for any reason whatsoever, Gideon Hamburger will be entitled to compensation in the amount of severance to which he is entitled by law in the event of dismissal, less any amounts accrued on his behalf for severance pay in the provident fund/managers' insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger ("Severance Pay").

Upon termination of his employment in the Company, Gideon Hamburger is entitled to double severance pay, i.e. an additional 100% compensation (over and above the compensation stipulated by law). Pursuant to the provisions of the compensation policy of the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued for the period of employment after December 31, 2016, will be paid in installments, based on the provisions of the compensation policy for the Group's financial institutions as follows: a third of the deferred amount will be paid 12 months from the end of the year in which Mr. Gideon Hamburger retires; a third of the deferred amount will be paid 24 months from the end of the year in which Mr. Gideon Hamburger retires; a third of the deferred amount will be paid 42 months from the end of the year in which Mr. Gideon Hamburger retires. Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: (1) no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that, in retrospect, was found did not materially reflect the actual exposure of the financial institution or the members' monies; (2) based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; (3) Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met. It is stipulated that the advance notice period is 30 days only. Mr. Gideon Hamburger is not entitled to an adjustment period or any adjustment fee.

Non-competition undertaking: Mr. Gideon Hamburger undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(c) Employment conditions – Mr. Yoav Manor:

Mr. Yoav Manor has held senior positions in Harel Group since its establishment. He currently holds the following positions in Harel Group: Acting Chairman of the Board of Directors of Harel Hamishmar Computers Ltd., member of the Company's Board of Directors; member of the Board of Harel Insurance Ltd., member of the Board of Harel Finance Holdings Ltd., member of the Board of Harel Financing & Issuing, and a director in other Group companies. .

Mr. Yoav Manor serves the Company and its subsidiaries full time and he holds no other business positions other than those in Harel Group.

Yoav Manor's salary: For serving the Company, and in accordance with his employment conditions approved by the Company's general meeting on October 12, 2020, Yoav Manor is entitled to a monthly salary of NIS 127,000 (NIS 127,779 correct to the reporting date). The monthly salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary each year.

Fringe benefits: Mr. Yoav Manor is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 689,385 at December 31, 2021). Should Yoav Manor choose to buy a more expensive car, he will pay the difference in cost. Yoav Manor is not entitled to full grossing up of the cost of his vehicle. The Company makes provision for social benefits in respect of the monthly salary according to generally accepted standards for pension, severance pay and work disability or, if he so chooses, pays the value of these social benefits. Likewise, Yoav Manor is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense). Yoav Manor is entitled to 13 days convalescence a year and to 22 days annual paid vacation. Unutilized vacation days, including in respect of the period of Mr. Yoav Manor's employment from the commencement date of his employment for the Company, will be accumulated and may be redeemed when his employment terminates. Yoav Manor is entitled to 30 days paid sick leave a year, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Yoav Manor is not entitled to participate in the Company's stock options plan. Additionally, it is stipulated that he is not entitled to any additional remuneration for serving as a director in Group companies. Yoav Manor received a letter of indemnity as part of the Company's decisions as approved by the general meeting in July 2006 and he is included in the directors and officers insurance (D&O) drawn up by the Company, under the same conditions as the other directors and officers of the Company.

Annual bonus: Mr. Yoav Manor is not entitled to an annual bonus.

Post-employment conditions: Upon termination of the employment relationship for any reason whatsoever, Yoav Manor will be entitled to the severance pay due by law if he is dismissed, net of the amounts accrued on his behalf in respect of severance pay in provident funds / managers insurance, and ownership of the provident funds / managers insurance into which payments were made on his behalf will be transferred to him ("Severance Pay").

Upon termination of his employment in the Company, Mr. Yoav Manor is entitled to double severance pay, i.e. an additional 100% compensation (over and above the compensation stipulated by law). Pursuant to the provisions of the compensation policy of the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued in the period of employment after December 31, 2016, will be paid in installments, based on the provisions of the compensation policy for the Group's financial institutions as follows: a third of the deferred amount will be paid 12 months from the end of the year in which Mr. Yoav Manor retires; a third of the deferred amount will be paid 24 months from the end of the year in which Mr.Yoav Manor retires; a third of the deferred amount will be paid 42 months from the end of the year in which Mr. Yoav Manor retires.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

3. Employment conditions – the Controlling Shareholders (contd.)

(c) Employment conditions – Mr. Yoav Manor (contd.)

Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: (1) no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that, in retrospect, was found did not materially reflect the actual exposure of the financial institution or the members' monies; (2) based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; (3) Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met. It is stipulated that the advance notice period is 30 days only. Mr. Yoav Manor is not entitled to an adjustment period or any adjustment fee.

<u>Non-competition undertaking</u>: Mr. Yoav Manor undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

4. Employment conditions of the CEO of the Company and Chairman of the Board of Harel Insurance - Mr. Michel Siboni

Mr. Michel Siboni who was CEO of Harel Insurance from 2009 and CEO of the Company for most of this period, stepped down as CEO of Harel Insurance at the end of June 2021 and was appointed Chairman of the Board of Harel Insurance (replacing Mr. Yair Hamburger who continues to serve as a director in Harel Insurance). Michel Siboni continues to serve as CEO of the Company concurrent with serving as Chairman of the Board of Harel Insurance.

In August 2013, the Company entered into a revised employment agreement with Mr. Siboni which was approved by the general meeting at that time. In October 2016 ("the Revision Date") this agreement was revised in order to correspond with the compensation policy of the Group's financial institutions and the provisions of the Compensation for Executives of Financial Institutions (Special Approval and Non-allowance of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016 ("Compensation of Company Officers Law").

On May 23, 2021, May 26, 2021 and on June 30, 2021, the Compensation Committee, Board of Directors and General Meeting of the Company, respectively, approved the terms of office for Mr. Michel Siboni 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. Overall, the present employment conditions are consistent with the Company's compensation policy, while retaining components which are part of the previous employment conditions.

Details of Mr. Michel Siboni's current employment conditions:

<u>Period of employment</u>

The provisions of the employment agreement apply for an unlimited period. Notwithstanding the foregoing, both parties may terminate the agreement at any time, by giving 180 days advance notice.

<u>Current salary</u>

Commencing January 2018, Mr. Siboni's monthly salary is NIS 248,000.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

4. Employment conditions of the CEO of the Company and CEO of Harel Insurance - Mr. Michel Siboni (contd.)

Fringe benefits

Mr. Michel Siboni is entitled to a refund of reasonable expenses incurred while fulfilling his duties, including costs of a telephone / mobile phone, membership fees of professional organizations, subscription to newspapers and professional literature, professional liability insurance, periodic medical examinations, group health / dental insurance for Harel Group employees, group term (life) assurance policy for senior Harel Group executives, group work disability policy for Harel Group employees, attending in-house training and incentive trips for agents (with spouse), wellbeing activities as accepted in Harel Group (e.g. pre-festival gifts, vacation, meals, team-building activities, etc.), purchase of Harel Group insurance products under conditions offered to the Group's employees, purchase of Harel Finance financial products under conditions offered to Group employees.

Michel Siboni is entitled, at all times, to receive a company car from Harel Insurance, as generally accepted for the Company's CEO. Should he decide to accept a company car for his own use, the tax value will be recognized as part of his ongoing salary and it will constitute part of the base for provisions under the provisions of the employment agreement.

The Company will make provision for social benefits according to generally accepted standards for pension, severance pay and work disability. Likewise, Michel Siboni is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Michel Siboni is entitled to 10 days convalescence a year according to the tariff published by the Coordinating Bureau of Economic Organizations (no change from the present employment agreement).

Michel Siboni is entitled to 35 days paid vacation a year. Michel Siboni is entitled to 30 days paid sick leave a year, and he may accumulate these days up to a total of 180 days, although he will not be entitled to redeem them when his employment for the Company terminates.

Michel Siboni was granted an indemnity note, as part of the Company's decisions as approved by the general meeting in July 2006 and by a general meeting in March 2012.

Post-employment:

Mr. Siboni is entitled to a salary for an 8-month adjustment period.

Michel Siboni will be entitled to severance pay of 200% (double the statutory severance pay) for the period commencing August 1, 2009 until the date of the revision of the employment agreement (October 2016). For the period from the start of his employment in the Company and up to July 31, 2009 (the date of his appointment as CEO of Harel Insurance), Mr. Siboni will be entitled to 150% severance pay (in the present employment agreement the amount is 100% for this period).

Mr. Siboni undertook not to compete with the Company when his employment ends, for a period of 7 years from the termination of his employment in the Company, in return for a non-competition bonus of NIS 5,000,000. Under the non-competition commitment, Michel Siboni undertook that during the non-competition period he will not serve as the CEO of an insurance company in Israel, either as a salaried employee or as a service provider, and he also undertook not to utilize the knowledge he gained and will gain in the Company in the area of health insurance, and accordingly he undertook not to serve as a consultant to insurance companies in the field of health insurance.

Based on the Company's compensation policy, Mr. Siboni will be entitled, together with members of his family, to continue to be included in the group insurance policy of Harel employees even after his employment ends, for payment of the premiums, according to the standard amounts for all Group employees.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

4. Employment conditions of the CEO of the Company and CEO of Harel Insurance - Mr. Michel Siboni (contd.)

Past rights accumulated by Mr. Siboni in his position as CEO of Harel Insurance and for which provision was made in the past in the financial statements of Harel Insurance, in respect of the increased severance pay to which Mr. Siboni is entitled up to the revision date as well as the adjustment fees, were deposited in trust in a savings policy on behalf of Mr. Siboni, and they will be released when his entitlement to receive this money is satisfied, upon termination of his employment by Harel Insurance. Upon making this deposit, Harel Insurance was exempted from all its obligations towards Mr. Siboni in connection with these amounts, when the date of termination of his employment is reached.

Stock Options

Within the framework of a stock options plan for officers and employees of the Group that was approved in August 2021, 180,000 stock options were granted to Mr. Michel Siboni which may be exercised for up to 180,000 ordinary NIS 0.1 par value shares of the Company, subject to adjustments, without any cash consideration. For additional information see Note 39.

For information about the Company entering into agreement with Mr. Michel Siboni regarding Hamazpen – Shutaphim Laderech Ltd., see Note 38F2.

Note 38 - Balances and transactions with interested and related parties (contd.)

B. Benefits and bonuses for key management personnel (including directors) (contd.)

5. Benefits and bonuses for the employment of key management personnel (including the chairman), include:

	For the year ended December 31					
	2021		2020		2019	
	No. of people	NIS million	No. of people	NIS million	No. of people	NIS million
Short-term employee benefits*	11	24	9	20	9	21
Post-employment benefits	11	4	9	2	9	2
Share-based payments	8	1	-	-	-	-
Total payroll costs		29		22		23
End-of-year balances for loans to key management personnel	1	1	-	-	-	-

* The above information includes an estimate of the bonus for the key group accordance with the compensation policy for the reporting year. The final calculation of the bonus amounts for the reporting year will be prepared in June, after the Company has comparison figures for other companies (return on equity, nostro yield, etc.). Consequently, there may be a difference between the estimate and the final calculation of the amount of the bonuses.

6. Benefits and bonuses for key management personnel who are directors that are not employed by the company:

	For the year ended December 31					
	2021		2020		2019	
	No. of people	NIS million	No. of people	NIS million	No. of people	NIS million
Directors' fees	7	2	8	2	7	2

* Refers to directors fees received directly from the Company only.

7. The Company participates (for itself and for the Group companies) in D&O insurance which is acquired from Harel Insurance:

Amount paid for the company and for Group companies:

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
For D&O insurance	4	4	3

Note 38 - Balances and transactions with interested and related parties (contd.)

C. Balances with interested and related parties

	As at December 31, 2021	
	Controlling shareholder	Principal shareholders* and other related parties
	NIS million	NIS million
Assets		
Trade and other receivables	-	8
Financial investments for yield-dependent contracts	-	670
Other financial investments		
Non-marketable debt assets	-	111
Liabilities		
Liabilities for employee benefits, net	12	33

	As at December 31, 2020	
	Controlling shareholder	Principal shareholders* and other related parties
	NIS million	NIS million
Assets		
Trade and other receivables	-	4
Financial investments for yield-dependent contracts	-	555
Other financial investments		
Non-marketable debt assets	-	121
Liabilities		
Liabilities for employee benefits, net	14	27**

* The highest debt asset balance during the year of principal shareholders (interested parties) was NIS 927 million (in 2020, NIS 863 million).

** Insignificant restatement of comparative figures

Note 38 - Balances and transactions with interested and related parties (contd.)

D. Transactions with interested and related parties

	Controlling shareholder	Principal shareholders and other related parties
	NIS million	NIS million
For the year ended December 31, 2021		
Profits from investments, net, and financing income	**-**	**13**
Income from management fees	**-**	**10**
Commissions, marketing expenses and other acquisition costs	**-**	**65**
General and administrative expenses	**7**	**34**

	Controlling shareholder	Principal shareholders and other related parties
	NIS million	NIS million
For the year ended December 31, 2020		
Profits from investments, net, and financing income	-	8
Income from management fees	-	10
Commissions, marketing expenses and other acquisition costs	-	72**
General and administrative expenses	7	25

	Controlling shareholder	Principal shareholders and other related parties
	NIS million	NIS million
For the year ended December 31, 2019		
Losses from investments, net, and financing income	-	40
Income from management fees	-	8
Commissions, marketing expenses and other acquisition costs	-	73
General and administrative expenses	7	26

* Senior officers of the Company may periodically purchase insurance contracts, investment contracts or other financial products issued by the Group under market conditions and during the normal course of business. Insofar as these transactions come under the definition of "negligible transactions", they are not specified in the financial statements.

** Insignificant restatement of comparative figures

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives

1. Agreement with an architect

In January 2011, the Company entered into an agreement (which was amended in January 2016, December 2017, December 2018, December 2019 and December 2020) to obtain architectural services from Mr. Miki Kornhauser, who is the brother-in-law of Mr. Yair Hamburger, the controlling shareholder and Chairman of the Board of Directors of the Company ("the Agreement" and/or "the Engagement"). Under the Agreement, Mr. Kornhauser provides on-going architectural services to the Company and its subsidiaries in various projects undertaken by the Company.

The Company's Audit Committee and Board of Directors approved an amendment to the Agreement whereby the agreement period will be extended to December 31, 2022, and the monthly consideration for the architecture services will remain at NIS 28,000.

2. Bonus for senior officers for 2021

In April 2022, after the Reporting Period, the bonuses for officers of the Company and officers who were included in the compensation plan will be submitted for the approval of the Compensation Committees and Boards of Directors of the Company and its subsidiaries. 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. The final calculation and approval of the bonuses will be prepared by the end of April 2022.

3. Bonus for senior officers for 2020

In April 2021, after receiving the approval of the Compensation Committee, the Company's Board of Directors, approved bonuses for the Company officers and functionaries who are included in the compensation plan. The bonuses 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.

4. D&O liability insurance

The D&O liability policy applies to currently serving senior executives in the Company and its subsidiaries as well as to those who have served the Company and/or its subsidiaries from time to time (including senior officers in the Company or subsidiaries who are considered controlling shareholders or their family members).

In accordance with the provisions of the Company's compensation policy, the Compensation Committee and Board of Directors approved renewal of the agreement between the Company and the subsidiary Harel Insurance regarding a D&O liability insurance policy, commencing November 1, 2021 for one year, which covers directors and officers of the Company and other companies in Harel Group, including individuals who may be considered controlling shareholders in the Company so that the sum insured will be USD 176 million. The cost of the annual premium for this cover and the deductible are in accordance with market conditions and were determined on the basis of proposals that Harel Insurance received from reinsurers. The cost is not material for the Company.

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives (contd.)

5. Commitment to indemnify Company officers and directors

On January 29, 2012, and on January 30, 2012, the Audit Committee and Board of Directors of the Company, respectively, approved amended indemnity notes for its senior officers and directors, including directors who are controlling shareholders of the Company. On March 5, 2012, the General Meeting approved the granting of the amended indemnity notes to the Company's senior officers and directors, including to controlling shareholders. There is no change to the Company's limit of liability in the amended indemnity notes, but they include an option for indemnity based on the permitted indemnity under the Administrative Enforcement Powers Law. The indemnity notes will be given to the senior officers currently serving the Company and those who may serve the Company from time to time (including senior officers who are deemed controlling shareholders or their relatives, as well as senior officers where a controlling shareholder of the Company may be construed as having a personal interest in granting them the indemnity notes). It is stipulated that the decision to approve the amended indemnity notes does not cancel the existing indemnity notes, but is in addition to them.

6. Entering into an agreement with a grandson of the Company's controlling shareholder

Under the provisions of Regulation 1B(a)(4) of the Companies (Relief in Transactions with Interested Parties) Regulations, 2000, ("the Relief Regulations"), in August 2020, the Company's Compensation Committee and Board of Directors approved an agreement between the subsidiary Harel Insurance and Mr. Idan Tamir, grandson of Mr. Yair Hamburger who is one of the Company's controlling shareholders and serves as Chairman of the Company's Board of Directors, according to which Mr. Tamir is employed as a project manager in the digital division commencing September 1, 2020.

Within the framework of his position as project manager in the digital division of Harel Insurance, Mr. Tamir is entitled to a monthly salary of NIS 10,250 plus reimbursement for travel expenses and other social benefits as generally applicable to employees of this rank in Harel Group.

As part of the approval of the agreement, the Compensation Committee and Board of Directors confirmed that the agreement is in compliance with the provisions of Regulation 1B(a)(4) of the Relief Regulations, given that the monthly salary payable to Mr. Tamir does not exceed the average monthly wage in the economy, and that it is reasonable given the scope of employment, nature of the position and Mr. Tamir's qualifications to perform the job.

7. Rotation of the CEO and Chairman of Harel Insurance

In July 2021, after obtaining all the necessary authorizations, the following appointments entered into force:

Mr. Michel Siboni, who was CEO of Harel Insurance for 12 years and CEO of the Company for most of this period, concluded his term of office as CEO of Harel Insurance and was appointed Chairman of the Board of Harel Insurance, replacing Mr. Yair Hamburger. Yair Hamburger continues to serve as Chairman of the Company's Board of Directors and as a director in Harel Insurance.

Michel Siboni continues to serve as CEO of the Company concurrent with serving as Chairman of the Board of Harel Insurance.

Mr. Nir Cohen, who was Deputy CEO of Harel Insurance and head of the HQ Division, was appointed to replace Michel Siboni as CEO of Harel Insurance.

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives (contd.)

8. Restructuring and rotation of senior officers in Harel Insurance

At the beginning of July 2021, the following structural changes entered into force:

The life assurance department was transferred to the Health Division, which currently functions as the Health and Life Division of Harel Insurance, headed by Mr. Alon Eliraz who is also Deputy CEO of Harel Insurance. Among other things, the Health and Life Division manages the Company's regions which coordinate the marketing and distribution activity through the agents.

The Long-term Savings Division continues to include the pension and provident activity and it also holds the business responsibility for managers insurance and personal lines savings, while the operation of these lines of business was transferred to the Health and Life Division of Harel Insurance.

Mr. Dudi Leidner, who is CEO of the Group's management companies, was appointed to head the Long-term Savings Division in the new structure and as Deputy CEO of Harel Insurance, replacing Mr. Doron Ginat who has terminated his service in Harel Insurance.

Mr. Roie Shaked who is the Deputy CEO of Harel Insurance and heads the Dikla Division, was appointed to head the Non-life Insurance Division of Harel Insurance as well, replacing Mr. Sagi Yogev who has terminated his service in Harel Insurance. As part of the Restructuring, the Dikla Division and Non-life insurance Division were merged to form one division.

Mr. Adam Polachek, who is Deputy CEO and Head of the Digital Strategy Division in Harel Insurance, was also given responsibility for management of the Company's Service Department.

Mr. Shai Galila was appointed head of the technology division and Deputy CEO of Harel Insurance, replacing Eyal Efrat who terminated his service in the Group at the end of September 2021.

Additionally, two new business divisions were established within Harel:

Agents Marketing Division - led by Mr. Yuval Goldflam who was also appointed as Deputy CEO of Harel Insurance. This division will manage the activity with the agents in the life, health, long-term savings and financial services sectors.

Direct Activity and Joint Ventures Division - led by Mr. Yaniv Hevroni who was also appointed as Deputy CEO of Harel Insurance. In addition to the pension marketers and Standard Call Center, this division will also manage Harel's in-house agencies

9. Changes in the composition of the Company's Board of Directors

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

(b) On January 17, 2021, Mr. Israel Gilad completed nine years of service as an external director in the Company.

Note 38 - Balances and transactions with interested and related parties (contd.)

E. Agreements with controlling shareholders and executives (contd.)

10. Approval of a stock options plan for senior officers and employees of the Group as well as approval of a private allotment

On August 23 and 25, 2021, and on August 30, 2021, the Company's Compensation Committee and Board of Directors, respectively, approved a stock options plan for senior officers and employees of the Group which includes up to 8,548,000 stock options which may be exercised for 8,548,000 ordinary NIS 0.1 par value shares of the Company, subject to adjustments, without any cash consideration.

7,548,000 of all the options included in this stock options plan were allocated to 158 employees, of which four are officers in the Company. The remaining options that were not allotted to specific recipients will allow for an additional allotment to other senior officers and employees in the future.

On the date of approval by the Company's Board of Directors and Compensation Committee, as noted above, an allotment of 250,000 options was approved to another executive with whom the Company has a consulting agreement, as well as to another advisor to the Company. These options are not part of the stock options plan or part of the allocation reports included in the plan, however the conditions for exercising these options are the same as those for exercising the options for the Group's senior officers and employees.

For additional information see Note 39.

The stock options were granted on October 17, 2021. Additionally, on January 27, 2022, options were granted to other employees in the Group.

Additionally, on the date of approval by the Company's Board of Directors and Compensation Committee, as noted above, the Compensation Committee and Board of Directors approved an allotment of options for the Company's senior officers, which may be exercised for 3% of the shares in a private subsidiary.

Note 38 - Balances and transactions with interested and related parties (contd.)

F. Additional transactions

1. Agreements to provide services

(a) Under an agreement between the Company and some of its subsidiaries, the Company is entitled to management fees of 0.5% of the premiums collected by the insurance companies, 3% of the management fees collected by the provident fund management company, and management fees of 0.5% of the contributions received by the comprehensive pension fund managed by the management company, up to a maximum of NIS 50 million, and this in return for management and consulting services rendered by the Company to the said companies with respect to marketing, finance, business planning, participation in the board of directors, and other areas of management. The agreement has been in force since January 1, 2009 and it can be canceled at the end of each calendar year. According to the terms of the agreement, the management fees at an annual rate of 0.5% of the annual contributions are not paid for contributions to be received from the IDF.

(b) On March 23, 2016, and on March 22, 2016, the boards of directors of Harel Insurance and Harel Pension, respectively, approved a revised agreement between Harel Insurance and Harel Pension for operating services that Harel Insurance provides to Harel Pension. Under this revised agreement, the management and operating fees will be determined on the basis of the actual expenses incurred by Harel Insurance for these services. The new management agreement includes an allocation of direct expenses and indirect expenses based on a certain percentage of the volume of the assets under management, excluding the assets of members covered by the IDF pension arrangement, as long as they are active members through this arrangement and are entitled to the fixed management fees prescribed therein. The change in this agreement creates a more reasonable allocation of expenses for each year of the agreement. Nevertheless, the change in the agreement does not have any significant effect in the long term. Implementation of the agreement is not expected to significantly affect the Group's performance

(c) In April 2013, Harel Insurance entered into agreement with ICIC, according to which Harel Insurance provides ICIC with various services, including legal advice, back-office services, risk management, customer relations, etc. ICIC undertook to pay Harel Insurance NIS 80,000 per month for these services. The agreement is for a period of five years, where each party has the right to cancel the agreement by giving 90-days advance notice. In August 2016, a supplement to this agreement was approved so that it also includes logistics services, which include mainly services such as: post, vehicle servicing, leasing and telephony in respect of which an additional NIS 8,000 per month will be paid to Harel Insurance. In January 2019, a further supplement to the agreement was approved in which the agreement period was extended for an additional five years and it was determined that: (1) from November 2018, the services that Harel Insurance will provide to ICIC will not include the writing of meeting minutes, coordination of board meetings and board committees and the distribution of background material to these meetings; (2) the total monthly payment that ICIC will pay Harel Insurance for all the services it renders in this agreement will be NIS 80,000. In March 2019, an additional supplement to the agreement was approved, in which Harel Insurance allocated to ICIC a 75% position for risk management. Pursuant to the foregoing, the monthly consideration that ICIC will pay Harel Insurance for all the services provided to it was updated to NIS 91,000.

(d) On March 23, 2016, the Board of Directors of Harel Insurance approved an agreement with Harel Finance and ICIC, both sister companies of Harel Insurance, was presented for the approval of the Board of Directors of Harel Insurance. Accordingly, Harel Insurance will enter into rental agreements with Dikla, ICIC and Harel Finance to rent office space and shops in Beit Hameah, a property that is owned by Harel Insurance.

Note 38 - Balances and transactions with interested and related parties (contd.)

F. Additional transactions (contd.)

1. Agreements to provide services (contd.)

(e) Agreement to provide claims settlement services

Claims in respect of medical malpractice policies are mostly handled by MCI, which is fully controlled by Madanes Insurance Agency Ltd. (in which the Company has a 25% stake), in view of the special knowledge and experience that this company has in handling medical malpractice claims. Commencing December 2015, some of the medical malpractice (medical professional liability) claims for certain underwriting years were settled by a company jointly owned by Harel (5%) and the reinsurers Swiss Re (75%) and Munich Re (20%). As of September 2019, Swiss Re acquired Munich Re's share of the Company so that Harel continues to hold 5% of the Company and the balance is held by Swiss Re. The Company has a certain dependence on MCI and the jointly held company, nonetheless, the Company has sufficient knowledge and experience to undertake the handling of these claims independently, within a relatively short time frame.

(f) In December 2015, ICIC entered into agreement with Harel Hamishmar Computers Ltd. The nature of the agreement is to receive computer services for the ongoing activity and management of all ICIC's business, including infrastructure services, operating services, support, maintenance, information security and business continuity. The agreement is for 10 years where both parties may terminate the agreement by giving one year's advance notice.

(g) Pursuant to an agreement which was approved by the Board of Directors of the Company on March 30, 2014, EMI pays the Company annual management fees of NIS 250,000 for a variety of services that it receives from the Company and for officers in Harel Investments who serve as directors in EMI. This agreement replaces a previous agreement relating to management fees that came to an end on December 31, 2013 and was not renewed.

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 Founders Agreement of Hamazpen, 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 must provide 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 for 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 in which there is no 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 will bear the cost of this benefit in a manner that its entire cost will be 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.

Note 38 - Balances and transactions with interested and related parties (contd.)

F. Additional transactions (contd.)

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

   In December 2019, Hamazpen entered into agreement with Harel Insurance to receive a credit facility in the amount of NIS 150 million for the purpose of providing credit to its customers. In September 2020 the credit facility was increased by a further NIS 100 million and in November 2021, the Company's Board of Directors approved an additional increase of the aforesaid credit facility by a further NIS 50 million. As collateral for providing this credit facility, the Company signed a letter of undertaking to invest the required amounts in Hamazpen's capital from time to time so as to ensure that, at all times, Hamazpen's equity will not fall below 15% of the total balance sheet of Hamazpen. At December 31, 2021, and at the date of signing these financial statements, the outstanding credit provided by Harel Insurance to Hamazpen was NIS 186 million.

Note 39 – Share-based payment

A. The expense recognized in the books

The expense recognized in the consolidated financial statements in 2021 for share-based payments amounted to NIS 5 million.

B. Stock options plan for Group executives and employees

On August 23 and 25, 2021, and on August 30, 2021, the Company's Compensation Committee and Board of Directors, respectively, approved a stock options plan for executives and employees of the Group which includes an allotment of up to 8,548,000 stock options which may be exercised for 8,548,000 ordinary NIS 0.1 par value shares of the Company, subject to adjustments, with no consideration.

On October 17, 2021, ("the Grant Date"), an actual allotment of 7,423,000 stock options was made to 157 Group employees, of which four were officers of the Company. Additionally, an allotment of 250,000 options was made to another executive with whom the Company has a consulting agreement, as well as to another advisor to the Company.

The options will vest in three portions, subject to continuation of the recipient's employment in the Group. The plan was approved on a capital taxation track, under Section 102 of the Income Tax Ordinance.

The exercise price for each option at the Grant Date (adjusted for dividends) is NIS 32.9.

On the exercise date, the Company will allot the exercisable shares according to the number of exercisable shares multiplied by the difference between the share price on the Stock Exchange at the exercise date and the exercise price, divided by the price of the share on the Stock Exchange.

The options include a benefit cap, according to which the maximum benefit that may be derived by the recipients from exercising each option shall not exceed 180% of the Company's share price as it was on the trading day preceding the Grant Date (a maximum share price of NIS 60.12).

The fair value at the Grant Date was calculated according to a valuation received from an external appraiser who used the binomial model. The average value for one option was estimated at NIS 9.255 and the total value of the allotted options was estimated at that time at NIS 71 million.

Assumptions applied in measuring the fair value of the options on the Grant Date:

Portion	Expected fluctuation in the share price (A)	Risk-free interest rate (B)	Vesting date	Expiration date
1	29.91%	0.65%	October 17, 2023	October 17, 2027
2	28.93%	0.81%	October 17, 2024	October 17, 2028
3	28.42%	0.97%	October 17, 2025	October 17, 2029

(a) Expected fluctuation in the share price

The expected fluctuation (standard deviation) is based on the historic volatility of the Company's share price (by daily spreads). The expected fluctuation of the share price reflects the assumption that the historic volatility of the share price is a good indication of expected fluctuations in the future.

Note 39 – Share-based payment (contd.)

B. Stock options plan for Group executives and employees (contd.)

(b) Risk-free interest rate

The interest rate applied for calculating the value of the options to the recipients was calculated on the basis of a nominal risk-free yield to redemption curve, based on the yield for unlinked shekel government bonds with fixed interest.

(c) Churn rate (after the vesting period)

The model assumed a 7% churn rate for the period between the vesting date and expiration of the option. The model made no assumption for a churn rate during the vesting period.

(d) Dividend

The exercise price of the options in the plan is adjusted for dividends. Calculation of the value of the options therefore ignores any future dividend distribution.

C. Movement during the year

The following table includes the movement in the number of stock options and their exercise price during the course of 2021:

	For the year ended December 31	
	2021	
	Number of options	Adjusted exercise price
Stock options granted as at the beginning of the year	-	-
Stock options granted during the year	7,673,000	32.93
Stock options forfeited during the year	(163,000)	32.93
Stock options granted as at the end of the year	7,510,000	32.93

D. The outstanding contractual lifespan of the stock options at December 31, 2021, is 5.8 years.

E. After the Reporting period, an actual allotment of 906,000 shares was made to 32 employees of Harel Insurance as part of the aforementioned plan. The exercise price for each option at the Grant Date is NIS 36.56.

Note 39 – Share-based payment (contd.)

F. Allotment of options to an officer in a private subsidiary

On August 23 and 25, 2021, and on August 30, 2021, the Company's Compensation Committee and Board of Directors, respectively, approved a plan to grant 309 stock options to Company officers which may be exercised for 309 ordinary NIS 1 par value shares in a private subsidiary of the Group, with no consideration.

On November 17, 2021 ("the Grant Date") the options were actually allotted.

The options may be exercised from two years after the Grant Date and up 7 years after the Grant Date (the expiration date), subject to that the value of the subsidiary at the exercise date does not fall below a defined threshold. The plan was approved on a capital taxation track, under Section 102 of the Income Tax Ordinance.

The fair value at the Grant Date was calculated according to a valuation received from an external appraiser who applied the Monte Carlo method. The total value of the allotted options was estimated at that time at NIS 1.2 million.

Note 40 - 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 clients. The complexity of these arrangements contain, *inter alia*, a potential for interpretative and other claims, among other reasons due to information gaps between the Group and other parties to the insurance contracts, and the Group's other products, relating to a series of commercial and regulatory conditions, including claims relating to the method of investing the money of insureds and members. It is impossible to predict the types of claims which may be raised in this sector and the resulting exposure in connection with the Group's products, which are raised during the course of various legal proceedings, *inter alia*, through the litigation mechanism prescribed 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 profit 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 in all 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 "Superintendent's position papers", "rulings in principal" on various matters, 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, the agreements with the policyholders, members and customers are over a period of many years during which changes may occur in policies, regulations and legal trends, including through court rulings. 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 operate to review compliance with the regulatory provisions and rectify 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 details the stages for implementing the optimization project. The optimization project 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 are outstanding which continued and will continue on a regular basis after the date scheduled for completion. In accordance with the requirements of the circular, the Company also performs ongoing optimization and saves the optimization activity conducted as part of the project.

Furthermore, there is a general exposure due to complaints filed from time to time to the Capital Market, Insurance and Savings Authority against the Group's financial institutions, regarding the rights of insured relating to the insurance policies and/or the law. These complaints are handled on a current basis by the Company's public complaints division. The decisions of the Capital Market, Insurance and Savings Authority regarding these complaints, if and to the extent that any decision is made, might also be given as broad rulings that apply to extensive groups of insureds. Additionally, sometimes the complaining entities even threaten to take steps regarding their complaints in the form of a class action. At this time, it is impossible to estimate whether there is exposure for such complaints nor is it possible to gauge whether the Commissioner will issue a cross-the board decision on these complaints and/or whether class actions will be filed as a result of these steps and it is therefore impossible to estimate the potential exposure to such complaints. Consequently, no provision for this exposure has been included. Additionally, as part of the policy applied by the Ministry of Finance Capital Market, Insurance & Savings Authority to enhance the controls and audits of financial institutions, from time to time the Capital Market, Insurance and Savings Authority conducts in-depth audits of various areas of activity performed by the Group's financial institutions.

Note 40 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

As a result of these audits, the Ministry of Finance may impose fines and/or financial penalties and it may also instruct that changes should be made with respect to various operations, both with respect to the past and the future. Regarding instructions with respect to past activity, the Capital Market, Insurance and Savings Authority may request the restitution of money or a change in conditions vis-à-vis policyholders and/or fund members in a manner that might 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.

As part of the audits conducted by the Capital Market Insurance and Savings Authority, during the Reporting Period a number of in-depth audits were and are being conducted in the areas of pension and provident, health and personal accident insurance, long-term care insurance, non-life insurance, customer service, claims settlement, actuary and public complaints. In this framework, on November 21, 2021,Harel Insurance received notice that a penalty of NIS 2,812,500 had been imposed for a breach of the documentation obligation prescribed in Circular 2016-1-7 on the subject of enrollment in insurance. The penalty was paid on November 29, 2021.

Within the context of investments in debt assets by the Group companies, 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.

A dispute emerged between Harel Insurance and a financial institution which Harel Insurance had provided with significant amounts as part of an investment in liability notes issued by this financial institution. The dispute concerns the right of the said financial institution to make early redemption of the liability notes, before the final date of redemption determined in the liability notes. Early redemption of the liability notes will cause Harel Insurance a loss, in part due to the anticipated loss of income and loss of the opportunity to be backed by alternative assets with a long duration which correspond with the liabilities against which the investment was made. Harel Insurance is in the process of formulating the factual basis in this matter and it is negotiating the financial institution regarding the institution's right to redeem the liability notes.

In connection with a merger of the insurance activity of Dikla into Harel Insurance, and in accordance with 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 indemnity Clalit Health Services for losses sustained by Clalit if and insofar as any losses are sustained, as a result of the split of operations, under the conditions set out in the indemnity note.

On December 1, 2021, Harel Insurance acquired the insurance activity of Shirbit, including the rights and obligations incorporated therein.

Following are details of the exposure for class actions and motions for their recognition as class actions filed against the Company and/or companies in the Group.

In motions for the certification of actions as class actions that are listed below, in which, based, *inter alia*, on expert legal opinions that it received management believes that it is more likely than not that the defense arguments of the Company (or subsidiary) will be dismissed and certification of the action as a class action will be accepted, or where there is 50% or more chance that in the final event the arguments of the Company (or subsidiary) will be accepted, that it is likely that a proposed compromise settlement, that does not include an obligation for a monetary payment which is not negligible will be accepted no provision was included in the financial statements.

Note 40 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

In applications to approve a legal action as a class action regarding a claim, fully or partly, where it is more reasonable that the defense arguments will be rejected, provision was made in the financial statements to cover the exposure estimated by the Company's management and/or the managements of subsidiaries.

In the motions to approve an action as a class action, in Sections 47, 49, 51, 52, 53, 54, 55, 57, 58, 59 and 60 below, it is not possible at this early stage to estimate the chances of the applications to be approved as a class action and therefore no provision has been included in the financial statements for these claims.

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 a motion for its certification as a class action. The subject of the action is the allegation that the respondents unlawfully collected a "sub-annual factor fee" (a fee that insurance companies are allowed to collect when the amount of the annual premium is actually paid in installments). The plaintiffs claim damages in the amount of NIS 1,683.54 for each insurance year. 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, according to which the plaintiff will strike out 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 filed a position supporting the position of the defendants that there is no reason to charge a sub-annual policy factor on the savings component of life insurance combined savings and other risk policies, including nursing, 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 the Supreme Court ruling in January 2017, the respondents responded to the application for permission to appeal the decision to approve the action as a class action and the application 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 put on hold 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 dated 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 to strengthen the weight that should be given to the regulator's professional position in the interpretation of his instructions and that in his view, there should be no involvement 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, another hearing took place on the judgment before a panel of seven judges and on July 4, 2021, a ruling was handed down in the additional hearing whereby the decision of the District Court, which determined that the motion for certification was accepted, it will remain unchanged and the case will be returned to the District Court for a hearing on the class action.

Note 40 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

2. In April 2010, a legal action and an application for its certification as a class action was filed in the Petach Tikva Central 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 relate to 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 opinion of the Commissioner was submitted stating that the provisions of the policy are binding with respect to the method of collecting the premium after the death of the insured or in the period following cancellation of the policy, and that the actuarial opinion that the Respondents had submitted to the court was incomplete for the purpose of proving that the Respondents had priced the premiums in a manner that shows that they took into account that the premiums would not be refunded to the policyholders for the period after the death of the insured or in the period after cancellation of the policy. On June 23, 2015, the Lod-Center District Court partially certified hearing of the claim as a class action. The court certified the claim as a class action against Harel Insurance, but only on the subject of 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 ordered that a reviewer be appointed for the compromise settlement. In December 2019, the reviewer's opinion was submitted to the court in relation to Harel Insurance in 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. In August 2021, the Attorney General submitted an additional position regarding the reviewer's reports relating to the Defendants in which he reiterated his comments from the first position he had submitted in December 2020, and he made several additional comments.

Note 40 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

3. In May 2011, a claim was filed at the Central District Court against the subsidiary Harel Insurance and three other insurance companies (hereinafter together: "the Defendants"), together with an application for recognition as a class action. The subject of the claim is an allegation that the respondents 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 claimants allege that according to instructions issued by the Commissioner in the Capital Market, Insurance and Savings Division Authority ("the Commissioner"), companies may charge a policy factor under certain conditions; however they also claim that in addition to the Commissioner's authorization, the respondents 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 respondents' amounts to NIS 2,325 million, and against Harel Insurance, consistent with its share of the market, to 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. Furthermore, each of the Defendants undertook to deduct the future collection for the policy factor from the members of this group at a rate of 25% relative to the amount actually collected. The Defendants also undertook to pay compensation to the class plaintiff and cover the cost of his lawyer's fees, of 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 a remedy of 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 group in whose name the class action is litigated is 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 insureds was compromised on account of the collection of the policy factor. In May 2017, the Defendants filed an application 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 in parallel with the litigation of the class action.

Note 40- Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

4. 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 claim that Harel Insurance allegedly 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 the hearing of the action 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, a motion was filed for permission to appeal the decision to certify the application as a class action. As recommended by the court, in August 2016, the Defendants withdrew the motion 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. In June 2021, the Supreme Court accepted the Defendants' motion to stay implementation of the partial ruling in the sense that the proceeding to appoint an expert for implementation of the partial ruling will be delayed until a decision is made on the appeal proceeding.

5. 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. (formerly called "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. In November 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 the appointment of a reviewer to examine the compromise settlement prior to its approval should be considered.

Note 40 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

6. 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 for permission to appeal the decision in the Supreme Court. 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. At the hearing, which took place in the Supreme Court on September 13, 2021, it was agreed that the group for which the class action was approved would be reduced and it was stipulated that it also includes past insureds and that the prescription period in respect of the insurance benefits is 3 years. Subject to this, with the consent of the parties, the motion for permission to appeal and the appeal were dismissed.

7. 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. (formerly called "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 instructions of the Commissioner 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 position of the Commissioner relating to the disputes that are the subject of the motion for certification of the action as a class action. In January 2016, the position of the Commissioner of Insurance 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.

Note 40 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

7 (contd.)

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 on the grounds that 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 was held at 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. In January 2022, the parties informed the court of their agreement to enter into a mediation process.

8. In July 2014, The subject of the action is the argument that the Defendants increase the management fees paid by the pension fund members from the accrued savings (accrued balance) to the maximum rate permitted by law, when the members become pensioners, begin to receive their retirement benefit and are no longer able to move their pension savings. The Defendants thus exercise the contractual right granted to them under the provisions of the pension fund articles, in an unacceptable manner, in bad faith and in contravention of the statutory provisions. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent in the amount of NIS 48 million against all the Defendants. The court submitted the application to obtain the Commissioner's position on questions arising from the motion for certification. In September 2017, the Commissioner's position was filed supporting the Defendants' position according to which the management fee rate collected in the savings period should not be compared with the management fee rate collected from annuity recipients after their retirement as these are different periods with different characteristics. Post-retirement management fees are reset at the time of retirement unrelated to the management fee rate prior to retirement and are therefore not considered an increase of the management fees but rather determining the management fee rate for the retirement period. On March 18, 2022, the Lod-Center District Court certified litigation of the claim as a class action. The class in whose name the class action is to be litigated is anyone who is a member of a new, comprehensive pension fund which is listed as one of the Defendants, and who is eligible to receive an old-age pension and/or may in future be eligible to receive an old-age pension.
   The "Management Fees Circular" which addresses the obligation of management companies to inform members does not in any way apply with respect to determining management fees for pensioners, and the obligation to provide notice of a change in the management fees under 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 of the action was returned to the court.

9. 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. (under its previous name Dikla Insurance Company Ltd.) ("Dikla"). The subject of the action is the allegation that when settling claims in long-term care insurance, for the purpose of assessing the presence of an insured event, Dikla ostensibly separates the activities of daily living by parts of the body, while making a meticulous quantitative assessment of the insured's ability to perform each of the ADLs. This, in a manner that ostensibly renders the Commissioner's circulars meaningless, in that according to the circulars it must perform a material assessment of this ability, while such conduct is contrary to the Commissioner's position on this subject 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 was served to Dikla on the ruling, which the plaintiff had filed in the Supreme Court in the motion for certification.

Note 40 - Contingent liabilities and commitments (contd.)

A. Contingent Liabilities (contd.)

10. 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. (under its previous name Dikla Insurance Company Ltd.) ("Dikla") and against three other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants allegedly adopted an interpretive position in that for the purpose of recognizing an insured within the framework of investigating a long-term care claim in which the insured satisfies the definition of being "unable to control bowel and bladder functions", this condition must be exclusively the outcome of an illness or urological or gastroenterological impairment. This, ostensibly, in contravention of the provisions of the insurance policy. The plaintiffs have not quantified the loss claimed for all members of the class they wish to represent, but they estimate it to be hundreds of millions of shekels. The mediation process conducted by the parties was unsuccessful and the hearing of the action was returned to 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 resulted in non-payment or under payment of the long-term care benefits due to the failure to recognize the insureds as being eligible to points for the ADL of control of bowel and bladder function. 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 the action was approved as a class action and who suffered from an inability to independently control bowel or bladder functions as a result of a combination of defective control of these functions that has not reached the stage of organic loss of control with deteriorated functional condition, and nevertheless did not receive from the Defendants against whom the claim was approved as a class action (as applicable) points for the ADL of "control of bowel and bladder function" in an assessment of their claim for receiving long-term care benefits, in a manner that led to an infringement of their 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

11. 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 ("the Defendants"). The subject of the action is the argument that the Defendants were allegedly in breach of their fiduciary obligations towards members of the provident funds that they manage in that they paid commissions to the insurance agents at a rate derived from the management fees which they collect from the members and thus compensated the agents by an amount that increases in line with the increase in the management fees. The plaintiffs further argue that the Defendants also practiced unjust enrichment by allegedly creating a mechanism with the purpose of increasing the management fees in order to benefit of the agents and management companies. The plaintiffs estimate the loss for all members of the class they wish to represent in the amount of NIS 300 million per annum since 2008 and NIS 2 billion in total.

12. In February 2016, a motion 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 and against four other pension management companies ("the Defendants"). The subject of the action is the claim that the Defendants start collecting management fees from the recipients of disability and survivors annuities when they begin to receive their annuities and can no longer move their money to another pension fund. These management fees are a the maximum rate permitted by law, and the members do not receive advance notice of this change. This, ostensibly in breach of the duty of voluntary disclosure which applies to them, of statutory obligations, and of the duty of care, agency duty and care fiduciary obligations, while exploiting and making improper use of a contractual right, practicing unjust enrichment and operating as a cartel. The plaintiff has not quantified the total loss claimed for all members of the class that it wishes to represent but its initial estimate is approximately a billion shekels against all the Defendants. In January 2018, the court instructed that the hearing should be transferred to the District Labor Court.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

13. 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 from its members payment for a component relating to investment management expenses (direct expenses component for performing transactions), which is permissible by law, but for which there is no contractual provision allowing it to do so. The plaintiff argues that Harel Pension & Provident is therefore in breach of the provisions of the pension fund's Articles of Association and the heightened fiduciary and disclosure obligations applicable to it, that it negotiates in bad faith and provides its customers with a misleading description. The plaintiff estimates the total loss claimed for all members of the class it wishes to represent in the amount of NIS 132 million. In April 2017, the court instructed that hearing of the motion should be transferred to the Tel Aviv District Labor Court. In February 2018, the court instructed the Commissioner to submit his position on the proceeding. In June 2018, the position of the Capital Market Authority supporting the position of Harel Pension and Provident was submitted. 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.

14. 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 claim that Harel Insurance allegedly collects payment from holders of Harel Migvan Personal Investments savings policies for a component relating to "investment management expenses", the collection of which is permissible by law, but for which there is no contractual agreement in the policy conditions allowing it to collect this component. According to the plaintiff, Harel Insurance is therefore in fundamental breach of the policy provisions, in breach of its fiduciary obligation and misleads its insureds. The plaintiff estimates the overall loss claimed for all members of the class it wishes to represent at 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. In June 2021, notice was filed on behalf of the Attorney General, in which an update was provided whereby on June 28, 2021, a draft report on the subject of a review of the direct expenses prepared by the advisory committee to the Commissioner of the Capital Market was published for public comment. In this notice, the Attorney General made it clear that in his opinion, the contents of the report will not have any repercussions on the decision in the legal proceeding nor will they change his legal position, and he asked to submit a statement setting out his position with respect to the contents of the report. In July 2021, the Supreme Court accepted the Attorney General's request. On January 2, 2022, the Attorney General submitted his comments on the repercussions of the report on the legal proceeding, according to which the information in the report will not change his position as submitted in the proceeding, whereby the motion for permission to appeal and the actual appeal should be accepted, and the motions to certify litigation of the actions as class actions should be dismissed; the information in the report will not influence the judicial decision in the proceeding; and the information in the report does not in any way contradict his position in the proceeding and the information therein even reinforces it from certain perspectives.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

15. 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 apparently do not need as they have supplementary health insurance from their HMOs. The plaintiffs also argue that the Defendants neglect to disclose to the insureds that this cover is in fact redundant and/or that they condition one type of service on another since 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 multiple 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 overall loss claimed for all members of the class that the plaintiffs wish to represent against Harel Insurance is NIS 2.2 billion, and against all the Defendants the amount is NIS 4.45 billion. In October 2020, the Tel Aviv District Court denied the motion 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.

16. 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 claim that Harel Insurance allegedly neglected to disclose to its insureds, who purchased a long-term care policy with a variable premium, what premium would be collected from them from the age of 65 and this prior to the annual reporting for 2015, and despite the fact that, according to the plaintiff, at the age of 65 the premium in this policy becomes hundreds of percent more expensive. The plaintiff argues that Harel Insurance is therefore in breach of a statutory obligation, in breach of the disclosure obligation, in violation of an agreement, that it acts in bad faith, practices unjust enrichment and is negligent. The plaintiff further claims that billing insureds for the payment of 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 class that it wishes to represent against Harel Insurance, although it estimates the amount at millions of shekels. In July 2017, the court approved the plaintiff's motion to amend the motion for certification so that it will also refer to the argument that Harel Insurance apparently neglected to present to its insureds prior to their enrollment, the premium they will pay from age 65 even though it is obligated to do so according to the Commissioner's circular.. In August 2017, an amended motion was filed for certification the action as a class action. The subject of the amended motion is the argument that Harel Insurance allegedly neglected to present to its insureds in a long-term care policy with a variable premium the premium they would pay from the age of 65 onwards, prior to their enrollment in the insurance as part of the enrollment form and/or in the general conditions document. 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 subject of the motion for certification. In November 2019, the Commissioner's position was received according to which the provisions of Circular 2001/9 "Proper 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. The mediation process conducted by the parties was unsuccessful and the hearing of the action returned to the court.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

17. 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 the fund's members, which is permissible by law, but for which there is no contractual agreement in the fund's articles of association allowing it to collect these expenses. According to the plaintiff, Tzva Hakeva therefore operated in contravention of the provisions of law and the special fiduciary obligation applicable 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.

18. 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. On February 16, 2022, a judgment was handed down by the Central District Court in which context a class action which had been filed against another insurance company on a similar matter ("the corresponding claim") was dismissed. In March 2022, the District Court ordered a stay of proceedings until a decision is given on an appeal to be filed in the corresponding claim.

19. 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, which is permissible by law, but for which there is no contractual agreement in the fund's articles of association allowing it to collect these expenses. 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 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

20. 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 do not quantify 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 motion 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 one he had submitted in a parallel case and which supports the arguments of Harel Insurance.

21. In April 2018, 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 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 for all members of the class it wishes to represent at more than NIS 7 million. The parties are conducting a mediation process.

22. 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 it 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 according to which, based on the proper and appropriate interpretation of the definition of the term "surgery" according to Insurance Circular 2004/20 relating to 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. In January 2022, the Jerusalem District Court certified litigation of the action as a class action. The group in whose name the class action is to be conducted is any person who entered into a health insurance contract with the Defendants, which includes insurance cover for surgery, and whose claim for performing surgery was dismissed on the grounds that the surgery is preventive and is not covered in the policy (even if the reason was presented differently in the letter of dismissal).

23. 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 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

24. 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. Following a hearing that was held before the Supreme Court in February 2022, the court instructed the Attorney General to submit his position on a subject of principle arising from the appeal.

25. In June 2019, 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 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 wishes to represent in the amount of NIS 365.3 million.

26. In June 2019, an action was filed in the Tel Aviv-Jaffa District Court, together with an application 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 application covers the same grounds as those in a previous action and application 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)(4) 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.

27. In July 2019, 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 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.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

28. In August 2019, an action was filed in the Lod-Central District Court, together with an application 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 plaintiffs 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.

29. 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 allegedly are not included in the policy schedule that Harel Insurance sends to insureds. The plaintiff estimates the overall loss caused to all members of the class it wishes to represent in the amount of NIS 1.5 million.

30. 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 subsidiary Harel Insurance. The subject of the action is the allegation that, at the time of the purchase, 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, the premium to be paid only 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. In September 2021, the court submitted the motion to the Commissioner to obtain his position in relation to the disputes which are subject of the motion for certification of the action as a class action.

31. 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 its insureds who hold group life assurance with a copy of the insurance policy and that it ostensibly neglected to disclose to them changes that were made in the policy incidental to renewal of the policy. The plaintiffs have not quantified the financial loss claimed for all the class members they wish to represent, but the non-financial loss claimed for all the class members is estimated at approximately NIS 400 million. In December 2020, the motion for certification with respect to Israel Police Funds was summarily dismissed and the action and the motion are now being litigated exclusively against Harel Insurance. In September 2021, the court sent the motion to the Commissioner to obtain his position on questions arising from the motion for certification. In January 2022, the Commissioner's position was submitted supporting the position of the Defendants to the effect that insofar as the Israel Police Funds transferred the policies and the policy schedule by electronic mail and by regular mail, as chosen by the insured and as arises from the pleadings, then the Israel Police Funds and Harel Insurance have in fact complied with the Authority's requirements regarding the method of informing the insureds of the entering into force of a new insurance policy.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

32. In January 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 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.

33. 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.

34. 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 subsequent restrictions on movement and activity that were imposed and which allegedly led to a much lower volume of traffic and travel and consequently 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 withdrawal 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. In April 2021, the plaintiffs filed an appeal in the Supreme Court against the decision of the District Court. In October 2021, the Tel Aviv District Court ordered a stay of proceedings in the proceeding being heard by the court and this until after the ruling on the proceeding regarding a refund of premiums to insureds in policies for insuring business premises, employers liability insurance and third-party insurance on account of an alleged reduction of the risk to which the Defendants are exposed following the outbreak of COVID-19 and the restrictions on economic activity, in which context the Haifa District Court denied the motion to certify the action as a class action against Harel Insurance and other insurance companies, becomes absolute ("Judgement in the Additional Proceeding") or insofar as an appeal on the ruling in the Judgement in the Additional Proceeding is filed in the Supreme Court - until a ruling is given on the appeal. In December 2021, the District Court ordered the stay of proceedings to be lifted, after the judgement in the additional proceeding had become absolute.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

35. 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 premiums that were ostensibly overpaid by the policyholders in view of the supposedly 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 hearing of the motion should be transferred to the Tel Aviv District Court. In October 2021, the Tel Aviv District Court ordered a stay of proceedings in the proceeding being heard by the court and this until after the ruling on the proceeding regarding a refund of premiums to insureds in policies for insuring business premises, employers liability insurance and third-party insurance on account of an alleged reduction of the risk to which the Defendants are exposed following the outbreak of COVID-19 and the restrictions on economic activity, in which context the Haifa District Court denied the motion to certify the action as a class action against Harel Insurance and other insurance companies, becomes absolute ("Judgement in the Additional Proceeding") or insofar as an appeal on the ruling in the Judgement in the Additional Proceeding is filed in the Supreme Court - until a ruling is given on the appeal. In December 2021, the District Court ordered the stay of proceedings to be lifted, after the judgement in the additional proceeding had become absolute.

36. 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 premiums that were ostensibly overpaid by the policyholders in view of the supposedly drastic reduction of the risk level to which the Defendants are exposed in light of the dramatic decrease in the number of claims filed with the Defendants due to the contraction of economic activity as a result of the outbreak of the COVID-19 pandemic and alleged subsequent reduced 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 billion. In June 2020, the court instructed that hearing of the motion should be transferred to the Tel Aviv District Court. In October 2021, the Tel Aviv District Court ordered a stay of proceedings in the proceeding being heard by the court and this until after the ruling on the proceeding regarding a refund of premiums to insureds in policies for insuring business premises, employers liability insurance and third-party insurance on account of an alleged reduction of the risk to which the Defendants are exposed following the outbreak of COVID-19 and the restrictions on economic activity, in which context the Haifa District Court denied the motion to certify the action as a class action against Harel Insurance and other insurance companies, becomes absolute ("Judgement in the Additional Proceeding") or insofar as an appeal on the ruling in the Judgement in the Additional Proceeding is filed in the Supreme Court - until a ruling is given on the appeal. In December 2021, the District Court ordered the stay of proceedings to be lifted, after the judgement in the additional proceeding had become absolute.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

37. 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 increased 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 approximately NIS 540 million.

38. 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 (hereinafter together: "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 tax-liable provisions, despite the fact that they are not 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. In April 2021, a motion was filed for permission to file a third-party notice against the Tax Authority. In August 2021, the Tax Authority responded to the motion and argued, *inter alia*, that according its position, the motion for certification should have been filed in an appropriate proceeding against the Tax Authority and not against the defendants and that there is no place to approve the motion in the manner in which it was filed. Furthermore, the court asked to instruct that the Tax Authority should be included as a respondent to the proceeding and to instruct it to submit its position on the arguments set out in the motion for certification. In February 2022, the court instructed that the Tax Authority should be included as a respondent in the proceeding.

39. 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. The mediation proceeding conducted by the parties was unsuccessful.

40. 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.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

41. 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. The parties are conducting a mediation process.

42. 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 the class members they wish to represent in the amount of NIS 447 million. In December 2021, the court transferred the motion to obtain the Commissioner's position in relation to the dispute which is the subject of the motion to certify the action as a class action. In March 2022, the Commissioner's position was submitted according to which Harel's interpretation is inconsistent with the simple wording of the policy.

43. 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.

44. 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. In March 2022, the court ordered that the issues in dispute should be handed over to the Commissioner for his position.

45. 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.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

Actions filed during the Reporting Period

46. 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.

47. 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.

48. 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.

49. 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.

50. 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 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

Actions filed during the Reporting Period (contd.)

51. In July 2021, an action was filed in the Tel Aviv District Court, together with a motion for its certification as a class action. against the second-tier subsidiary Harel Financing and Issuing Ltd. ("Harel Financing & Issuing"). The subject of the action is the argument that Harel Financing & Issuing allegedly does not make its reports accessible on the internet-based information systems operated by the Israel Securities Authority and the Tel Aviv Stock Exchange (the Magna and Maya systems, respectively), thus ostensibly preventing or limiting the possibility of people with disabilities from receiving information from these reports. This, ostensibly in contravention of the Equal Rights for Persons with Disabilities Law, 1998 and the Equal Rights for Persons with Disabilities (Service Accessibility Adjustments) Regulations, 2013. The plaintiff estimates the overall loss caused to all members of the class he wishes to represent in the total amount of NIS 7.5 million.

52. In July 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 six other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the argument that when calculating the monthly benefit paid to insureds in life assurance policies which include profit sharing from the investment portfolio, the Defendants allegedly deduct interest from the monthly return accrued to the insureds, without any appropriate stipulation to this effect in the policy conditions and without the rate of interest being specified in the policies. 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 2.5 million.

53. In September 2021, an action was filed in the Jerusalem District Court together with a motion for its certification as a class action against the subsidiaries Harel Pension & Provident and Harel Insurance (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants allegedly send advertisements by SMS and email and this, ostensibly, without obtaining the recipient's consent to receive such advertisements, without specifying that it is advertising, without including a message concerning the right to refuse to receive advertisements and without providing an option to refuse. This ostensibly in contravention of the Communications (Telecommunications and Broadcasts) Law, 1982. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent in the amount of NIS 10 million.

54. In October 2021, 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 an additional insurance company (hereinafter together: "the Defendants"). The subject of the action is the allegation that the Defendants ostensibly and unlawfully dismiss insurance claims for special-needs children, in the context of a long-term care policy, despite the fact that, according to the plaintiffs, they meet the definition of "cognitively impaired" according to the policy, and this without conducting any examination as to whether their condition corresponds with this definition. The plaintiffs estimate the total loss claimed for all members of the class they wish to represent against both defendants together in the amount of NIS 2.97 billion.

Note 40 – Contingent liabilities and commitments (contd.)

A. Contingent liabilities (contd.)

Actions filed in the Reporting Period (contd.)

55. In October 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. The subject of the action is the allegation, in part, that Harel Insurance ostensibly does not pay insureds in profit-sharing life assurance policies, according to which the insurance benefits are paid on the basis of an Rm formula, the full payment for the investment profits according to the policy instructions and that it ostensibly fails to calculate the yield rate in accordance with the policy instructions. This action addresses grounds which correspond partially with those addressed in a previous action and motion for certification as a class action - the Ben Ezra case ("the First Claim"), which was partially certified for litigation as a class action on March 27, 2019, by the Tel Aviv District Court ("the Certification Decision") and the application of which was limited by the Supreme Court to a number of specific policies only (see Section (A)(6) above). As a result, this action and motion for its certification as a class action was filed in relation to the other policies which are no longer included in the First Claim. The plaintiff estimates the overall loss caused to all members of the class it wishes to represent in the amount of NIS 1.4 billion.
56. In November 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 Insurance The subject of the action is the allegation that Harel Insurance ostensibly refuses to provide insurance cover for partial work disability for its insureds in group medical insurance, and this ostensibly in contravention of the policy instructions. The plaintiff has not estimated the total loss claimed by all members of the class that it wishes to represent.
57. In December 2021, 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 increases the premiums collected from its insureds in home structural insurance policies when they are renewed without obtaining their express agreement in advance to raise the premiums. 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 2.5 million.
58. In December 2021, an action was filed in the Haifa District Labor 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 collects amounts for a "withdrawal fine" from its insureds in life assurance policies when the savings in the policy is withdrawn or moved, and this ostensibly in contravention of the provisions of the law and the policy and without giving any warning to this effect prior to moving the money. The plaintiff estimates the overall loss caused to all members of the class it wishes to represent in the amount of NIS 3.55 billion.

Actions filed after the Reporting Period

59. In February 2022, 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 allegedly pays insureds in group health policies for members of the Teachers Union a partial refund of the difference between the full amount paid for a specialist consultation and the amount of participation by the HMOs of which the insureds are members. The plaintiff estimates the overall loss caused to all members of the class it wishes to represent in the amount of NIS 12 billion.
60. In March 2022, an action was filed against the subsidiary Harel Insurance, together with a motion for its certification as a class action, in the Tel Aviv District Court.. The subject of the action is the allegation that Harel Insurance allegedly unlawfully collected and collects from the insureds a premium for insurance cover for preventive surgery. The plaintiff does not quantify the total loss claimed for all members of the class it wishes to represent but it estimates the loss to be substantially more than NIS 2.5 million.

Note 40 – Contingent liabilities and commitments (contd.)

B. Contingent liabilities - Shirbit

Information about the exposure for class actions and motions for recognition of actions as class actions that were filed against Shirbit Insurance Company Ltd. ("Shirbit"), whose insurance activity was acquired by Harel Insurance on December 1, 2021.

61. 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 Shirbit and against another insurance company. The subject of the action is the allegation that Shirbit allegedly refrains from paying insurance benefits to its insureds, together with interest and linkage differences, for the period from the occurrence of the insured event until the time of payment of the insurance payments, and alternatively, for the period commencing from 30 days after the insurance claim is filed and up to the actual date of payment of the insurance benefits. The total loss claimed for members of the class against Shirbit is NIS 10 million. On May 26, 2021, the Tel Aviv District Court accepted the motion for certification. According to the 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 certification of the action as a class action, received insurance benefits from Shirbit, not in accordance with a judgement given on his case, without the inclusion of interest by law. In September 2021, Shirbit, together with other insurance companies who were sued in a number of motions for certification on the same grounds ("the Defendants"), filed a motion for a stay of proceedings on the action, until a ruling is given on an appeal filed in the Supreme Court as part of another class action that was approved on an identical matter against other insurance companies, including Harel Insurance (see Section (A)(4) above). In October 2021, the court denied the motion for a stay of proceedings. In January 2022, the Defendants filed another motion for a stay of proceedings.

62. 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 Shirbit. The subject of the action is the allegation that Shrbit does not disclose to its motor insurance insureds, who are on the verge of crossing an age or driving seniority bracket that it applies in the policy period, that they are able to update the driver's age or driving seniority, and receive a surplus premium, 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 NIS 43.31 million. On February 16, 2022, a judgment was handed down by the Central District Court in which a class action which had been filed against another insurance company on a similar matter ("the corresponding claim") was dismissed. In March 2022, the District Court ordered a stay of proceedings until a decision is given on an appeal to be filed in the corresponding claim.

63. In December 2020, four motions to certify actions as class actions were filed against Shirbit (three motions to certify actions as class actions were filed in the Lod-Center District Court and one motion to certify an action as a class action was filed in the Tel Aviv District Court), on similar grounds of a data security failure against the backdrop of a cyber security attack on Shirbit's servers by hackers and the publication of personal information which belongs to Shirbit's customers. In June 2021, the plaintiffs in the four motions to certify actions as class actions, filed a consolidated motion for certification. The subject of the consolidated action is the allegation that alleged security omissions in Shirbit caused the leak of information and data in Shirbit's possession. 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 2.5 million. In January 2022, the parties informed the court of their agreement to enter a mediation process.

Note 40 – Contingent liabilities and commitments (contd.)

B. Contingent liabilities – Shirbit (contd.)

64. 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 Shirbit and against twelve other insurance companies (hereinafter together: "the Defendants"), including Harel Insurance (see Section (A)(34) above). 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 subsequent restrictions on movement and activity that were imposed and which allegedly led to a much lower volume of traffic and travel and consequently 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 Shirbit in the amount of NIS 27 million, and against all the Defendants in the amount of NIS 886 million. In February 2021, the court ordered withdrawal of the motion concerning the motor insurance with respect to Shirbit 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. In April 2021, the plaintiffs filed an appeal in the Supreme Court against the decision of the District Court. In October 2021, the Tel Aviv District Court ordered a stay of proceedings in a proceeding being heard by the court and this until after a ruling on a proceeding to which Shirbit is not a party regarding a refund of premiums to insureds in policies for insuring business premises, employers liability insurance and third-party insurance on account of an alleged reduction of the risk to which the Defendants are exposed following the outbreak of COVID-19 and the restrictions on economic activity, in which context the Haifa District Court denied the motion to certify the action as a class action against other insurance companies, becomes absolute ("Judgement in the Additional Proceeding") or insofar as an appeal on the ruling in the Judgement in the Additional Proceeding is filed in the Supreme Court - until a ruling is given on the appeal. In December 2021, the District Court ordered the stay of proceedings to be lifted, after the judgement in the additional proceeding had become absolute.

65. In April 2020, an action was filed in the Haifa District Court, together with a motion for its certification as a class action, against Shirbit and against eleven other insurance companies (hereinafter together: "the Defendants"), including Harel Insurance (see Section (A)(35) above). 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 premiums that were ostensibly overpaid by the policyholders in view of the supposedly 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 Shirbit in the amount of NIS 38 million, and against all the Defendants in the amount of NIS 1.2 billion. In June 2020, the court instructed that hearing of the motion should be transferred to the Tel Aviv District Court. In October 2021, the Tel Aviv District Court ordered a stay of proceedings in a proceeding being heard by the court and this until after a ruling on a proceeding to which Shirbit is not a party regarding a refund of premiums to insureds in policies for insuring business premises, employers liability insurance and third-party insurance on account of an alleged reduction of the risk to which the Defendants are exposed following the outbreak of COVID-19 and the restrictions on economic activity, in which context the Haifa District Court denied the motion to certify an action as a class action that had been filed against other insurance companies, becomes absolute ("Judgement in the Additional Proceeding") or insofar as an appeal on the ruling in the Judgement in the Additional Proceeding is filed in the Supreme Court - until a ruling is given on the appeal. In December 2021, the District Court ordered the stay of proceedings to be lifted, after the judgement in the additional proceeding had become absolute.

Note 40 – Contingent liabilities and commitments (contd.)

B. Contingent liabilities – Shirbit (contd.)

__Summary table__:

The following table summarizes the amounts claimed as part of the pending motions for the approval of class actions, actions that were certified as a class action, and other significant claims against the Company and/or subsidiaries and/or Shirbit, as specified by the plaintiffs in the pleadings they filed. It is stipulated that the amount claimed does not necessarily constitute the sum of the exposure estimated by the Company, given that these are the plaintiffs' estimates and they will be clarified during the litigation process.

Type	Number of claims	Amount claimed in NIS million
Actions that were certified as a class action:		
Amount pertaining to the Company and/ or consolidated subsidiaries is specified	7	1,267
Claim relates to several companies and no specific amount was attributed to the Company and/ or consolidated subsidiaries	2	273
Claim amount is not specified	2	
Pending motions for certification of actions as class actions:		
Amount pertaining to the Company and/ or consolidated subsidiaries is specified	29	6,700
Claim relates to several companies and no specific amount was attributed to the Company and/ or consolidated subsidiaries	6	6,869
Claim amount is not specified	19	

The total provision for claims filed against the Company and against Shirbit as noted above at December 31, 2021, and December 31, 2020, amounts to NIS 101 million and NIS 137 million, respectively.

Note 40 – Contingent liabilities and commitments (contd.)

C. Claims that were settled in 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 persons requesting an attachment 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.

2. In December 2012, an action was filed in the Tel Aviv District Court, together with a motion for its recognition as a class action against the subsidiary Harel Insurance. The subject of the action is the allegation that Harel Insurance ostensibly pays the monthly long-term care benefit to insureds in the Israel Teachers Union group policy of ("the Policy") according to the index known at the beginning of the month and not the index known on the date of payment. It is also argued that Harel allegedly pays the long-term care benefit without linkage to the base index which appears in the policy but according to the base index published two months later, and this ostensibly in contravention of the policy provisions. 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. In July 2019, the Attorney General submitted his position on the compromise settlement. The opinion includes various comments which included, 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. On June 8, 2021, the court validated the amended compromise agreement as a judgment, in which context it was agreed, *inter alia*, that index differences would be paid to the insureds for long-term care benefits in the cases listed in the compromise settlement and provisions were also prescribed concerning the method of making payments for long-term benefits in the future. As agreed in the compromise settlement, Harel Insurance will pay compensation to the class plaintiff and lawyers fees of insignificant amounts to its attorneys.

3. 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 was the allegation that Harel Insurance allegedly does not pay insureds and/or beneficiaries in the Mashlim LeGimlai group supplementary long-term care policy the maximum sums insured specified in the policy for a long-term care condition to pensioners who belong to the Israel Pensioners Association. In May 2021, the plaintiff informed the court that she wishes to strike out the motion for certification and the claim. On July 8 2021, the court approved the plaintiff's application to abandon the motion for certification, and it ordered the class action to be struck out and dismissal of the personal claim.

Note 40 – Contingent liabilities and commitments (contd.)

C. Claims that were settled in the Reporting Period

4. 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 was 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. On August 4, 2021, the Haifa District Court denied the motion for certification of the action as a class action.

5. 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 was the allegation that Harel Insurance ostensibly pays money to the beneficiaries of life assurance policyholders by virtue of life assurance policies, which is linked to the CPI from the date on which it is informed of the insured’s death rather than to the investment index which is relevant for the investment track chosen by the insured. The plaintiff argues that Harel Insurance is therefore in breach of its agreement with its insureds, that it practices unjust enrichment, is in breach of a statutory obligation and is in breach of the obligation of voluntary disclosure. In February 2017, the court transferred the motion for obtaining the Commissioner’s position on questions arising from the motion for certification. In May 2017, the Commissioner submitted his position according to which pension savings money which is paid to beneficiaries following the insured’s death during the work period is not insurance benefits and is not covered by Section 28 of the Contracts Insurance Law, and Harel must henceforth link the pension savings money to the investment index also in the period following the insured’s death and until the money is transferred to the beneficiaries. The Commissioner further noted that he does not consider that the above case does not involve unjust enrichment. 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 compensation to the class members who were defined in the compromise settlement at the 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 also 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 administered before his death. 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. On August 16, 2021, the court validated the amended compromise settlement as a judgment and compensation was ruled for the class plaintiff and attorneys’ fees for its attorney of insignificant amounts.

6. 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”). The subject of the action is the allegation that the Defendants do not clearly inform members who join the pension funds managed by them, who have no survivors, that they do not need insurance cover for risks of death and there is therefore no point in signing up for an insurance track which includes cover for risks of death; similarly they do not make it clear to these enrolled members that two years after the date of enrollment they will automatically be transferred to an insurance track which includes cover for risks of death and therefore to the extent that their family situation has not changed they must inform the fund that they do wish to have this cover. 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). On September 24, 2021, the Tel Aviv District Labor Court denied the motion for certification of the action as a class action.

Note 40 – Contingent liabilities and commitments (contd.)

C. Claims that were settled in the Reporting Period (contd.)

7. 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 was the allegation that Harel Pension & Provident allegedly does not pay linked interest on insurance benefits which are paid more than 30 days after the date of filing the claim. In August 2021, the plaintiff informed the court that she wishes to strike out the motion for certification. The motion for certification may be struck out subject to the court's approval. In September 2021, the court instructed the plaintiff to file a motion for abandonment of the action in lieu of a motion for striking out. In October 2021, the plaintiff filed a motion for abandonment which is subject to the court's approval. On November 29, 2021, the Tel Aviv District Labor Court approved the plaintiff's application to abandon the motion for certification and the action and ordered plaintiff to pay costs.

8. 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 the comprehensive insurance policy for all taxis does not cover impairment, including impairment caused as a consequence of an insured event, and this, allegedly in contravention of the policy provisions. Harel Insurance is therefore in breach of the agreement between it and its insureds, practices unjust enrichment, and is in breach of the heightened obligations that apply to it as an insurance company, including that it misleads its insureds. In March 2017, the court approved the plaintiff's motion to amend the definition of the class so that it will include insureds who purchased a policy for heavy good vehicles or commercial vehicles weighing more than 3.5 tons (including taxies) and not only insureds who purchased a motor insurance policy for a taxi. The parties conducted a mediation process. In May 2020, 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 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. 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. On December 2, 2021, the court validated the compromise settlement as a judgment, in which context it was agreed, *inter alia*, that Harel Insurance will pay 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. As agreed in the compromise settlement, Harel Insurance will pay compensation to the class plaintiff and lawyers fees of insignificant amounts to its attorneys.

9. In July 2012, an action was filed in the Tel Aviv District Court, together with a motion for its recognition as a class action against the subsidiary Harel Insurance and against the IDF Disabled Veterans Organization (hereinafter together: "the Defendants"). The subject of the action is the allegation that the group life assurance for members of the IDF Disabled Veterans Organization ostensibly provides insurance cover when the insured event occurs during the year between when the insured reaches the age of 75 and when he turns 76, whereas Harel Insurance provides cover for insured events that occur only until the insured reaches the age of 75. On June 5, 2014, the Tel Aviv District Court certified litigation of the claim as a class action. The class that was approved is the beneficiaries of all IDF disabled veterans who died between 2006 and 2012, after they reached the age of 75 but before they reached the age of 76, who suffered an insured event after reaching the age of 75 and before reaching the age of 76 and who did not receive insurance benefits from Harel Insurance. On July 6, 2014, the Defendants filed a motion in the Supreme Court for permission to appeal this decision. Based on the court's recommendation, in December 2015 the Defendants withdrew the motion to appeal.

Note 40 – Contingent liabilities and commitments (contd.)

C. Claims that were settled in the Reporting Period (contd.)

9 (contd.)

In its decision from March 20, 2016, the Tel Aviv District Court instructed that the class should be expanded to also include the beneficiaries of IDF disabled veterans who had died in the period 2013 - 2016. 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. At a hearing held before the Supreme Court on December 13, 2021, the court ordered the appeal to be dismissed.

D. Claims settled after the Reporting Period

10. In January 2018, an action was filed in the Lod-Central District Court, together with an application for its certification as a class action, against the subsidiary Harel Insurance and against five other insurance companies (hereinafter together: "the Defendants"). The subject of the action was 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 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 Central-Lod District Court dated February 20, 2017, in which the motion was struck out. On January 4, 2022, the Lod-Center District Court denied the motion for certification of the action as a class action.

11. 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 was 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. On January 13, 2022, the Lod-Center District Court approved the plaintiff's application to abandon the motion for certification, and it ordered the dismissal of her personal claim and to strike out the motion for certification.

12. 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 twelve other insurance companies (hereinafter together: "the Defendants"). The subject of the action is the allegation that in cases where the Defendants pay amounts that were ruled against them by the judicial authorities after the date set for their settlement, they do not add to them linkage differences, interest and linked interest as required under the provisions of Section 5(B) of the Adjudication of Interest and Linkage Law, 1961. The parties conducted 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. On February 6, 2022, the court certified as a judgement an amended 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 a period of no more than 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. As agreed in the compromise settlement, Harel Insurance will pay compensation to the class plaintiff and lawyers fees of insignificant amounts to its attorneys.

Note 40 – Contingent liabilities and commitments (contd.)

D. Claims settled after the Reporting Period (contd.)

13. In November 2014, a motion was filed in the Lod-Center District Court to certify an action as a class action against the subsidiary Harel Insurance and Standard Insurance Ltd. and against an additional insurance company (hereinafter together: "the Defendants"). The subject of the action is the allegation that in cases where the holders of Isracard and CAL credit cards call the Defendant insurance companies' sales call center in order to activate a travel insurance policy which they are eligible to receive at no cost ("the Basic Policy), the Defendants allegedly sell them "riders" or "extensions" to the Basic Policy, while in practice the policy sold to them is a full off-the-shelf policy that provides cover from the first shekel and includes 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 Defendants therefore allegedly mislead the insureds, violate the disclosure obligation, act in contravention of the statutory provisions and practice unjust enrichment. 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. In November 2019, the Attorney General submitted his position in relation to the compromise settlement, whereby the compromise settlement in its present format should not be approved and that it must be amended in conformity with his comments. In April 2020, the court gave a 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 of itself as being worthy, fair and reasonable from the perspective of the class members. On February 17, 2022, the court validated the compromise settlement as a judgment in which it was agreed, among other things, that Harel Insurance will make available to the eligible class members, as they are defined in the compromise settlement, a defined number of days of travel insurance free of charge, that can be utilized in accordance with the provisions of the compromise settlement. As agreed in the compromise settlement, Harel Insurance will pay a benefit to the class plaintiff and legal fees to its attorney of insignificant amounts.

E. Claims against Shirbit that were settled after the Reporting Period

14. In January 2018, an action was filed in the Lod-Central District Court, together with a motion for its certification as a class action, against Shirbit and against five other insurance companies (hereinafter together: "the Defendants"), including Harel Insurance (see Section (D)(10) above). The subject of the action was the allegation that the Defendants ostensibly unlawfully refrain 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 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 Central-Lod District Court dated February 20, 2017, in which the motion was struck out. On January 4, 2022, the Lod-Center District Court dismissed the motion for certification of the action as a class action.

Note 40 – Contingent liabilities and commitments (contd.)

E. Claims against Shirbit that were settled after the Reporting Period

15. In September 2017, an action was filed in the Jerusalem District Court, together with a motion for its certification as a class action, against Shirbit and against twelve other insurance companies (hereinafter together: “the Defendants”), including Harel Insurance (see Section (D)(12) above. The subject of the action is the allegation that in cases where the Defendants pay amounts that were ruled against them by the judicial authorities after the date set for their settlement, they do not add to them linkage differences, interest and linked interest as required under the provisions of Section 5(B) of the Adjudication of Interest and Linkage Law, 1961. The parties conducted 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 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. On February 6, 2022, the court certified as a judgement an amended 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 a period of no more than 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. As agreed in the compromise settlement, Shirbit will pay compensation to the class plaintiff and lawyers fees of insignificant amounts to its attorneys.

F. Commitments

1. Group Long-term care [LTC] policy for members of Clalit Health Services

   Harel Insurance is the insurer in a group LTC policy for members of Clalit Health Services. In May 2018, Clalit Health Services published a tender for group LTC insurance for members of the HMO. Harel Insurance submitted its candidacy for this tender. In September 2018, Harel Insurance was informed that it had been awarded the Tender.

2. Award of the Accountant General’s tender

   On October 4, 2021, Shirbit was informed that it had been awarded the tender published by the Accountant General for 33% of the scope of motor property insurance and compulsory motor insurance of state employees for 2022. The results of the tender are not expected to significantly affect the financial results of Harel Insurance.

3. Undertaking to invest in investment funds

   The Company and its subsidiaries have an undertaking to invest in investment funds in the amount of NIS 15,240 million, of which NIS 13,827 million is from money in profit-sharing policies, pension and provident activity.

4. Agreement with a large employer

   On May 30, 2021, Harel Insurance entered into an agreement with a large employer whereby a supplement will be paid for the annuity of the large employer’s employees through personal lines profit-sharing annuity policies to be issued by Harel Insurance. Deposits in the policies will be made as lump-sum amounts and their purpose is to pay the retiree (and after his death, his survivors), a supplement to the monthly annuity.

   During the agreement period which will end in 2037, deposits of a total of NIS 3 billion are expected to be received.

Note 40 – Contingent liabilities and commitments (contd.)

G. Leases in which the Group is the lessor

The minimum lease fees due to be received in future for non-cancellable commercial lease contracts as at December 31, 2021 and 2020, are:

	2021	2020
	NIS million	NIS million
First year	**205**	196
Second to fifth years	**520**	529
More than five years	**250**	320
	975	1,045

H. Other topics

1. Completion of the restructuring of the Group - EMI

On July 1, 2021, the restructuring entered into force, in which all the holdings of Harel Insurance in Mortgage Holdings Israel Ltd. ("EMI Holdings"), which holds all the share capital of the insurance company EMI, were transferred to the Company ("the Restructuring"). The transfer of these holdings in EMI Holdings from Harel Insurance to the Company as part of the Restructuring was accounted for as a dividend in kind from Harel Insurance to the Company, from distributable profits. The Restructuring took 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 was no change in the Company's accounting equity on a consolidated basis.

On August 26, 2021, the Company received a dividend of NIS 310 million from EMI Holdings.

Note 41 – Material events after the Reporting Period

1. On affirmation of a rating for Harel Insurance by Midroog, see Note 25 to the Financial Statements.
2. On an update of the illiquidity premium following publication of a circular on “Application of the amendment to the provisions of the consolidated circular on the measurement of liability - illiquidity premium”, see Note 3.
3. On the distribution of a dividend in the amount of NIS 250 million by Harel Insurance, see Note 9.
4. On approval of a bonus for 2021 for senior executives, see Note 38.
5. On affirmation of a rating for the Company by Midroog, see Note 25.
6. On a decision concerning the distribution of a dividend in the amount of NIS 300 million, see Note 16.
7. Expected termination of term of office by company officer

   On March 20, 2022, Ms. Nataly Mishan-Zakai, deputy CEO of Harel Insurance and Chief Legal Counsel of Harel Group and also Chair of the Board of Directors of the Group’s pension and provident companies, announced her decision to step down from her positions in Harel Group after an eight-year term of office. Her resignation will enter into force on a date to be agreed by the parties and which will be about three months from her notice given to the Company. Together with her notice to the Company, Ms. Mishan-Zakai made it clear that she is resigning in view of her appointment as CEO of Discount Investment Corporation Ltd.
8. On the issue of Series 1 bonds by a second-tier subsidiary of Harel Finance, see Note 25.
9. After the Reporting Period and immediately prior to publication of the report, against the backdrop of the conflict between Russia and Ukraine, prices on the capital markets dropped, adversely affecting the results of the Company’s activity.

   Consequently, real, negative yields were recorded in profit sharing policies that were sold between 1991 and 2003. Pursuant to the mechanism for collecting management fees as set forth in the legislative arrangement, variable management fees will not be collected in respect of yield-dependent policies which were sold between 1991 and 2003, until investment profits are attained in respect of assets held to cover yield-dependent liabilities, which will cover the accrued investment losses. In accordance with the described mechanism, Harel Insurance did not record variable management fees from the beginning of 2022, but only fixed management fees. Immediately prior to the date of publication of the financial statements, the estimate for the non-collection of management fees due to the real, negative yield until a cumulative positive yield is attained was NIS 80 million.

   Additionally, due to the aforementioned falling prices on the capital markets, after the Reporting Period and immediately prior to publication of the report, Nostro losses were recorded in the marketable portfolio which is not held to cover yield-dependent liabilities.

   Additionally, immediately prior to the date of publication of the report, the risk-free interest rate curve rose to above its level on December 31, 2021, which could result in a decrease of the insurance liabilities. In contrast, an increase of the interest rate curve could negatively impact the value of the financial and other assets in a manner that might reduce this aforesaid impact. Notably, the information described above should not be construed as an estimate of the Company’s financial results. This information is only partial and it does not include other components of profit or loss from investments and other effects.

Note 41 – Material events after the Reporting Period (contd.)

10. Special bonus for employees

In view of the Company's excellent performance in 2021, management decided to award all employees who have been with the Company for more than six months a bonus of NIS 10,000. This special bonus amounts to approximately NIS 50 million and is in addition to the regular bonuses that the Company pays its employees. This bonus was approved by the Company's Board of Directors on March 28, 2022.

HAREL INSURANCE INVESTMENTS & FINANCIAL SERVICES LTD.

Annexes to the Financial Statements

Annex A - Harel Insurance Company Ltd., additional information about other financial investments *

A. Marketable debt assets

	As at December 31			
	2021	2021	2020	2020
	Book value	Amortized cost	Book value	Amortized cost
	NIS million	NIS million	NIS million	NIS million
Government bonds				
Presented at fair value through profit or loss designated upon initial recognition	-	-	3	2
Available-for-sale	7,601	7,105	5,785	5,413
Total government bonds	7,601	7,105	5,788	5,415
Other debt assets				
Non-convertible				
Presented at fair value through profit or loss designated upon initial recognition	-	-	117	103
Held to redemption	14	14	39	39
Available-for-sale	5,117	4,705	4,528	4,272
Total other non-convertible debt assets	5,131	4,719	4,684	4,414
Total marketable debt assets	12,732	11,824	10,472	9,829
Outstanding impairments recognized in profit or loss for debt assets presented as available-for-sale	-		1	

B. Shares

	As at December 31			
	2021	2021	2020	2020
	Book value	Cost	Book value	Cost
	NIS million	NIS million	NIS million	NIS million
Marketable	1,278	800	1,228	780
Non-marketable	357	260	292	215
Total shares	1,635	1,060	1,520	995
Outstanding impairments recognized in profit or loss for shares presented as available-for-sale	61		65	

* The Annex refers to Harel Insurance separate financial statements and to investee companies that are not insurance companies.

Annex A - Harel Insurance Company Ltd., additional information about other financial investments* (contd.)

C. Other financial investments

	As at December 31			
	2021	2021	2020	2020
	Book value	Cost	Book value	Cost
	NIS million	NIS million	NIS million	NIS million
Marketable				
Presented at fair value through profit or loss designated upon initial recognition	**36**	**34**	34	35
Available for sale	**517**	**511**	580	553
Derivative financial instruments	**3**	**-**	3	-
Total marketable financial investments	**556**	**545**	617	588
Non-marketable				
Presented at fair value through profit or loss designated upon initial recognition	**28**	**26**	33	39
Available-for-sale	**2,330**	**1,822**	1,693	1,373
Derivative financial instruments	**280**	**-**	191	-
Total non-marketable financial investments	**2,638**	**1,848**	1,917	1,412
Total other financial investments	**3,194**	**2,393**	2,534	2,000
Outstanding impairments for other financial investments presented as available-for-sale	**171**		142	
Derivative financial instruments presented in financial liabilities	**5**		163	

* The Annex refers to Harel Insurance separate financial statements and investee companies that are not insurance companies.

Annex B - E.M.I. - Ezer Mortgage Insurance Company Ltd., additional information about other financial investments

A. Marketable debt assets

	As at December 31			
	2021	2021	2020	2020
	Book value	Amortized cost	Book value	Amortized cost
	NIS million	NIS million	NIS million	NIS million
Government bonds				
Available-for-sale	**120**	**117**	116	114
Total government bonds	**120**	**117**	116	114
Other debt assets				
Non-convertible				
Available-for-sale	**73**	**67**	121	114
Total other non-convertible debt assets	**73**	**67**	121	114
Total marketable debt assets	**193**	**184**	237	228

B. Shares

	As at December 31			
	2021	2021	2020	2020
	Book value	Cost	Book value	Cost
	NIS million	NIS million	NIS million	NIS million
Marketable	**56**	**37**	53	43
Total shares	**56**	**37**	53	43
Outstanding impairments recognized in profit or loss for shares presented as available-for-sale	**2**		2	

Annex B - E.M.I. - Ezer Mortgage Insurance Company Ltd., additional information regarding other financial investments (contd.)

C. Other financial investments

	As at December 31			
	2021	2021	2020	2020
	Book value	Cost	Book value	Cost
	NIS million	NIS million	NIS million	NIS million
Marketable				
Presented at fair value through profit or loss designated upon initial recognition	-	-	5	5
Available-for-sale	19	18	22	21
Total marketable financial investments	19	18	27	26
Non-marketable				
Presented at fair value through profit or loss designated upon initial recognition	-	-	1	1
Available-for-sale	28	11	34	14
Derivative financial instruments	1	-	1	-
Total non-marketable financial investments	29	11	36	15
Total other financial investments	48	29	63	41
Outstanding impairments for other financial investments presented as available-for-sale	2		-	

Harel Insurance Investments and Financial Services Ltd.

Chapter 4

Separate Financial Information for the Company

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Financial information from the Consolidated Statements of Financial Position for the year ended December 31

	Note	2021 NIS million	2020 NIS million
Assets			
Intangible assets		**2**	-
Fixed assets		**23**	25
Investments in equity accounted investees	7	**7,724**	6,638
Loans to investee	7	**903**	730
Investment property		**26**	25
Other receivables		**51**	31
Assets for employee benefits		**25**	22
Other financial investments	4		
Marketable debt assets		**317**	88
Shares		**189**	-
Other		**220**	484
Total other financial investments		**726**	572
Cash and cash equivalents	3	**202**	225
Total assets		**9,682**	8,268
Equity			
Share capital and share premium		**359**	359
Treasury stock		**(163)**	(123)
Capital reserves		**1,373**	1,061
Retained earnings		**7,292**	6,438
Total equity		**8,861**	7,735
Liabilities			
Deferred tax liabilities		**20**	2
Liabilities for employee benefits		**37**	36
Trade and other payables		**139**	37
Current tax liabilities	6	**3**	4
Financial liabilities	5	**622**	454
Total liabilities		**821**	533
Total liabilities and equity		**9,682**	8,268

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

Date of Approval of the Financial Statements: March 28, 2022

Financial information from the Consolidated Statements of Income for the year ended December 31

	Note	2021 NIS million	2020 NIS million	2019 NIS million
Profit from investments, net, and financing income		**44**	18	24
Income from management fees		**130**	119	129
Total income		**174**	137	153
General and administrative expenses		**16**	15	15
Financing expenses		**34**	18	15
Total expenses		**50**	33	30
Company's share of profits of equity accounted investees		**1,116**	644	362
Profit before taxes on income		**1,240**	748	485
Taxes on income	6	**31**	24	28
Profit for the year attributed to shareholders of the Company		**1,209**	724	457

Financial information from the Consolidated Statements of Comprehensive Income for the year ended December 31

	2021	2020	2019
	NIS million	NIS million	NIS million
Profit for year	**1,209**	724	457
Other items of comprehensive income that after initial recognition as part of comprehensive income were or will be transferred to profit or loss			
Net change in fair value of financial assets classified as available-for-sale	**62**	(3)	8
Net change in fair value of financial assets classified as available-for-sale transferred to income statement	**(5)**	(2)	(1)
Foreign currency translation differences for foreign activity	**(24)**	(15)	(20)
Group's share of comprehensive income of investees	**259**	91*	510*
Tax benefits (taxes on income) attributable to available-for-sale financial assets	**(13)**	1	(1)
Total other comprehensive income for the year that after initial recognition as part of comprehensive income was or will be transferred to profit or loss, net of tax	**279**	72	496
Other items of comprehensive income that will not be transferred to profit or loss			
Revaluation reserve for fixed asset items in investees	**29**	34*	25*
Remeasurement of a defined benefit plan	**2**	4	-
Taxes on income for other items of comprehensive income which will not be transferred to profit or loss	**(1)**	(1)	-
Other comprehensive income for the year that will not be transferred to profit or loss, net of tax	**30**	37	25
Other comprehensive income for the year, net of tax	**309**	109	521
Total comprehensive income for the year attributed to shareholders of the Company	**1,518**	833	978

* Reclassified

Financial information from the Statements of 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 shareholders	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
Balance as at January 1, 2021	359	1,003	(194)	1	(123)	(49)	300	6,438	7,735
Total comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	-	-	1,209	1,209
Other comprehensive income (loss)	-	344	(58)	-	-	-	21	2	309
Total comprehensive income for the year	-	344	(58)	-	-	-	21	1,211	1,518
Dividend distributed	-	-	-	-	-	-	-	(357)	(357)
Share-based payment	-	-	-	5	-	-	-	-	5
Purchase of Treasury stock	-	-	-	-	(40)	-	-	-	(40)
Balance as at December 31, 2021	359	1,347	(252)	6	(163)	(49)	321	7,292	8,861

The accompanying Notes are an integral part of the separate financial information

Financial information from the Statements of 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 shareholders	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
Balance as at January 1, 2020	359	875	(145)	1	(123)	(49)	275	5,709	6,902
Total 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
Balance as at January 1, 2019	359	312	(89)	1	(123)	(49)	256	5,493	6,160
Total comprehensive income (loss) for year									
Profit for year	-	-	-	-	-	-	-	457	457
Other comprehensive income (loss)	-	563	(56)	-	-	-	19	(5)	521
Total comprehensive income (loss) for the year	-	563	(56)	-	-	-	19	452	978
Dividend distributed	-	-	-	-	-	-	-	(236)	(236)
Balance as at December 31, 2019	359	875	(145)	1	(123)	(49)	275	5,709	6,902

Financial information from the Consolidated Statements of Cash Flows for the year ended December 31

	Annex	2021 NIS million	2020 NIS million	2019 NIS million
Cash flows from operating activity				
Before taxes on income	A	**80**	93	101
Taxes paid		**(27)**	(28)	(21)
Net cash provided by operating activities		**53**	65	80
Cash flows from investing activities				
Investment in investees		**(79)**	(3)	(29)
Proceeds from sale of fixed assets		**1**	-	1
Dividend and interest from investees		**70**	43	143
Financial investments, net		**229**	100	(158)
Repayment (provision) of loans and capital notes provided to investees		**(165)**	23	14*
Net cash provided by (used in) investment activity		**56**	163	(29)
Cash flows from financing activity				
Repurchase of Company shares by the Company		**(40)**	-	-
Proceeds of issue of liability notes, net		**247**	-	-
Repayment of loans from banks and others		**(454)**	(77)	(53)
Loans received from banks and others		**375**	-	190
Repayment of lease liabilities		**(3)**	(3)	(3)
Dividends to Company shareholders		**(257)**	-	(343)
Net cash used for financing activity		**(132)**	(80)	(209)
Net increase (decrease) in cash and cash equivalents		**(23)**	148	(158)
Cash and cash equivalents at beginning of the period		**225**	77	235
Cash and cash equivalents at end of the period		**202**	225	77

* Reclassified

	2021	2020	2019
	NIS million	NIS million	NIS million
Annex A - Cash flows from operating activity before taxes on income			
Profit for year	**1,209**	724	457
Items that do not involve cash flows:			
Company's share of profits of equity accounted investees	**(1,116)**	(644)	(362)
Net profits from financial investments	**(17)**	(1)	(7)
Profit from sale of fixed assets	**(1)**	-	-
Change in fair value of investment property	**(1)**	(2)	(1)
Financing expenses (income), net	**(12)**	-	2
Taxes on income	**31**	24	28
Depreciation and amortization	**2**	3	1
Changes in other statement of financial position items			
Trade and other receivables	**(20)**	(6)	(12)
Trade and other payables	**7**	(2)	(5)
Liabilities for employee benefits, net	**(2)**	(3)	-
Total adjustments required to present cash flows from operating activity	**(1,129)**	(631)	(356)
Total cash flows from operating activity before taxes on income	**80**	93	101

NOTE 1 - General

Below is a summary of financial information from the Group's Consolidated Financial Statements at December 31, 2021 ("Consolidated Statements"), published as part of the Periodic Report, pertaining to the Company itself ("Separate Financial Information"), which is presented pursuant to Regulation 9C ("the Regulation") and the Tenth Schedule to the Securities Regulations (Periodic and Immediate Reports), 1970 ("the Tenth Schedule"), with respect to the separate financial information of the corporation. This separate financial information should be read together with the Consolidated Statements.

In this Separate Financial Information -

The Company	-	Harel Insurance Investments and Financial Services Ltd.
Investee companies	-	Consolidated companies and companies, including partnerships in which the Company's investment is included, directly or indirectly, in the financial statements on the equity basis.
The Commissioner	-	The Commissioner of Insurance, according to its meaning in the Supervision Law, or the Commissioner, according to its meaning in the Provident Funds Law, as applicable.
Date of the Report	-	The date of the Statement of Financial Position

NOTE 2 - Significant accounting policies applied in the Separate Financial Information

The accounting policies specified in the Consolidated Financial Statements were consistently applied by the Company for all the periods presented in the Separate Financial Information, including the method for classifying financial information in the Consolidated Statements, with the necessary changes:

A. Presentation of the financial information

1. Information about the financial position

These data include information about the amounts of the assets and liabilities included in the Consolidated Financial Statements which refer to the Company separately (other than for investees) while providing a breakdown by categories of assets and liabilities. Additionally, this data includes information about a net amount, based on the Consolidated Statements, attributed to the Company's separate shareholders, of the total assets net of the total liabilities in respect of investees, including goodwill.

NOTE 2 - Significant accounting policies applied in the Separate Financial Information (contd.)

A. Presentation of the financial information (contd.)

2. Information about profit and loss and other comprehensive income

These data include information about the amounts of the assets and liabilities included in the Consolidated Financial Statements, distributed between profit or loss and other comprehensive income, attributed to the Company itself (excluding for investees), detailed by categories of income and expenses. Furthermore, the data includes information about a net amount, based on the Consolidated Statements which refer to the Company's separate shareholders, of total income net of total expenses for the results of the activity of investees, including impairment of goodwill, impairment or reversal of impairment of an investment in an associate, as well as an impairment or reversal of impairment an investment in an equity accounted company under joint control.

3. Information about cash flows

These data include information about the cash flows included in the separate consolidated financial statements (other than for investees), as taken from the consolidated statement of cash flows, segmented by flow from operating activities, investment activity and financing activity while specifying their components. Cash flows from operating activities, investment activity and financing activity in respect of transactions with investees are presented separately as net amounts, as part of the related activity, based on the nature of the transaction.

B. Transactions between the Company and investees

1. Presentation

Intra-group balances and income and expenses arising from intra-group transactions that were derecognized in the preparation of the Consolidated Financial Statements, were presented separately from the balance for investees and the profit relating to investees, together with similar third-party balances. Unrealized gains and losses attributable to transactions between the Company and its investees, were presented as part of the balance relating to investees and as part of the profit relating to investees.

2. Measurement

Transactions performed between the Company and its subsidiaries were measured in accordance with the principles of recognition and measurement set out in International Financial Reporting Standards ("IFRS"). These principles outline the accounting treatment for third-party transactions.

C. Reclassification

In some of the financial statement items 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 - Cash and cash equivalents

	As at December 31	
	2021	2020
	NIS million	NIS million
Cash and call deposits in banks	202	225
	202	225

Cash surpluses are deposited in banks from time to time for periods of between one week and three months, bearing interest at an annual rate of 0.09% in 2021 (0.06% in 2020).

NOTE 4 - Financial instruments

A. Segmentation by groups of financial assets

All the Company's other financial investments are classified as available-for-sale.

B. Information about linkage

	As at December 31 2021				
	Non-monetary financial instruments	NIS not CPI-linked	NIS CPI-linked	Foreign currency or linked to FC *	Total
	NIS million	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	-	81	235	1	317
Marketable shares	189	-	-	-	189
Other financial investments	200	10	10	-	220
Total	389	91	245	1	726

	As at December 31 2020			
	Non-monetary financial instruments	NIS not CPI-linked	NIS CPI-linked	Total
	NIS million	NIS million	NIS million	NIS million
Marketable debt assets	-	34	54	88
Other financial investments	484	-	-	484
Total	484	34	54	572

NOTE 5 – Financial liabilities

	Book value		Fair value	
	As at December 31		As at December 31	
	2021	2020	2021	2020
	NIS million	NIS million	NIS million	NIS million
Loans from banks	**375**	453	**376**	474
Bonds	**247**	-	**251**	-
Derivatives	**-**	1	**-**	1
	622	454	**627**	475

1. Early repayment of bank loans:

   A. On November 25, 2021, the Company made early repayment of a bank loan in the amount of NIS 33 million. As a result of the foregoing, the Company recorded a loss from early repayment of an insignificant amount.

   B. On September 5, 2021, the Company made early repayment of NIS 71 million, NIS 79 million and NIS 216 million of bank loans. As a result of the foregoing, the Company recorded a loss from early repayment in the total amount of NIS 16 million.

2. Issue of Series 1 bonds of the Company

   In the Reporting Period, the Company published a shelf offering report according to a shelf prospectus dated July 23, 2020. As part of the shelf offering report, the Company issued NIS 250 million par value bonds (Series 1) by way of the issue of a new series, for a total (gross) consideration of NIS 250 million.

   The bonds were offered to the public in a uniform offering by way of a tender for the rate of interest that the Series 1 bonds will bear. The annual rate of interest determined in the tender is 1.95%, and accordingly the semi-annual interest rate payable for the unsettled balance of the Series 1 bonds is 0.975%.

   The Series 1 bonds are due for repayment (principal) in 28 semi-annual payments, from June 30, 2022 through December 31, 2035 so that each of the first 27 payments will constitute 3.57% of the nominal value of the principal and the twenty-eighth and final payment will be 3.61% of the nominal value of the principal.

   As part of the deed of trust of the Company's Series 1 bonds, the Company undertook that as long as the Series 1 bonds have not been fully paid up, it will not create a floating charge on all its assets, unless it received, in advance, the consent of the bond holders or, alternatively, at that date the Company creates such a lien for the Series 1 bond holders as well, of the same ranking. Additionally, regarding the Series 1 bonds, the Company undertook limitations pertaining to the distribution of a dividend, expansion of the Series 1 bond series and it also undertook to meet financial covenants in which the Company's equity, according to its financial statements, will not be less than NIS 3 billion and that the Company's net debt to asset ratio according to its separate financial statements will not be more than 50 percent. For additional information see the shelf offering report. At the date of publication of the report, the Company is in compliance with the prescribed financial covenants.

   For the purpose of this issuance, on July 5, 2021, Midroog announced a rating of Aa2.il, stable outlook, for the issue of the Series 1 bonds in the amount of NIS 250 million par value. Additionally, on March 2, 2022, after the reporting date, Midroog announced affirmation of an Aa2.il rating for these bonds.

NOTE 5 – Financial liabilities (contd.)

3. Financial covenants

A. On September 5, 2021, the Company took a bank loan in the amount of NIS 375 million bearing fixed annual interest of 2.37%. The loan principal and interest are payable in 28 consecutive and equal semi-annual installments commencing March 5, 2022. As part of the aforementioned loan agreement, the Company undertook to comply with the following financial covenants: (1) an undertaking not to pledge material assets; (2) not to transfer control in material companies; (3) the ratio of net financial debt to investment in investee companies will not be more than 0.35; (4) the ratio of net financial debt to equity will not be more than 0.5; (5) cash balances, investments in Makam (short-term), shekel and/or government funds and government bonds must be maintained in the amount of NIS 100 million; if the Company falls below this amount, it undertakes to deposit within seven business days from the date of breach of this undertaking, shekel deposits the principal of which is not less at any time than the amount equal to the limit of the current maturities (principal and interest) for the 12 months following the date of the breach. At December 31, 2021, and at the date of publication of the financial statements, the Company is in compliance with the prescribed financial covenants.

B. On financial covenants in respect of Series 1 bonds issued by the Company, see Note 5(2) above.

NOTE 6 – Income Tax

A. Composition of income tax expenses

	For the year ended December 31		
	2021	2020	2019
	NIS million	NIS million	NIS million
Current tax expenses	**27**	25	28
Deferred taxes relating to the creation and reversal of temporary differences (see also Section B below)	**4**	-	-
Taxes for previous years	**-**	(1)	-
	31	24	28

B. Deferred tax assets and liabilities that were recognized

	Employee benefits	Securities	Property and other	Total
	NIS million	NIS million	NIS million	NIS million
Outstanding deferred tax asset (liability) as at January 1, 2021	**4**	**(1)**	**(5)**	**(2)**
Changes recognized in profit or loss	**-**	**-**	**(4)**	**(4)**
Changes recognized in equity	**(1)**	**(13)**	**-**	**(14)**
Outstanding deferred tax asset (liability) as at January 1, 2021	**3**	**(14)**	**(9)**	**(20)**

Movements in deferred taxes and taxes in respect of years prior to 2020 are insignificant and less than NIS 1 million.

NOTE 7 - Material relationships, agreements and transactions with investees

A. Principal loans and capital notes provided by the Company to the investees

The lending company	Grant date	Par value	Balance as at December 31 2021	Balance as at December 31 2020
		NIS million	NIS million	NIS million
Bar Tavai Property Company Ltd. (1)	June 30, 2010	2	**1**	2
Harel Finance Holdings Ltd. (1)	July 1, 2004	61	**61**	61
Harel Finance Holdings Ltd. (1)	March 20, 2012	16	**16**	16
Harel Finance Holdings Ltd. (1)	January 1, 2012	22	**22**	22
Harel Finance Holdings Ltd. (1)	February 10, 2011	36	**36**	36
Harel Finance Holdings Ltd. (1)	April 4, 2013	83	**83**	83
Harel Mutual Funds Ltd. (1)	September 9, 2008	179	**139**	159
Harel Insurance Company Ltd. (2)	March 31, 2014	50	**52**	50
Harel Insurance Company Ltd. (2)	December 15, 2014	300	**307**	301
Harel Pension and Provident Ltd. (2)	September 29, 2021	185	**186**	-
		934	**903**	730

(1) Not linked and bearing no interest
(2) CPI-linked and bearing interest

NOTE 7 - Material relationships, agreements and transactions with investees (contd.)

B. Material transactions with investees

1. Loans and capital notes for investee companies

   (a) Loan to Harel Pension & Provident

   Further to the information in Note 5 to the Consolidated Financial Statements concerning the acquisition of provident funds and pension funds from Psagot Provident and Pension Funds Ltd. by the subsidiary Harel Pension & Provident, om August 2021 a loan agreement was signed according to which the Company will provide Harel Pension & Provident with a loan of NIS 185 million to finance the transaction. Harel Pension & Provident will pay the Company annual interest for the loan under Section 3(j) of the Income Tax Ordinance [New Version] which at the date of signing the agreement is 2.45%. If the interest rate under Section 3(j) of the Income Tax Ordinance is updated, the interest on the loan will be updated accordingly, but in any event it will not be less than 2.45%. The loan and the interest will be repaid in eight, equal annual installments, commencing December 31, 2022. However, the loan will be repaid in full, plus the interest differences accrued up to that date, within seven business days of the date on which the Company asks Harel Pension & Provident to repay the loan. Harel Pension & Provident is also entitled repay the loan in full at any time, subject to giving seven business days advance notice.

   (b) 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 20 million. The repayment was made from the independent sources of Harel Mutual Funds Ltd.

   (c) In the Reporting Period, Bar Tavai Assets Company Ltd., a company wholly owned by the Company, made partial repayment of a capital note in the amount of NIS 750 million.

2. On agreements for the provision of services, see Note 38 to the Consolidated Financial Statements.

3. Distribution of a dividend to the Company

   (a) On March 17, 2021, the Board of Directors of Yedidim Pension Arrangements Insurance Agency Ltd. approved the distribution of a dividend NIS 4 million. The dividend was paid on April 19, 2021.

   (b) On May 11, 2021, the Board of Directors of Harel UK approved the distribution of a dividend in the amount of USD 484,000. The dividend was paid on July 18, 2021.

   (c) On July 27, 2021, ICIC distributed a dividend of NIS 6 million to the Company.

   (d) On August 26, 2021, Mortgage Holdings Israel Ltd distributed a dividend to the Company in the amount of NIS 310 million.

   (e) On November 9, 2021, the Board of Directors of Harel UK approved the distribution of a dividend in the amount of USD 310,000. The dividend was paid on November 16, 2021.

   (f) On November 28, 2021, the Board of Directors of Dikla Insurance Agency Ltd. approved the distribution of a dividend NIS 11 million. The dividend was paid on December 14, 2021.

NOTE 7 - Material relationships, Agreements and Transactions with Investees (contd.)

B. Material transactions with investees (contd.)

(g) In December 2021, Harel Pension and Provident Ltd. distributed a dividend in the amount of NIS 40 million, in accordance with approval given by the board of directors of Harel Pension and Provident Ltd. on November 16, 2021. The Board of Directors' decision was made after taking into account the financial results, the distributable surplus, assessing the capital surpluses and compliance with the Commissioner's regulations regarding the minimum equity required of Harel Pension and Provident Ltd. The Board of Directors of Harel Pension and Provident Ltd. also reviewed its compliance with the profit test and with the solvency test prescribed in Section 203(A) of the Companies Law. Following this review, the Board of Directors confirmed the compliance with the distribution test.

(h) In January 2022, after the Reporting Period, the Board of Directors of Harel Insurance approved the distribution of a dividend in the amount of NIS 250 million. The Board of Directors made its decision after taking into account the financial results of Harel Insurance. The distributable retained earnings of Harel Insurance and the capital surpluses were assessed and found to be in compliance with the Solvency provisions. Additionally, the Board of Directors of Harel Insurance examined its compliance with the profit test and solvency test prescribed in Section 203(a) of the Companies Law and following this review, the Board of Directors of Harel Insurance approved its compliance with the distribution test. The dividend was paid on February 3, 2022.

NOTE 8 - Equity requirements of investee companies

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) Regulations, 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.

NOTE 9 – Material events during the Reporting Period

1. Dividends

   A. On January 27, 2021, the Company's Board of Directors approved the distribution of a 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 20, 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 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.
   C. On November 29, 2021, the Company's Board of Directors approved the distribution of a dividend in the amount of NIS 100 million (NIS 0.47 per share). The Board of Directors made its decision after taking into account the Company's results as at September 30, 2021. 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 January 3, 2022.
   D. On March 28, 2022, together with the approval of the Company’s annual financial statements, the Board of Directors approved the distribution of a dividend in the amount of NIS 300 million. The Board’s decision was made after taking into account the Company’s financial results as at December 31, 2021. 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 will be paid on April 26, 2022.

2. On a plan to repurchase shares which was approved by the Company’s Board of Directors on June 30, 2021 and the share repurchase which took place after the Reporting Period, see Note 16 to the Consolidated Financial Statements.

3. On a preliminary rating for the Company by the Midroog rating company, see Note 25 to the Consolidated Financial Statements.

4. On an investment and agreement with the CEO of the Company in Hamazpen - Shutaphim Laderech Ltd., see Note 38 to the Consolidated Financial Statements.

NOTE 9 – Material events during the Reporting Period (contd.)

5. On a dividend distribution policy that was approved by the Company's Board of Directors, see Note 16 to the Consolidated Financial Statements.
6. On approval of the terms of office of Mr. Michel Siboni, see Note 38 to the Consolidated Financial Statements.
7. On the completion of a restructuring of the Group involving EMI, see Note 40 to the Consolidated Financial Statements.
8. On an issue of bonds (Series 1) by the Company, see Note 25 to the Consolidated Financial Statements.
9. On a stock options plan for senior officers and employees of the Group as well as approval of a private allotment, see Note 39 to the Consolidated Financial Statements.
10. On approval of a revised compensation policy for the Company, see Note 38 to the Consolidated Financial Statements.
11. On approval of the employment conditions of the Company's controlling shareholders, see Note 38 to the Consolidated Financial Statements.
12. On approval to extend a D&O liability insurance policy, see Note 38 to the Consolidated Financial Statements.
13. On an agreement with an architect, see Note 38 to the Consolidated Financial Statements.
14. On a bonus for 2020 and 2021 for Company officers, see Note 38 to the Consolidated Financial Statements.

NOTE 10 – Significant events after the Reporting Period

1. On affirmation of a rating for the Company by Midroog, see Note 25 to the Consolidated Financial Statements.
2. On the distribution of a dividend in the amount of NIS 250 million by Harel Insurance, see Note 7.
3. On a decision concerning the distribution of a dividend in the amount of NIS 300 million, see Note 9.
4. On the expected termination of term of office by company officer, see Note 41 to the Consolidated Financial Statements.

Harel Insurance Investments and Financial Services Ltd.

Chapter 5

Additional Information about the Company

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Additional Information about the Company

Name of the Company	:	**Harel Insurance Investments and Financial Services Ltd.**
Company Registration Number	:	52-003398-6
Address	:	3 Abba Hillel Street, Ramat-Gan, Israel
Telephone	:	03-7547575
Fax	:	03-7547100
Date of Statement of Financial Position	:	December 31, 2021
Date of Report	:	March 28, 2022

Regulation 10A - Quarterly Financial Statements

Condensed Consolidated Quarterly Statements of Income for 2021 (NIS million)

	2021	Q4	Q3	Q2	Q1
Premiums earned, gross	15,272	4,008	3,802	3,791	3,671
Premiums earned by reinsurers	1,858	510	476	440	432
Premiums earned in retention	13,414	3,498	3,326	3,351	3,239
Profit from investments, net, and financing income	11,912	3,871	1,699	3,347	2,995
Income from management fees	1,790	542	365	426	457
Income from commissions	347	93	88	83	83
Other income	11	8	3	-	-
Total Income	27,474	8,012	5,481	7,207	6,774
Payments and changes in liabilities for insurance contracts and investment contracts, gross	23,127	6,772	4,359	6,212	5,784
Reinsurers' share in payments and changes in liabilities for insurance contracts	1,507	393	339	419	356
Payments and changes in liabilities for insurance contracts and investment contracts, in retention	21,620	6,379	4,020	5,793	5,428
Commission, marketing and other acquisition expenses	2,731	705	692	682	652
General and administrative expenses	1,310	378	312	310	310
Other expenses	14	3	6	4	1
Financing expenses, net	281	46	83	82	70
Total expenses	25,956	7,511	5,113	6,871	6,461
Company’s share in profit of equity-accounted investees	180	88	30	42	20
Profit before income tax	1,698	589	398	378	333
Income tax	486	166	120	111	89
Profit for period	1,212	423	278	267	244

Condensed Consolidated Statements of Comprehensive Income (Loss) for 2021 (NIS million)

	2021	Q4	Q3	Q2	Q1
Profit for period	1,212	423	278	267	244
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 available for sale	920	335	244	180	161
Net change in fair value of financial assets available for sale transferred to statement of income	(461)	(87)	(70)	(128)	(176)
Loss from impairment of financial assets classified as available for sale transferred to statement of income	51	39	2	2	8
Foreign currency translation difference for foreign operations	(77)	(49)	(22)	(23)	17
Tax benefit (income tax) attributed to available-for-sale financial assets	(166)	(95)	(59)	(19)	7
Tax benefit (income tax) attributed to other components of comprehensive income which after initial recognition under comprehensive income were or will be transferred to profit or loss	19	12	6	7	(6)
Total other comprehensive income for the period which after initial recognition under comprehensive income was or will be transferred to profit or loss, net of tax	286	155	101	19	11
Other items of comprehensive income (loss) which will not be transferred to profit or loss					
Revaluation fund for fixed asset items	29	-	3	22	4
Re-measurement of a defined benefit plan	3	2	(2)	8	(5)
Tax benefit (income tax) for other items of comprehensive income which will not be transferred to profit or loss	(9)	(1)	-	(9)	1
Other comprehensive income for the period which will not be transferred to profit or loss, net of tax	23	1	1	21	-
Total other comprehensive income for the period	309	156	102	40	11
Total comprehensive income for the period	1,521	579	380	307	255

Regulation 11 - List of investments in subsidiaries and related companies

Information about investments in subsidiaries and related companies whose value in the separate financial statement at December 31, 2021, is more than NIS 1 million:

Company name		Class of share	Number of shares (thousands)	Par value (thousand)	Value in the separate FS (NIS million)	Percentage holding (%)
Harel Insurance Company Ltd.	Shares	Ord.	104,291	104,291	5,672	100
	Capital notes	-	-	-	359	-
Yehuda Insurance Company Ltd		Ord.	5	0	14	100
A. B. C. Automotive Ltd.	Shares	Ord.	1	1	22	50
	Loan	-	-	-	2	-
	Capital note	-	-	-	1	-
Advance Planning - Pension Insurance Agency (2013) Ltd.		Ord.	100	1	2	100
Tzva Hakeva (regular army) Savings Fund - Provident Fund Management Company Ltd.		Ord.	44	0.4	16	100
Eldan Tourism Development Ltd.		Ord.	825	825	24	25
Leatid Pension Funds Management Company Ltd.		Ord.	8	8	11	79
HAREL SURREY STREET COMPANY (Nostro)1 LMT		Ord.	0.1	0.01	23	100
HAREL SURREY STREET COMPANY (Nostro)2 LMT		Ord.	0.1	0.01	9	100
Harel Leipzig BV		Ord.	18	324	110	100
Harel 3990 ESSEX LP		Partnership - no shares	-	-	9	28
Harel IDS Minneapolis		Partnership - no shares	-	-	54	36
Harel 200 West Monroe LP		Partnership - no shares	-	-	19	17
Harel 230 West Monroe LP		Partnership - no shares	-	-	9	17
Harel 50 Beale Street SF, LP		Partnership - no shares	-	-	238	60
Harel Westwood NJ, LP		Partnership - no shares	-	-	38	100
Songbird 1 ApS.		Ord.	8	8	24	7
Songbird 2 ApS.		Ord.	8	8	23	7
Joysun 1 BV		Ord.	0.1	0.1	4	7
Harel 1515 Market, LP		Partnership - no shares	-	-	16	21
HGHQK 2 Sarl		Ord.	6	6	61	41
Harel Mercury I LP		Partnership - no shares	-	-	35	21
Harel 7700 Parmer LP		Partnership - no shares	-	-	26	10
Logistic Development Club S.C.A		Ord.	276	276	14	3
Harel Acc LP		Partnership - no shares	-	-	17	11

Company name	Class of share	Number of shares (thousands)	Par value (thousand)	Value in the separate FS (NIS million)	Percentage holding (%)
Leonardo Haymarket Ltd.	Ord.	1	1	5	5
Harel LPKC	Partnership - no shares	-	-	30	21
Harel One Cal LP	Partnership - no shares	-	-	22	20
Harel Turtle Creek LP	Partnership - no shares	-	-	17	8
Harel Fuse 9 LP	Partnership - no shares	-	-	49	100
TCB co-invest Sarl	Ord.	100	1	20	8
Europa UK Debt LP	Partnership - no shares	-	-	6	4
Vitania	Ord.	2,271	23	43	5
Azo-Rit Bilu Center	Ord.	1	0.001	56	8
Everest	Partnership - no shares	-	-	15	5
Harel 55 2nd LP	Partnership - no shares	-	-	26	17
Harel Market Center	Partnership - no shares	-	-	10	7
LRC RE-2	Partnership - no shares	-	-	19	3
Europa UK Debt II LP	Partnership - no shares	-	-	11	8
K.M.MADAF 3 LTD	Ord.	0.2	0.2	2	2
ALMOG CDAI LTD.	Ord.	239	239	8	1
Etz HaShaked	Ord.	32,272	32,272	4	1
HAREL TIDHAR MENIVIM LTD.	Ord.	0.4	0.001	13	4
CDH UK Holdings	Partnership – no shares	-	-	3	4
JH&H Venture RH LP	Partnership – no shares	-	-	7	17
LRC RE-3	Partnership – no shares	-	-	7	2
Mortgage Holdings Israel Ltd.	Ord.	10	1	38	100
EMI – Ezer Mortgage Insurance Company Ltd.	Ord.	13	1	194	100
Harel Pension and Provident Ltd.	Ord.	13,291	13,291	1,018	100
ICIC Israel Credit Insurance Company Ltd.	Ord.	15,562	15,562	138	50
Interasco Societe Anonyme General Insurance Company S.A.G.I.	***	***	***	50	94
Hamishmar Insurance Agency Ltd.	Ord.	26	26	7	100
Dikla Agency Ltd.	Ord.	30,000	1	34	100

Company name		Class of share	Number of shares (thousands)	Par value (thousand)	Value in the separate FS (NIS million)	Percentage holding (%)
Harel Finance Holdings Ltd.						
	Shares	Ord.	226	1	197	100
	Capital notes	-	-	-	357	-
Harel Traded Indexes Ltd. (previously: Harel Underwriting and Share Issues Ltd.)		Ord.	1	1	19	100
Harel Mutual Funds Ltd. (previously: Harel-Pia Mutual Funds Ltd.).		Ord.	808	1	393	100
Harel Finance Asset Management Ltd.		Ord.	23	1	12	100
Harel Finance Operating Services Ltd.		Ord.	1	1	2	100
Harel Finance Strategies Ltd. (previously: Harel Finance Institutional Trade Ltd.)		Ord.	3	1	18	100
Alfa Tech Asset Management Ltd.		Ord.	2	0.01	1	100
Harel Finance Alternative Ltd.		Ord.	1	0.01	21	100
Harel Exchange Traded Deposit Ltd.		Ord.	0.1	1	1	100
Harel UK LTD		***	***	***	1	100
Madanes Insurance Agency Ltd.		Ord.	345	345	17	25
S. Madanes Insurance Agency (1989) Ltd.		Ord.	-	-	4	25
Medical Consultants International (M.C.I.) Ltd.		Ord.	567	567	7	25
Zion Holdings Ltd.		Ord.	709	1	42	100
Zion Real Estate Ltd.		Ord.	43	0.001	42	100
Bar Tavai Property Company Ltd.		Ord.	60	0.1	42	100
Yedidim Pension Arrangements Insurance Agency Ltd.		Ord.	1	1	14	100
Beit Yisrael LeNeemanut Ltd.		Ord.	0.2	0.2	2	100
Hamazpen - Shutaphim Laderech Ltd.		Ord.	1	1	57	70
Harel Security Building LP		Partnership – no shares	-	-	43	100
Harel Greenwich Studio LP		Partnership – no shares	-	-	29	100

Regulation 12 - Changes in investments in subsidiaries and related companies

See Note 9 to the Financial Statements.

Regulation 13 - Revenues of subsidiaries and related companies and the Company's income from them (NIS million)

Information about profit (loss), before and after tax, dividends, management fees and interest and linkage received by the Company, or which it is entitled to from subsidiaries and related companies whose value in the separate financial statement at December, 31, 2020, is more than NIS 1 million:

Company name	Profit (loss) for year (A) before tax	Other comprehensive income (loss) (A) before tax	Comprehensive income (loss) (A) after tax	Dividend (B)	Management fees	Interest and linkage
Harel Insurance Company Ltd.	1,315	433	1,223	-	72	-
Yehuda Insurance Company Ltd	(10)	-	(2)	-	-	-
A. B. C. Automotive Ltd.	11	-	8	-	-	-
Advance Planning - Pension Insurance Agency (2013) Ltd.	(0.4)	-	(0.3)	-	-	-
Tzva Hakeva (regular army) Savings Fund - Provident Fund Management Company Ltd.	1	0.1	1	-	1	-
Eldan Tourism Development Ltd.	13	-	13	-	-	-
Leatid Pension Funds Management Company Ltd.	3	0.1	2	6	-	-
HAREL SURREY STREET COMPANY (Nostro)1 LMT	1	-	1	-	-	1
HAREL SURREY STREET COMPANY (Nostro)2 LMT	0.5	-	0.5	-	-	0.3
Harel Leipzig BV	9	-	9	-	-	-
Harel 3990 ESSEX LP	(6)	-	(6)	-	-	-
Harel IDS Minneapolis	(22)	-	(22)	-	-	2
Harel 200 West Monroe LP	(12)	-	(12)	-	-	-
Harel 230 West Monroe LP	(10)	-	(10)	-	-	-
Harel 50 Beale Street SF, LP	25	-	25	-	-	-
Harel Westwood NJ, LP	4	-	4	-	-	-
Songbird 1 ApS.	19	-	19	-	-	(0.3)
Songbird 2 ApS.	19	-	19	-	-	(0.3)
Joysun 1 BV	(0.1)	-	(0.1)	-	-	(0.1)
Harel 1515 Market, LP	7	-	7	-	-	-
HGHQK 2 Sarl	(4)	-	(4)	-	-	2
Harel Mercury I LP	5	-	5	-	-	2
Harel 7700 Parmer LP	40	-	40	-	-	1
Logistic Development Club S.C.A	15	-	15	2	-	1
Harel Acc LP	7	-	7	-	-	-
Leonardo Haymarket Ltd.	10	-	10	-	-	0.1
Harel LPKC	49	-	49	-	-	1
Harel One Cal LP	9	-	9	-	-	-
Harel Turtle Creek LP	6	-	6	-	-	1
Harel Fuse 9 LP	(1)	-	(1)	-	-	-
TCB co-invest Sarl	35	-	35	-	-	-

Company name	Profit (loss) for year (A) before tax	Other comprehensive income (loss) (A) before tax	Comprehensive income (loss) (A) after tax	Dividend (B)	Management fees	Interest and linkage
Europa UK Debt LP	8	-	8	-	-	0.5
Vitania	139	-	139	2	-	-
Azo-Rit Bilu Center	114	-	114	1	-	-
Everest	(250)	-	(250)	-	-	3
Harel 55 2nd LP	6	-	6	-	-	-
Harel Market Center	10	-	10	-	-	-
LRC RE-2	(37)	-	(37)	-	-	1
Europa UK Debt II LP	5	-	5	-	-	1
K.M.MADAF 3 LTD	-	-	-	-	-	-
ALMOG CDAI LTD.	-	-	-	-	-	-
Etz HaShaked	-	-	-	-	-	-
HAREL TIDHAR MENIVIM LTD.	-	-	-	-	-	-
CDH UK Holdings	-	-	-	-	-	-
JH&H Venture RH LP	5	-	5	-	-	-
LRC RE-3	(35)	-	(35)	-	-	-
Mortgage Holdings Israel Ltd.	84	(0.3)	53	310	-	-
EMI – Ezer Mortgage Insurance Company Ltd.	67	7	48	-	0.3	-
Harel Pension and Provident Ltd.	111	2	74	40	50	-
ICIC Israel Credit Insurance Company Ltd.	61	-	40	6	-	-
Interasco Societe Anonyme General Insurance Company S.A.G.I.	13	(7)	4	-	-	-
Hamishmar Insurance Agency Ltd.	2	-	1	-	-	-
Dikla Agency Ltd.	3	1	3	11	-	-
Harel Finance Holdings Ltd.	1	-	1	-	-	-
Harel Traded Indexes Ltd. (previously: Harel Underwriting and Share Issues Ltd.)	7	-	5	-	-	-
Harel Mutual Funds Ltd. (previously: Harel-Pia Mutual Funds Ltd.).	53	-	34	-	-	-
Harel Finance Asset Management Ltd.	8	-	8	-	-	-
Harel Finance Operating Services Ltd.	1	-	0.1	-	-	-
Harel Finance Strategies Ltd. (previously: Harel Finance Institutional Trade Ltd.)	6	-	4	-	-	-
Alfa Tech Asset Management Ltd.	(2)	-	(2)	-	-	-
Harel Finance Alternative Ltd.	4	-	3	-	-	-
Harel Exchange Traded Deposit Ltd.	-	-	-	-	-	-
Harel UK LTD	3	-	2	3	-	-
Madanes Insurance Agency Ltd.	6	-	2	-	2	-
S. Madanes Insurance Agency (1989) Ltd.	1	-	0.4	-	-	-
Medical Consultants International (M.C.I.) Ltd.	1	-	2	-	0.3	-

Company name	Profit (loss) for year (A) before tax	Other comprehensive income (loss) (A) before tax	Comprehensive income (loss) (A) after tax	Dividend (B)	Management fees	Interest and linkage
Zion Holdings Ltd.	12	-	12	-	-	-
Zion Real Estate Ltd.	12	-	12	-	-	-
Bar Tavai Property Company Ltd.	15	-	12	-	-	-
Yedidim Pension Arrangements Insurance Agency Ltd.	8	-	6	4	-	-
Beit Yisrael LeNeemanut Ltd.	(2)	-	(2)	-	-	-
Hamazpen - Shutaphim Laderech Ltd.	15	-	12	-	-	-
Harel Security Building LP	11	-	11	-	-	-
Harel Greenwich Studio LP	9	-	9	-	-	-

(A) Reflects the investee's profits (losses) in full.
(B) A dividend distributed by the investee directly to the Company.

Regulation 20 - Trade on the Stock Exchange - securities listed for trade - dates and reasons for the suspension of trading

In the reporting year no securities issued by the Company were listed for trading, and there was no suspension of trading on the Stock Exchange.

Regulation 21 (A) - Compensation paid to senior officers and principal shareholders

(1) Compensation for senior officers of the Company

Particulars of the compensation recipient				Compensation for services [1,2]							Other compensation			
Name	Title	Scope of position	Percentage holding in company equity [3]	Salary	Bonus	Share-based payment [4]	Management fees	Consulting fees	Commission	Other [5]	Interest	Rental	Other	Total
Michel Siboni	Company CEO	100%		3,099		124				248				3,471
Nir Cohen	CEO, Harel Insurance	100%		2,552	347	124				314				3,337
Alon Eliraz	Deputy CEO of Harel Insurance and Head of Health and Life Division	100%		1,961	432	124				720				3,237
Sami Babecov	Deputy CEO of Harel Insurance and Head of Investment Division	100%		1,670	590	103				783				3,146
Sagi Yogev	Deputy CEO of Harel Insurance and Head of Non-life Insurance Division (until June 2021)	100%		1,745	512					875				3,132

(2) Compensation for other interested parties

Particulars of the compensation recipient				Compensation for services [1,2]							Other compensation			
Name	Title	Scope of position	Percentage holding in company equity [3]	Salary	Bonus	Share-based payment [4]	Management fees	Consulting fees	Commission	Other [5]	Interest	Rental	Other	Total
Yair Hamburger	Chairman of the Company's Board of Directors and Director in Harel Insurance	100%	18.99%	2,461						322				2,783
Yoav Manor	Director in the Company, director in Harel Insurance and Chairman of Harel Hamishmar Computers	100%	13.97%	1,969						256				2,225
Gideon Hamburger	Director in the Company and President of Harel Group	100%	13.97%	1,981						256				2,237

Notes to tables

(1) Guaranteed bonuses and other fixed compensation components are included as part of salaries.
(2) The compensation listed in the table is for holding office in all Harel Group companies. Some of the officers receive their salary from subsidiaries that are a "financial institution". The above data do not include wage tax paid by the financial institutions.
(3) The holding is mostly through G.Y.N. Financial Consulting & Management Ltd. 2017, Limited Partnership. For additional information see Regulation 21A below.
(4) In accordance with the stock options plan approved by the Group, as specified in Section 8 below, options were granted to officers for which the accounting cost was calculated by an external appraiser. For additional information about the stock options plan, see Note 39 to the Financial Statements.
(5) The amount includes provision for adjustment fees, severance pay and includes the cost of increasing the severance factor which was approved for the Deputy CEOs of Harel Insurance under the Company's compensation policy. For additional information about the increased compensation, see Section 6 below.

Compensation policy and general employment conditions

1. The Company's compensation policy

In view of the experience gained regarding the Company's compensation policy and the regulatory changes that occurred on the subject of compensation, on October 12, 2020, after having been approved by the Compensation Committee and Board of Directors, the Company's general meeting approved the revised compensation policy of the Company ("Compensation Policy"). The Compensation Policy is in compliance with the limitations prescribed in the Compensation for Executives of Financial Institutions (Special Approval and Non-allowance of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016 ("Wage Limitation Law").

The purpose of the compensation policy is to motivate and direct the senior managers in line with the Company's goals and strategic plan, emphasizing increased competition in the recruitment and retention of quality manpower in the Group's senior management positions. All this with the goal of creating long-term economic value for the Company and its shareholders. The compensation policy was devised, taking into account, *inter alia*, the size of the Company and the nature of its operations, advancement of the Company's goals, strategy, long-term work plan and risk-management policy, as well as the employment conditions and bonuses that were Company practice in previous years, generally accepted levels of salary and compensation among Israel's insurance and finance companies in Israel and other large companies in the Israeli economy, and based on additional organizational considerations.

The compensation policy relates to different categories of officers, and also the manner of compensating the Company's serving directors.

The compensation policy addresses a range of employment conditions for officers who are not directors, including the following components: (a) the compensation to be determined for each officer in line with his seniority, knowledge, experience, qualifications and contribution to the Group's results, and based on the defined benchmark group; (b) it was determined that a margin will be maintained between the CEO's salary and that of the other officers who are subordinate to the CEO; (c) minimum ratios were defined between the fixed components in the employment conditions and the overall employment conditions; (d) it was determined that a fixed salary component may be paid which does not entitle the recipient to social benefits; (e) provisions were prescribed concerning performance-linked annual bonuses, including the maximum amount of such bonuses for the CEO and for officers who are subordinate to the CEO; ((f) provisions were prescribed regarding the possibility of paying special bonuses that are not connected with the annual bonuses, and this for exceptional performance on special projects. These special bonuses are intended for Company officers who are not the CEO, a director or controlling shareholder and they are limited by a budget of an insignificant amount; (g) provisions were prescribed regarding a lump-sum bonus the purpose of which is to encourage continuation of the work of the officers and to create a sense of identifying with the Company's interests; (h) provisions were prescribed concerning insurance and indemnity for officers and directors; (i) the Compensation Policy includes a limitation on the maximum cost of employment for officers in the Company; (j) provisions were prescribed concerning termination of employment conditions, including with respect to the following components: (i) severance pay at a maximum rate of up to 200% (double that required by law), subject to meeting conditions of seniority and other conditions; (ii) an advance notice period (of termination) of no more than 6 months; (iii) an adjustment bonus of up to 6 monthly salaries; (iv) compensation for a non-competition commitment. It was determined that a non-competition agreement will be drawn up in exceptional cases only and subject to the conditions set out in the compensation policy.

Information about the annual bonuses: the annual performance-linked bonus plan will consider the Company's financial position. Accordingly, payment of the annual bonus will be contingent on satisfying the threshold conditions set out in the Compensation Policy. Furthermore, to prevent the taking of short-term risks, the scope of the performance-linked bonuses was limited by a multiple of the salaries. It was also determined that the annual performance-linked bonus will be based, among other things, on long-term measurement. The Compensation Policy therefore stipulates that some of the parameters, as will be determined in advance, will be measured with respect to the current annual bonus (50%) and also with respect to the two years preceding it (30% for the previous year and 20% for the year before that).

The annual performance-linked bonus includes a discretionary component which allows a supplement of 20% of the amount of the (performance-linked bonus. The sum of this component will not exceed three monthly salaries and it may also be paid even if the threshold conditions for payment of the performance-linked bonus are not satisfied.

The Compensation Policy prescribes a provision whereby as a rule, the Company will honor existing agreements, even if they deviate from the Compensation Policy, unless the Compensation Policy specifically prescribes a different provision.

For additional information about the Company's Compensation Policy, see an Immediate Report of the Company dated August 31, 2020, Ref.: 2020-01-087124.

On October 6, 2021, the Company's general meeting approved an amendment to the compensation policy whereby, in the event of an allotment of options, the exercise price will not be linked to the Consumer Price Index. The other provisions of the compensation policy, as approved in October 2020, are unchanged.

The Company's compensation policy stipulates that it will serve as a guideline (but not binding) also for the Company's key subsidiaries. For information about the compensation policy that was adopted by the Group's financial institutions, see Section 2 below.

2. Compensation policy of the Group's Financial Institutions

In November 2013, the Company's subsidiaries that are financial institutions ("the Financial Institutions"), adopted a compensation policy which is based on the Company's compensation policy. The compensation policy for the Group's financial institutions has been revised several times over the years in accordance with updated regulatory provisions that were published, including the publication of a Commissioner's circular amending the provisions of the Consolidated Circular, Part 1, Section 5, Chapter 5, entitled "Compensation" ("the Circular"), which updated and abolished the circular "Compensation Policy in Financial Institutions" and the circular "Compensation Policy in Financial Institutions - Amendment" ("Compensation Policy Circular"), and integrates them in the Consolidated Circular, in accordance with the relevant regulations formulated in this sector, including in accordance with the provisions of the Wage Limitation Law and its regulations, and the directives of the Supervisor of Banks that were revised accordingly.

The compensation policy of the financial institutions also applies to some of the executives in the Company who also serve as senior officers in Harel Insurance.

In view of the experience gained in applying the Compensation Policy for the financial institutions and the changes proposed in the compensation policy of Harel Investments, in August 2020 the Compensation

Committee and boards of directors of the financial institutions approved updates to the compensation policy of the financial institutions.

Following are the main points of the Compensation Policy of the financial institutions:

The Compensation Policy addresses the employment conditions of the officers and functionaries in their entirety, including the following components: (a) the fixed compensation to be determined for each officer and key functionary will be determined in accordance with his seniority, knowledge, experience and qualifications and his contribution to the Group's results, and based on the defined benchmark group; (b) the compensation may comprise several key components: fixed salary, annual, performance-linked bonus, guaranteed bonus, lump-sum bonus, special bonuses as well as indemnification and insurance costs; (c) minimum ratios were defined between the fixed components of the employment conditions and the total employment conditions; (d) provisions were prescribed concerning the composition of the annual bonus consisting of a measurement-based component as well as a discretionary component which allows a supplement of up to 20% of the amount of the performance-linked bonus; (e) provisions were prescribed concerning the possibility of paying special bonuses, which are unrelated to the annual bonuses, for exceptional performance on special projects. These special bonuses are intended for officers who are not the CEO, a director or controlling shareholder and they are limited by a budget of an insignificant amount; (f) provisions were prescribed regarding a lump-sum bonus the purpose of which is to encourage continuation of the work of the Company officers and to create a sense of identity with the Company's interests; (g) provisions were prescribed concerning insurance and indemnity for officers and directors; (h) the policy includes provisions concerning the nature of the spread and deferral of the annual bonus as well as provisions concerning reimbursing the Company for amounts that were paid as annual bonuses; (i) the Compensation Policy includes a limitation on the maximum cost of employment for officers and key functionaries in the Company; (j) provisions were prescribed concerning termination of the employment conditions, which include reference to the following components: (1) severance pay will be at a maximum rate of up to two 200%) (100% over and above the amount required by law), subject to meeting certain seniority and other conditions; (2) an advance notice period which will not be more than 6 months; (3) an adjustment bonus of up to 6 salaries; and (4) compensation for a non-competition undertaking.

Information about the annual bonuses: the annual performance-linked bonus plan will consider the Company's financial position. Accordingly, payment of the annual bonus will be contingent on satisfying the threshold conditions set out in the Compensation Policy. Furthermore, to prevent the taking of short-term risks, the scope of the performance-linked bonuses was limited by a multiple of the salaries. It was also determined that the annual performance-linked bonus will be based, among other things, on long-term measurement. The Compensation Policy therefore stipulates that some of the parameters, as will be determined in advance, will be measured with respect to the current annual bonus (50%) and also with respect to the two years preceding it (30% for the previous year and 20% for the year before that).

Additionally, the policy includes provisions concerning compensation for Company directors as well as compensation for Company employees who are not officers or key functionaries.

The Compensation Policy prescribes a provision whereby as a rule, the Company will honor existing agreements and employment conditions, even if they deviate from the Compensation Policy, unless the Compensation Policy specifically prescribes a different provision.

3. Employment conditions – the Controlling Shareholders

The Company's General Meeting, which took place on October 12, 2020, re-approved the employment conditions of the Company's controlling shareholders. The approval of the general meeting was preceded by the approval of the Compensation Committee and Board of Directors on August 13, 2020 and August 31, 2020, respectively. The re-approval did not involve any change in the employment conditions of the controlling shareholders. The employment conditions that were approved are consistent with the Company's compensation policy. The provisions of the new employment conditions for the controlling shareholders will be effective from December 1, 2020, for an unlimited period. Notwithstanding the foregoing, the parties may terminate the agreement at any time, by giving 30 days advance notice.

Under existing law at the date of this report, the agreement with Mr. Yair Hamburger, Mr. Gideon Hamburger and Mr. Yoav Manor must be re-approved three years after the commencement of the agreement (December 1, 2020), given that they are controlling shareholders in the Company, unless the law changes and/or Mr. Yair Hamburger, Mr. Gideon Hamburger and Mr. Yoav Manor are no longer included among the controlling shareholders.

A. Employment conditions – Mr. Yair Hamburger:

Mr. Yair Hamburger has been head of Harel Insurance and Finance Group since its establishment. Yair Hamburger has served as Chairman of the Company's Board of Directors since its establishment and as a director in Harel Insurance.[1] Additionally, Yair Hamburger holds the following positions in Harel Group: member of the board of directors of Interasco Societe Anonyme General Insurance Company S.A.G.I. in Greece; member of the board of directors of Turk Nippon Sigorta S.A. in Turkey; Chairman of the board of directors of Harel Finance & Issues; member of the board of directors of Harel Finance Holdings Ltd.; member of the board of directors of Harel Mutual Funds Ltd.; member of the non-yield dependent (Nostro) investment committee of the Group's financial institutions and a director in other companies in the Group. Mr. Yair Hamburger serves the Company and its subsidiaries in a full-time capacity and does not hold any other business positions beyond those in Harel Group.

Mr. Yair Hamburger's salary: For serving the Company, and in accordance with his employment conditions approved by the Company's general meeting on November 12, 2020, Yair Hamburger is entitled to a monthly salary of NIS 160,000 (NIS 161,112 correct to the date of the report). The monthly salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary each year.

Fringe benefits: Mr. Yair Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 689,385 at December 31, 2021). Should Mr. Hamburger choose to buy a more expensive car, he will pay the difference in cost. Yair Hamburger is not entitled to full grossing up of the cost of his vehicle. The Company makes provision for social benefits in respect of the monthly salary according to generally accepted standards for pension, severance pay and work disability or, if he so chooses, pays the value of these social benefits. Likewise, Yair Hamburger is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense). Yair Hamburger is entitled to 13 days convalescence a year and to 22 days paid vacation a year. Unutilized vacation days, including in respect of the period of Yair Hamburger's employment from the commencement date of his employment for the Company will be accumulated and may be redeemed when his employment terminates. Mr. Yair Hamburger is entitled to 30 days annual paid sick leave, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Yair Hamburger is not entitled to participate in the Company's stock options plan. Additionally, it is stipulated that Mr. Yair Hamburger is not entitled to any additional remuneration for serving as a director in Group companies. Yair Hamburger is entitled to a letter of indemnity which was first granted to him as part of the resolutions passed by the Company and approved by the general meeting in July 2006 and like the Company's other senior officers, and it is included in the D&O insurance drawn up by the Company, under the same conditions as the Company's other directors and senior officers..

Annual bonus: Mr. Yair Hamburger is not entitled to an annual bonus.

Post-employment conditions: Upon termination of the employment relationship for any reason whatsoever, Yair Hamburger will be entitled to compensation in the amount of severance to which he is entitled by law in the event of dismissal, less any amounts accrued on his behalf for severance pay in the provident fund/managers' insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger ("Severance Pay"). Upon terminating his employment in the Company, Mr. Yair Hamburger is entitled to double

[1] Mr. Hamburger served as Chairman of the Board of Directors of Harel Insurance until June 30, 2021. On July 1, 2021 Mr. Hamburger began to serve as a director in Harel Insurance.

severance pay, i.e. an additional 100% compensation (over and above the statutory compensation). Pursuant to the provisions of the Compensation Policy of the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued for the period of employment after December 31, 2016, will be paid in installments, in accordance with the provisions of the Compensation Policy of the Group's financial institutions, as follows: a third of the deferred amount will be paid 12 months from the end of the year in which Mr. Yair Hamburger retires; a third of the deferred amount will be paid 24 months from the end of the year in which Mr. Yair Hamburger retires; a third of the deferred amount will be paid 42 months from the end of the year in which Mr. Yair Hamburger retires. Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: (1) no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that, in retrospect, was found did not materially reflect the actual exposure of the financial institution or the members' monies; (2) based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements that apply to it; (3) Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met. It is stipulated that the advance notice period is 30 days only. Mr. Yair Hamburger will not be entitled to any adjustment period or adjustment fee.

Non-competition undertaking: Mr. Yair Hamburger undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

B. Employment conditions - Mr. Gideon Hamburger:

Mr. Gideon Hamburger has held senior positions in Harel Group since its establishment. Gideon Hamburger currently holds the following key positions in Harel Group: member of the Company's Board of Directors and Company president; member of the board of directors of Interasco Societe Anonyme General Insurance Company S.A.G.I. in Greece; member of the board of directors of Harel Finance Holdings Ltd.; member of the board of directors of Harel Finance & Issues. Additionally, Mr. Gideon Hamburger in involved in reinsurance matters both for Harel Insurance and the Group's other insurance companies. Gideon Hamburger serves the Company and its subsidiaries in a full-time capacity and does not hold any other business positions other than those in Harel Group.

Mr. Gideon Hamburger's salary: For serving the Company, and in accordance with his employment conditions approved by the Company's general meeting on October 12, 2020, Gideon Hamburger is entitled to a monthly salary of NIS 127,000 (NIS 127,779 correct to the reporting date). The monthly salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary each year.

Fringe benefits: Mr. Gideon Hamburger is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 689,385 at December 31, 2021). Should Gideon Hamburger choose to buy a more expensive car, he will pay the difference in cost. Gideon Hamburger is not entitled to full grossing up of the cost of his vehicle. The Company makes provision for social benefits in respect of the monthly salary according to generally accepted standards for pension, severance pay and work disability or, if he so chooses, pays the value of these social benefits. Likewise, Gideon Hamburger is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense). Gideon Hamburger is entitled to 13 days convalescence a year and to 22 days annual paid vacation. Unutilized vacation days, including in respect of the period of Mr. Gideon Hamburger's employment from the date his employment for the Company commenced, will be accumulated and may be redeemed when his employment terminates. Mr. Gideon Hamburger is entitled to 30 days annual paid sick leave, and these days may also be accumulated, although he will not be entitled to redeem them when his employment for the Company terminates. Gideon Hamburger is not entitled to participate in the Company's stock options plan. Additionally, it is stipulated that Mr.

Gideon Hamburger is not entitled to any additional remuneration for serving as a director in Group companies. Gideon Hamburger received a letter of indemnity as part of the resolutions passed by the Company and approved by the general meeting in July 2006 and it is included in the D&O insurance drawn up by the Company, under the same conditions as the Company's other directors and senior officers.

Annual bonus: Mr. Gideon Hamburger is not entitled to an annual bonus.

Post-employment conditions: Upon termination of the employment relationship for any reason whatsoever, Gideon Hamburger will be entitled to double the severance pay he is entitled to by law, in the event of dismissal, net of any amounts accrued on his behalf for severance pay in the provident fund/managers' insurance policy, and ownership of the provident fund/managers insurance fund into which the contributions were paid will be transferred to Mr. Hamburger ("Severance Pay"). Upon termination of his employment in the Company, Gideon Hamburger is entitled to double severance pay, i.e. an additional 100% compensation (over and above the compensation stipulated by law). Pursuant to the provisions of the revised compensation policy for the Group's financial institutions, part of the additional compensation (over and above the 100%) ("retirement bonus") that is accrued for the period of employment after December 31, 2016, will be paid in installments, as follows: a third of the deferred amount will be paid 12 months after the end of the year of Gideon Hamburger's retirement; a third will be paid 24 months after the end of the year of his retirement, and a third will be paid 42 months from the end of the year of his retirement Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: (1) no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members' monies; (2) based on the last financial statements published before the date of payment; (3) Harel Insurance is in compliance with the capital requirements applicable to it; Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met. It is stipulated that the advance notice period is only 30 days. Mr. Gideon Hamburger will not be entitled to any adjustment period or adjustment fee.

Non-competition undertaking: Mr. Gideon Hamburger undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

C. Employment conditions - Mr. Yoav Manor:

Mr. Yoav Manor has held executive positions in the Group since its establishment. Yoav Manor holds the following positions in Harel Group: Executive Chairman of the board of directors of Harel Hamishmar Computers Ltd.; member of the board of directors of the Company; member of the board of directors of Harel Insurance Ltd.; member of the board of directors of Harel Finance Holdings Ltd.; member of the board of directors of Harel Finance & Issues and a director in other Group companies. Yoav Manor serves in the Company and its subsidiaries in a full-time capacity and does not hold any other business positions beyond those in Harel Group.

Mr. Yoav Manor's salary: For serving the Company and in accordance with his employment conditions approved by the general meeting on October 12, 2020, Yoav Manor is entitled to a monthly salary of NIS 127,000 (NIS 127,779 correct to the reporting date). The monthly salary is CPI-linked and revised in accordance with the increase in the CPI once a year, for the January salary each year.

Fringe benefits: Mr. Yoav Manor is entitled to a Company car at a cost of up to NIS 650,000, linked to the CPI of December 2011 (NIS 689,385 at December 31, 2021). Should Yoav Manor choose to buy a more expensive car, he will pay the difference in cost. Yoav Manor is not entitled to full grossing up of the cost of his vehicle. The Company makes provision for social benefits in respect of the monthly salary according to generally accepted standards for pension, severance pay and work disability or, if he so chooses, pays the value of these social benefits. Likewise, Yoav Manor is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense). Yoav Manor is entitled to 13 days convalescence a year and to 22 days annual paid vacation. Unutilized vacation days, including in respect of the period of Mr. Yoav Manor's employment from the commencement date of his employment for the Company, will be accumulated and may be redeemed when his employment terminates. Mr. Yoav Manor is entitled to 30 days annual paid sick leave, and these days may also be accumulated, although he will not be entitled to redeem them when his employment in the Company terminates. Mr. Yoav Manor will not be entitled to participate in the Company's stock options plan. Additionally, it is stipulated that he is not entitled to any additional remuneration for serving as a director in Group companies. Yoav Manor received a letter of indemnity as part of the Company's decisions as approved by the general meeting in July 2006 and he is included in the directors and officers insurance (D&O) drawn up by the Company, under the same conditions as the other directors and officers of the Company.

Annual bonus: Mr. Yoav Manor is not entitled to an annual bonus.

Post-employment conditions: Upon termination of the employment relationship for any reason whatsoever, Yoav Manor will be entitled to the severance pay due by law if he is dismissed, less the amounts accrued on his behalf in respect of severance pay in provident funds / managers insurance, and ownership of the provident funds / managers insurance into which payments were made on his behalf will be transferred to him ("Severance Pay"). Upon termination of his employment in the Company, Yoav Manor is entitled to double severance pay, i.e. an additional 100% compensation (over and above the compensation stipulated by law). Pursuant to the provisions of the Compensation Policy of the Group's financial institutions, part of the additional compensation (over and above the 100%) ("the Retirement Bonus") that is accrued in the period of employment after December 31, 2016, will be paid in installments, in accordance with the provisions of the revised compensation policy of the Group's financial institutions, as follows: a third of the deferred amount will be paid 12 months after the end of the year of Yoav Manor's retirement; a third will be paid 24 months after the end of the year of his retirement, and a third will be paid 42 months after the end of the year of his retirement Deferred amounts will be paid on the dates noted above, subject to meeting all the following conditions: (1) no errors are found in the calculation of the amount of the bonus and it did not emerge that the bonus was given based on a risk level that in retrospect was found did not materially reflect the actual exposure of the financial institution or the members' monies; (2) based on the last financial statements published before the date of payment, Harel Insurance is in compliance with the capital requirements applicable to it; (3) Harel Insurance presented comprehensive income in the last financial statements (quarterly or annual) published prior to the date of payment. If either of the last two conditions noted above are not met, the payment will be postponed to such time as the conditions are met. It is stipulated that the advance notice period is only 30 days. Yoav Manor will not be entitled to any adjustment period or adjustment fee.

Non-competition undertaking: Yoav Manor undertook not to compete with the Company and its business, including through employment by or the rendering of services to a corporation in competition with the Company, for a period of 36 months from the termination of his employment in the Company.

4. Employment conditions for the CEO of the Company and Chairman of Harel Insurance – Mr. Michel Siboni

Mr. Michel Siboni who was CEO of Harel Insurance from 2009 and CEO of the Company for most of this period, stepped down as CEO of Harel Insurance at the end of June 2021 and was appointed Chairman of the Board of Harel Insurance (replacing Mr. Yair Hamburger who continues to serve as a director in Harel Insurance). Mr. Siboni continues to serve as CEO of the Company concurrent with serving as Chairman of the Board of Harel Insurance.

In August 2013, the Company entered into a revised employment agreement with Mr. Siboni which was approved by the general meeting at that time. In October 2016 ("the Revision Date") this agreement was revised in order to correspond with the compensation policy of the Group's financial institutions and the provisions of the Compensation for Executives of Financial Institutions (Special Approval and Non-allowance of an Expense for Tax Purposes on account of Extraordinary Compensation) Law, 2016 ("Compensation of Company Officers Law").

On May 23, 2021, May 26, 2021 and on June 30, 2021, the Compensation Committee, Board of Directors and General Meeting of the Company, respectively, approved the terms of office for Mr. Michel Siboni 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. Overall, the terms of office were approved without any change compared with his present conditions. Overall, the present employment conditions are consistent with the Company's compensation policy, while retaining components which are part of the previous employment conditions.

Information about Mr. Michel Siboni's current employment conditions:

<u>Period of employment</u>

The provisions of the employment agreement apply for an unlimited period. Notwithstanding the foregoing, both parties may terminate the agreement at any time, by giving 180 days advance notice.

<u>Current salary</u>

Mr. Siboni's monthly salary commencing January 2018 is NIS 248,000.

<u>Fringe benefits</u>

Mr. Michel Siboni is entitled to a refund of reasonable expenses incurred while fulfilling his duties, including costs of a telephone / mobile phone, membership fees of professional organizations, subscription to newspapers and professional literature, professional liability insurance, periodic medical examinations, group health / dental insurance for Harel Group employees, group term (life) assurance policy for senior Harel Group executives, group work disability policy for Harel Group employees, attending in-house training and incentive trips for agents (with spouse), wellbeing activities as accepted in Harel Group (e.g. pre-festival gifts, vacation, meals, team-building activities, etc.), purchase of Harel Group insurance products under conditions offered to the Group's employees, purchase of Harel Finance financial products under conditions offered to Group employees.

Mr. Michel Siboni is entitled, at any time, to receive a company car from Harel Insurance, as generally accepted for the Company's CEO. Should he decide to accept a company car for his own use, the tax value will be recognized as part of his ongoing salary and it will constitute part of the base for provisions under the provisions of the employment agreement.

The Company will make provision for social benefits according to generally accepted standards for pension, severance pay and work disability. Likewise, Michel Siboni is entitled to contributions to an education fund in respect of his salary (7.5% of his salary at the employer's expense, and 2.5% at the employee's expense).

Michel Siboni is entitled to 10 days convalescence a year according to the tariff published by the Coordinating Bureau of Economic Organizations.

Michel Siboni is entitled to 35 days paid vacation a year. Michel Siboni is entitled to 30 days paid sick leave a year, and he may accumulate these days up to a total of 180 days, although he will not be entitled to redeem them when his employment for the Company terminates.

Michel Siboni was granted an indemnity note, as part of the Company's decisions as approved by the general meeting in July 2006 and by a general meeting in March 2012.

<u>Termination of employment</u>

Mr. Siboni is entitled to a salary for an 8-month adjustment period.

Michel Siboni will be entitled to severance pay of 200% (double the statutory severance pay) for the period commencing August 1, 2009 until the date of the revision of the employment agreement (October 2016). For the period from the start of his employment in the Company and up to July 31, 2009 (the date of his appointment as CEO of Harel Insurance), Mr. Siboni will be entitled to 150% severance pay (in the present employment agreement the amount is 100% for this period).

Mr. Siboni undertook not to compete with the Company when his employment ends, for a period of 7 years from the termination of his employment in the Company, in return for a non-competition bonus of NIS 5,000,000. Under the non-competition commitment, Michel Siboni undertook that during the non-competition period he will not serve as the CEO of an insurance company in Israel, either as a salaried employee or as a service provider, and he also undertook not to utilize the knowledge he gained and will gain in the Company in the health insurance segment, and accordingly he undertook not to serve as a consultant to insurance companies in the health insurance sector.

Based on the Company's compensation policy, Mr. Siboni will be entitled, together with members of his family, to continue to be included in the group insurance policy of Harel employees even after his employment ends, for payment of the premiums, according to the standard amounts for all Group employees.

Past rights accumulated by Mr. Siboni in his position as CEO of Harel Insurance and for which provision was made in the past in the financial statements of Harel Insurance, in respect of the increased severance pay to which Mr. Siboni is entitled up to the revision date as well as the adjustment fees, were deposited in trust in a savings policy on behalf of Mr. Siboni, and they will be released when his entitlement to receive this money is satisfied, upon termination of his employment in Harel Insurance. Upon making this deposit, Harel Insurance was exempted from all its obligations towards Mr. Siboni in connection with these amounts, when the date of termination of his employment is reached.

Stock options

Within the framework of a stock options plan for officers and employees of the Group that was approved in August 2021, 180,000 stock options were granted to Mr. Siboni which may be exercised for 180,000 ordinary NIS 0.1 par value shares of the Company, subject to adjustments, without any cash consideration. For additional information, see an Immediate Report of the Company dated August 30, 2021 (Ref. 2021-01-073378) and Section 8 below.

For information about the Company entering into agreement with Mr. Michel Siboni, in which the Company sold to Michel Siboni shares in Hamazpen Shutaphim Laderech Ltd., See Note 38(F) to the Financial Statements.

5. Other senior officers:

5.1 Nir Cohen

Mr. Nir Cohen has served as CEO of Harel Insurance since July 2021. Nir Cohen was head of the HQ Division and Deputy CEO of Harel Insurance until June 2021. Additionally, Mr. Cohen served as Chairman of the Board of LeAtid Pension Fund Management Company Ltd. until August 2021.

5.2 Alon Eliraz

Mr. Alon Eliraz is Deputy CEO of Harel Insurance and Head of the Health and Life Insurance Division in Harel Insurance. The annual bonus for Mr. Eliraz was determined in accordance with the parameters set out in the compensation policy and based on meeting various targets, including long-term targets set out in the compensation policy.

5.3 Sami Babecov

Mr. Sami Babecov is Deputy CEO of Harel Insurance and Head of the Investments Division in Harel Insurance. Mr. Babecov’s annual bonus was determined in accordance with the parameters set out in the compensation policy and based on meeting various targets, including long-term targets set out in the compensation policy.

5.4 Sagi Yogev

Mr. Sagi Yogev served as Deputy CEO of Harel Insurance and head of the Non-life Insurance Division of Harel Insurance until June 2021.

6. **Increased severance pay**

As determined in the Compensation Policy, subject to the specific approval of the Compensation Committee and Board of Directors, increased severance up to the maximum rates may be granted to senior executives in the positions listed in the Compensation Policy (“Qualifying Positions”) who have 5 or more years seniority in the Company, of which at least 3 years in a Qualifying Position, in the event of dismissal and/or retirement and/or voluntary resignation (excluding dismissal in circumstances that provide for non-payment of severance pay), as follows: more than five years seniority - 125%; more than ten years seniority - 150%; more than fifteen years seniority - 175%; more than twenty years seniority - 200%.

In March 2021, the compensation committees and boards of directors of the Company and Harel Insurance approved the granting of increased severance pay to senior executives in the position of Deputy CEO of Harel Insurance who currently serve in Harel Insurance, at the rates mentioned in the Compensation Policy as mentioned above, and subject to completion of the aforementioned seniority.

The aforementioned senior executives, who at the date of the report have accrued seniority of 15 and 20 years (respectively), will become eligible for increased severance pay of 175% and 200% in June 2021 and March 2022 (respectively), and subject to satisfying the employment relationship with the Group on the aforementioned dates.

7. **Salary of directors who do not also serve as Company officers**

The total salary paid to directors who serve the Company during the Reporting Period, for their service non the Company’s Board of Directors and on the various Board of Directors committees, amounted to NIS 1,925 thousand. This amount does not include payments to principal shareholders (Mssrs. Yair Hamburger, Gideon Hamburger, and Yoav Manor), who also serve as officers of the Company and its subsidiaries.

When the general meeting approved the Company’s compensation policy on October 12, 2020, it was stipulated that the policy applies to directors serving in the Company and/or its subsidiaries, so that they are entitled to compensation for their service on the board of directors and on committees appointed by the board of directors, as defined in the Companies (Rules for the Compensation and Expenses of External Directors) Regulations, 2000, ("Compensation for External Directors Regulations") and they are not entitled to any bonus or additional compensation. In addition to the provisions prescribed in the Compensation for External Directors Regulations, the for external directors serving the Company and its subsidiaries, is also subject to the provisions prescribed in Regulation 2 of the Companies (Matters Not Constituting an Interest) Regulations, 2006 (“Interest Regulations”). Regarding directors who serve the Company and its subsidiaries and who are not external directors, the limitation prescribed in Regulation 2 of the Interest Regulations does not apply. If a director is appointed to another position which is not membership of the Board of Directors and/or committees appointed by the Board of Directors, the compensation will be determined in accordance with the nature of the position and will be submitted for the approval of the general meeting.

The salaries of directors who are not external directors will not be more than the salaries of the Company’s external directors, other than directors who are controlling shareholders in the Company and their employment conditions are approved by the Company’s general meeting, as specified in Section 3 above.

8. **Approval of a stock options plan for senior officers and employees of the Group as well as approval of a private allotment**

On August 23 and 25, 2021, and on August 30, 2021, the Company’s Compensation Committee and Board of Directors, respectively, approved a stock options plan for senior officers and employees of the Group which includes up to 8,548,000 stock options which may be exercised for 8,548,000 ordinary NIS 0.1 par value shares of the Company, subject to adjustments, without any cash consideration.

7,548,000 of all the options included in this stock options plan were offered to 158 employees, of which four are senior officers in the Company. The remaining options that were not allotted to specific recipients will allow for an additional allotment to other senior officers and employees in the future.

On the date of approval by the Company's Board of Directors and Compensation Committee, as noted above, an allotment of 250,000 options was approved to another executive with whom the Company has a consulting agreement, as well as to another advisor to the Company. These options are not part of the stock options plan or part of the allocation reports included in the plan, however the conditions for exercising these options are the same as those for exercising the options for the Group's senior officers and employees.

For additional information, see an Immediate Report of the Company dated August 30, 2021 (Ref. 2021-01-073378).

The stock options were granted on October 17, 2021. Additionally, on January 27, 2022, options were granted to other employees in the Group.

Additionally, on the date of approval by the Company's Board of Directors and Compensation Committee, as noted above, the Compensation Committee and Board of Directors approved an allotment of options for the Company's senior officers, which may be exercised for 3% of the shares in a private subsidiary. For additional information about this allotment, see Note 39 to the Financial Statements.

Regulation 21A – Control of the Corporation

The Company's controlling shareholders, Mssrs. Yair Hamburger, Gideon Hamburger and Nurit Manor ("the Controlling Shareholders"), hold 46.94% of the Company's voting rights and issued share capital. The Controlling Shareholders hold the Company through G.Y.N. Financial Consulting & Investment Management 2017 LP, which they fully own and control, and which they hold, as limited partners, through private, companies, wholly owned by each of the Controlling Shareholders ("GYN Partnership") and they also hold the general partner in the GYN Partnership.

Regulation 22 - Transactions with a controlling shareholder

Following is information, to the best of the Company's knowledge, about transactions with the Company's Controlling Shareholders or which the Controlling Shareholders have a personal interest in approving, in which the Company and/or the Group's companies entered into agreement during the reporting year or on a date after the end of the reporting year and up to the date of publishing this report, or that were approved before the Reporting Period, and are in force during the Reporting Period.

1. <u>Agreement with an architect</u>

   In January 2011, the Company entered into an agreement (which was amended in January 2016, in December 2017, December 2018, December 2019, and December 2020) to obtain architectural services from Mr. Miki Kornhauser, who is the brother-in-law of Mr. Yair Hamburger, the controlling shareholder and Chairman of the Board of Directors of the Company ("the Agreement" and/or "the Engagement"). Under the Agreement, Mr. Kornhauser provides on-going architectural services to the Company and its subsidiaries in various projects undertaken by the Company.

   The Company's Audit Committee and Board of Directors approved an amendment to the Agreement whereby the agreement period will be extended to December 31, 2022, and the monthly consideration for the architecture services will remain at NIS 28,000. For additional information about the Agreement, see an Immediate Report of the Company dated December 30, 2021. (Ref.: 2021-01-116662).

2. <u>Entering into an employment agreement with a grandson of the controlling shareholder</u>

Under the provisions of Regulation 1B(a)(4) of the Companies (Relief in Transactions with Interested Parties) Regulations, 2000, ("the Relief Regulations"), in August 2020, the Company's Compensation Committee and Board of Directors, respectively, approved an agreement between the subsidiary Harel Insurance and Mr. Idan Tamir, grandson of Mr. Yair Hamburger who is one of the Company's controlling shareholders and is chairman of the Company's Board of Directors, according to which Mr. Tamir is employed as project manager in the digital division commencing September 1, 2020. Within the context of his position as project manager in the digital division of Harel Insurance, Mr. Tamir is entitled to a monthly salary of NIS 10,250 plus reimbursement for travel expenses and other social benefits as generally applicable to employees of this rank in Harel Group. Approval of the agreement included confirmation by the Compensation Committee and Board of Directors that the agreement is in compliance with the provisions of Regulation 1B(a)(4) of the Relief Regulations, given that the monthly salary payable to Mr. Tamir does not exceed the average monthly wage in the economy, and that it is reasonable given the scope of employment, nature of the position and Mr. Tamir's qualifications to perform the job.

3. Transactions listed in Section 270(4) of the Companies Law

For information about the terms of employment of the controlling shareholders, see Regulation 21 above.

3.1 Directors and Officers liability insurance (D&O)

The Directors & Officers liability insurance policy (D&O) policy applies to incumbent senior officers of the Company and its subsidiaries and officers who may serve the Company and/or the subsidiaries from time to time (including senior officers who are deemed controlling shareholders or their relatives.

In accordance with the provisions of the Company's Compensation Policy, the Compensation Committee and Board of Directors approved renewal of the agreement between the Company and the subsidiary Harel Insurance regarding a D&O liability insurance policy, commencing November 1, 2021 for one year, which covers directors and officers of the Company and other companies in Harel Group, including individuals who may be considered controlling shareholders in the Company so that the sum insured will be USD 176 million. The cost of the annual premium for this cover and the deductible are in accordance with market conditions and were determined on the basis of proposals that Harel Insurance received from reinsurers. The cost is not material for the Company.

The main reasons given by the Compensation Committee and Board of Directors were: (a) the premium is defined according to the cost of the reinsurance of Harel Insurance, to which the insurance risk is transferred, so that by definition it reflects market conditions; (b) purchase of this policy is for the Company's good, given that it limits the Company's exposure on account of the letters of indemnity given to the directors and officers, and it allows the officers to fulfill their duties properly and for the benefit of the Company, taking into account the risks entailed and the responsibility that they bear by law; (c) the policy provides reasonable cover under the circumstances, when considering the size of the Company, scope and areas of its operations and its business plans; (d) this insurance cover was made in the normal course of the Company's business and it is accepted practice in public companies in Israel and in companies involved in insurance and financial services in particular; (e) purchase of the policy is consistent with the Company's compensation policy; (f) the cover will be given cover will be given to all the directors and officers serving the Group companies, under the same conditions, including with respect to the controlling shareholders and their relatives; (g) the agreement is at market conditions and in accordance with changes that have occurred in the insurance market and it will not significantly affect the Company's profitability, property or undertakings.

3.2 Indemnity

On July 12, 2006, a general meeting of the Company's shareholders approved several amendments to the Company's articles, including amendments pertaining to letters of indemnity for senior officers of the Company. Likewise, further to the approval of the Audit Committee and Board of Directors, the general meeting also approved giving an advance undertaking to indemnify the Company's officers and directors. The undertaking for indemnity is only after the rights under the insurance policy have been exhausted. The amount of indemnity is limited to 20% of the shareholders' equity in the last financial statements published before payment of the indemnity.

In January 2011, the Administrative Enforcement Law was published which, inter alia, allows the Israel Securities Authority, to enforce the provisions of the Securities Law through various proceedings, including to impose various sanctions on the senior officers and directors of a company. Among other things, the Administrative Enforcement Law stipulates that despite the prohibition on insuring and indemnifying a senior officer in respect of financial penalties or fines that are imposed within the framework of administrative enforcement, a person can be insured or indemnified in respect of the following two categories of payment: (i) payment of compensation to the victims of a breach of the Securities Law imposed as part of an administrative enforcement procedure; (ii) expenses incurred by a person in connection with an administrative enforcement procedure that is conducted against him, including reasonable litigation expenses, and including lawyers' fees. The indemnity may also be given by way of giving an advance undertaking. The law stipulates that to enable the Company to insure or indemnify the aforementioned senior officers, the Company's articles must be amended to include the possibility of giving such insurance and indemnity.

As mentioned above, pursuant to a resolution of the Company's general meeting from July 12, 2006 (after being approved by the Audit Committee and Board of Directors), from time to time the Company gave its senior officers letters of indemnity in which it gave an advance undertaking to provide indemnity in respect of the matters specified therein, and subject to conditions stipulated therein, where the amount of the indemnity is limited to 20% of the Company's equity according to the last financial statement published prior to the actual date of payment of the indemnity, and this to the senior officers severally and together, for an individual case and in aggregate.

On January 29, 2012 and January 30, 2012, the Company's Audit Committee followed by the Board of Directors, respectively, approved amended letters of indemnity for its senior officers and directors, including directors who are the controlling shareholders of the Company. On March 5, 2012, the general meeting approved the granting of the amended letters of indemnity to the Company's senior officeholders and directors, including to controlling shareholders. There is no change to the Company's limit of liability in the amended letters of indemnity, but they include an option for indemnity based on the indemnity permitted under the Administrative Enforcement Powers Law. The letters of indemnity will be given to senior officers currently serving the Company and those who may serve the Company from time to time (including senior officers who are deemed controlling shareholders or their relatives, as well as senior officers where a controlling shareholder of the Company may be deemed to have a personal interest in granting them the letters of indemnity).

It is stipulated that the decision to approve the amended letters of indemnity does not nullify the previous letters of indemnity, but adds to them. Subsequent to the aforementioned decisions, letters of indemnity were issued for the Company's directors and senior officeholders, the text of which was approved as noted above.

4. Procedures for approval of transactions with controlling shareholders

The Companies Law prescribes procedures for approving extraordinary transactions with a company’s controlling shareholders and for approving transactions in which an officer of the company (including a director) has a personal interest. Accordingly, the Company and its subsidiaries approved work procedures that make it easier to identify transactions with such controlling shareholders, and prescribe the process for approving them, as follows:

4.1. Transactions defined as negligible

During the normal course of business, the Company and its investees perform transactions with the controlling shareholders as part of the services rendered by the Company to the controlling shareholders and their investees (for example: insurance, long-term savings products, and various financial services). On March 23, 2022 and March 28, 2022, respectively, the Company's Audit Committee and Board of Directors, respectively, determined that a transaction with a controlling shareholder shall be deemed negligible if it meets all the following conditions:

(a) It is not an extraordinary transaction (according to the meaning of this term in the Companies Law) and as noted in Section 4.2 below).

(b) Regarding insurance transactions, long-term savings and financial services: the same rules apply to these transactions as to the benefits given to all Group employees, as approved by the Board of Directors.

(c) The sum insured in the Company's self-retention in each policy is no more than NIS 10 million, and the sum insured in each policy is no more than NIS 50 million. This limitation does not apply to savings policies.

(d) Other agreements, for which the cumulative annual cost to the Group is no more than NIS 100,000.

It is stipulated that any transaction for services provided by a controlling shareholder or his relative will not be classified as a negligible transaction.
It is further stipulated that separate transactions, that are interdependent, so that in practice they are part of the same agreement, shall be construed as a single transaction. Transactions that fall within the parameters of negligible transactions do not require special approval.

4.2. Non-extraordinary transactions

Pursuant to the provisions of Section 117 of the Companies Law, the audit committee of a public company is the organ authorized to make decisions concerning the categorization of transactions under Section 270 of the Companies Law, as extraordinary transactions or non-extraordinary transactions.

To the extent that the Audit Committee determined that this is not an extraordinary transaction, the Audit Committee will be the competent entity for approving the entering into such a transaction.

Pursuant to the provisions of Section 117(1A) of the Companies Law, the Audit Committee may decide whether to classify transactions as extraordinary or non-extraordinary transactions, based on criteria to be determined once a year, in advance.

Accordingly, on March 23, 2022, the Audit Committee of Harel Insurance and the Company determined that the following transactions with the Company's controlling shareholder or with companies that it controls or transactions with senior officers of the Company or with companies in which officers of the Company serve as directors or officers ("the principal shareholders / interested parties") including the relative of each of them, shall not be deemed an "extraordinary transaction" according to the meaning of this term in the Companies Law, and this – subject to a combination of the conditions listed below:

4.2.1. The transaction is one of the following: (1) commitments with the principal shareholders for the issue of insurance policies, in any of the policy categories offered by the Company, through the Company's subsidiaries (including group policies); (2) engagements with principal shareholders for the purchase of long-term savings products, including pension funds and provident funds; and including pension advice services carried out by agencies owned by the Group; (3) the opening of accounts for the principal shareholders in a portfolio management company that is part of the Group's companies; (4) investment in investment funds managed by the Group's companies; (5) entering into an agent's agreement; (6) entering into a supplier's agreement (it is stipulated that regarding a service provider who is a controlling shareholder in the Company or its relative, the approval of the Company's audit committee and board of directors must be given, notwithstanding that mentioned in this clause); (7) loans provided to senior executives, including reverse mortgage loans; (8) the leasing of real estate assets owned by the Group. These transactions are performed during the normal course of the Company's on-going business. The scope of each of the aforementioned transactions is insignificant to the Company, and the scope of the aforementioned transactions (excluding the group transactions) in aggregate is also not significant for the Company. It is stipulated that when calculating the scope of such transactions, all the consideration, premiums, commissions and management fees to be paid to the Company in connection with these transactions in the relevant year will be taken into account. In view of the volume of the Company's business, these aforementioned transactions do not significantly affect the Company's profits, assets or liabilities. It is clarified that a "significant amount for the Company" will be considered 5% of the Company's annual profit (after taxes), namely NIS 27 million or more.

Furthermore, when referring to the agreements mentioned in Section 4.2.1(6) above (supplier's agreement) - the reference is to an agreement whose cost to the Company does not exceed NIS 1 million if it is a one-time agreement or, for an ongoing agreement, whose cost to the Company does not exceed NIS 5 million. The aforementioned limits of NIS 1 million and NIS 5 million do not apply when the reference is to an engagement with a law firm, firm of assessors or firm of investigators.

4.2.2. The transaction is to be performed under market conditions. In this instance, market conditions will be defined as follows:

4.2.2.1. Concerning the agreements noted in Sections 4.2.1 (1), (2) and (3) above, (issue of insurance policies, sale of long-term savings products, including pension and provident funds; opening principal shareholder accounts with a portfolio management company and pension advisor) - a transaction under market conditions shall be deemed a transaction the conditions of which are: (1) they are under the same rules of benefit as those given to all Group employees who wish to purchase the same product ("Group employee conditions"), or they are not more advantageous for the principal shareholder than the aforementioned conditions. It is stipulated that Group employee conditions are the same for all employees of the Group, and that the Group has agreements with business customers who receive benefits that are superior to those of the Group's employees. The Group therefore regards the Group employee conditions as market conditions. The conditions from which all Group employees benefit are prescribed in a resolution passed by the Audit Committee and approved by the Company's Board of Directors, or (2) in the Company's official price list. It is stipulated that the head of the relevant business division has the power to approve a 10% deviation from the price list defined for the employees, as accepted in negotiations, and to approve an overall deviation of 25% from the price list if there is a counter offer from another insurance company/ pension representative, provided that the price given is not less than the counter offer; or (3) on agreements as noted in Section 4.2.1(1) above, in relation to business insurance or insurance for luxury vehicles, a transaction at market conditions shall be deemed a transaction that the relevant manager (according to its definition in the Company's procedures) confirms in writing is at market conditions, namely - at least one of the following conditions is satisfied: (1) he has at least two examples of similar transactions with unrelated parties, under the same conditions; or (2) there is a competing offer from another entity, under conditions that are not better for the insurer compared with the company's offer; or (3) the transaction is covered by facultative reinsurance, under reasonable conditions; or (4) concerning commitments as noted in Section 4.2.1(1) above with respect to a group policy, a transaction under market conditions shall be deemed a transaction that the relevant manager (according to its definition in the Company's procedures) confirms in writing is under market conditions, namely - at least two of the following examples of similar transactions with unrelated parties, under the same conditions

4.2.2.2. With respect to agreements as noted in Section 4.2.1(4) above (investment in investment funds managed by the Group's companies) - these transactions, when performed vis-a-vis the management company and when performed vis-a-vis the subsidiary as coordinated transactions during the course of trade on the stock exchange, are performed at the same price for the principal shareholder and for any other investor. These transactions will therefore be deemed transactions under market conditions.

4.2.2.3. With respect to agreements as noted in Section 4.2.1(5) above (engagement in an agent's agreement) - these engagements were made under conditions similar to the agreements with agents who are not an interested party, that the relevant manager (according to its definition in the Company's procedures) confirmed were market conditions.

4.2.2.4. With respect to agreements as noted in Section 4.2.1(6) above (supplier's agreement) - such agreements are made under conditions that are similar to the conditions in which the Company enters into agreement with suppliers for other similar services, who are not interested parties in the Company, there is at least one offer or expert opinion from a third party, for providing the aforementioned service, under conditions that are not better for the Company. With respect to agreements with law firms, firm of assessors or firm of investigators, it will not be necessary to receive a competing offer or expert opinion, and in this case written confirmation from the that the relevant manager (according to its definition in the Company's procedures) that the conditions are market conditions will be sufficient.

4.2.2.5. With respect to agreements as noted above in Section 4.2.1(7) (loans provided to senior officers – including reverse mortgage loans) - such loans will be provided under the same conditions as loans are provided to Company employees and subject to the maximum discretion vested in the CEO on this matter.

4.2.2.6. With respect to agreements as noted above in Section 4.2.1(8) (leasing of real estate assets) - such loans will be provided under the same conditions as real estate assets of the Group are leased to unrelated third parties, as approved by the head of the assets division in the investment division.

Transactions that take place within the range described above, and in accordance with the Company's procedures concerning interested party agreements, will not require individual approval by the Company's competent organs, and this for a limited period until the end of the year from the date of this approval. Any other transactions that are not extraordinary and not negligible must be approved individually, as noted in Section 4.3 below.

Notably, as mentioned in the procedure on agreements with interested parties in the Company: (1) the payment of bonuses in accordance with the compensation plan approved by the Company's Board of Directors and Board of Directors of Harel Insurance, as well as ongoing salary updates at rates which according to the Company's compensation policy do not require special approval, will not be deemed an extraordinary transaction and will not require special approval in addition to the approvals required under the Company's compensation policy; (2) the payment of a claim to an interested party by virtue of an existing policy in the Company which does not deviate from the policy conditions will not be deemed an agreement with an interested party and will not require special approval. Payment of a claim ex gratia in accordance with accepted claims settlement practice does not require individual approval, as long as the approval is for an amount of up to NIS 5,000. Any payment of a claim to an interested party that is not accordance with the policy conditions and exceeds NIS 5,000 must be submitted for the approval of the Audit Committee prior to payment.

4.3. Transaction that is neither negligible nor extraordinary

Section 117(2A) of the Companies Law prescribes, *inter alia*, that the Audit Committee must prescribe the manner of approving transactions that are not negligible, including transactions of this kind that may require its approval. On this, a "non-negligible transaction" is an extraordinary transaction between a public company and a controlling shareholder therein or with another person in which the controlling shareholder has a personal interest regarding which the Audit Committee has resolved that it is a non-extraordinary transaction and has categorized it as a non-negligible transaction.

On March 23, 2022, the Company's Audit Committee determined that transactions with controlling shareholders that are not extraordinary and are not negligible must be approved exclusively by the Company's Audit Committee. On the manner of approval and a competitive process that must be held - see Section 4.4 below.

It is stipulated that the foregoing is not intended to derogate from that mentioned in Section 4.2 above, concerning transactions approved in advance by the Audit Committee and Board of Directors, and that do not require additional approval, beyond the annual master approvals.

4.4. Holding a competitive process (tender) for transactions with a controlling shareholder

Section 117(1B) of the Companies Law stipulates that the audit committee must define the types of transaction with a controlling shareholder or in which the controlling shareholder has a personal interest, even if they are not extraordinary transactions, for which a competitive process (tender) must be held, under the supervision of the committee or the entity prescribed for this purpose, and the criteria that apply to the competitive process, or it must stipulate that "other procedures" were applied as defined by the audit committee before entering into a transaction, depending on the type of transaction. In this instance, the audit committee may define the criteria once a year in advance.

The amendment to the law does not include a definition of the substance of the competitive process, and it leaves this to the discretion of the audit committee. Even if the audit committee decides to conduct other processes, it must give these other processes content that corresponds with the purpose of the new obligation, which is to define a mechanism that ensures that the transaction entered into serves the best interests of the company, including that it examines the other options available to the company alongside the option proposed by the controlling shareholder.

The approval processes defined by the Audit Committee and Board of Directors:

It was determined that transactions between the Company and the controlling shareholders or with any other person in which the controlling shareholder has a personal interest, excluding transactions that are defined as negligible transactions (as noted in Section 4.1 above), and excluding transactions that were approved in advance as transactions that are not extraordinary and do not require additional approval (as noted in Section 4.2 above), will be approved as set out below:

If the total cost of the agreement to the Company, including the cost in respect of an option or extension period, is not more than NIS 10 million, the following provisions apply:

- When the transaction involves goods or services for which several supplies can provide the service to the same standard, availability and other parameters, as a rule the competitive process will take place through the relevant department in Harel contacting at least two additional suppliers for written price quotes. It is noted that the contact will be made in parallel (wherever possible) and in a manner that facilitates a proper, effective process to determine the price quote for the relevant agreement.
- If, due to the character or quality of the goods and services or due to considerations of quality, it is problematic to contact suppliers for written offers, one of the following options will be chosen:
    - An opinion will be obtained from two, expert independent entities in the relevant field with respect to the market conditions (who did see the price quote of the controlling shareholder or his relative beforehand).
    - Suppliers in the field will be contacted, giving weight in advance to quality parameters to be defined before the process begins by the Company's CFO.

  Subsequent to this process, the Audit Committee will be required to approve the transaction. The Audit Committee discussion will take place after the competitive process has been conducted by the entity in the Company or the subsidiary that initiated the agreement.

Whenever the agreement involves more than NIS 10 million, the following provisions will apply:

- The Audit Committee will hold a preliminary discussion to determine the competitive process or the other process to be chosen in advance by the Audit Committee, for the purpose of reviewing the agreement.

- The competitive process or the other process defined by the Audit Committee will be carried out and it will be administered by the person charged with this responsibility in a resolution passed by the Audit Committee.
- The results of the competitive process will be submitted to the Audit Committee, which will discuss the agreement based on the results of the process that was carried out.
- After receiving the Audit Committee's approval, the agreement will be submitted for the approval of the Board of Directors.

Regulation 24 - Shares held by interested parties and senior officers in the Company

A. Company shares held by interested parties (principal shareholders)

See information in a report published by the Company on the Magna website on January 4, 2022, ref.: 2022-01-002023.

B. Agreements between interested parties of the Company

There are no agreements between the interested parties of the Company (except for partnership agreements that arrange the holdings of the controlling shareholders (indirectly) in the GYN Partnership). The controlling shareholders of the Company are Yair Hamburger, Gideon Hamburger and Nurit Manor. For additional information, see Regulation 21A above.

C. Shares and other securities held by an interested party of the Company, in subsidiaries and related companies

See information in a report which the Company published on the Magna website on January 6, 2022, ref.: 2022-01-003312.

D. Holdings in the Company by senior officers

See information in a report which the Company published on the Magna website on January 4, 2022, ref. 2022-01-002023.

Regulation 24A - Registered capital, issued capital and convertible securities

The Company's registered share capital is 500,000,000 ordinary NIS 0.1 shares.

At the publication date of the report, the Company's issued share capital is 222,836,923 ordinary shares each of NIS 0.1 par value, of which 9,948,558 are dormant shares that do not confer any rights. The Company's issued share capital net of the dormant shares is 212,888,365 ordinary shares of NIS 0.1.

For information about the stock options plan for employees and officers, see Section 8 above.

Regulation 24B – Register of shareholders of the Corporation

Name of registered shareholder	I.D. / company no.	Address	Class of share	Par value	Number of shares	Whether held as trustee
The Tel Aviv Stock Exchange Nominee Company Ltd.	515736817	2 Ahuzat Bayit, Tel Aviv	Ordinary	NIS 0.1	138,779,683	Yes
Gideon Hamburger	7048663	64 Pinkas St., Tel Aviv	Ordinary	NIS 0.1	680	No
Yair Hamburger	7048671	29 Derech Haganim, Kfar Shmaryahu	Ordinary	NIS 0.1	690	No
Nurit Manor	51171312	62 Pinkas St., Tel Aviv	Ordinary	NIS 0.1	680	No
G.Y.N. Financial Consulting and Investment Management 2017 LP	550272587	3 Abba Hillel Silver St., Ramat Gan	Ordinary	NIS 0.1	84,054,570	No
Yehudah Barlev	64837123	3A Tolkovsky St., Tel Aviv	Ordinary	NIS 0.1	410	No
Jacob Schlussel	54072079	52 Bilu St., Raanana, POB 453	Ordinary	NIS 0.1	10	No
Shaul Pasternak	1069144079	82 Herzl St., Lod	Ordinary	NIS 0.1	50	No
Michael Neumann	58463365	Yozma Insurance Agency, POB 2114, Jerusalem 91020	Ordinary	NIS 0.1	50	No
Arie Lavie	65385276	14 Nachshon St., Ramat Hasharon	Ordinary	NIS 0.1	50	No
Israel Pnini	10644995	53 HaEshel St., Herzliya	Ordinary	NIS 0.1	20	No
Amoren Gabrieli	059111195	8/8 Israel Galil St., Tel Aviv	Ordinary	NIS 0.1	30	No
Total					222,836,923	

Regulation 26 - The Company's directors

In this Regulation:

1) The Group companies - the Company and its investees.
2) "Professional qualifications" and "financial and accounting expertise", as defined in the Companies Regulations (Conditions and Examinations regarding a Director with Accounting and Financial Expertise and a Director with Professional Qualifications), 2005 (“the Qualifications Regulations).

Name:	**Yair Hamburger**
I.D. no.:	7048671
Date of birth:	June 27, 1946
Address for serving court documents:	29 Derech Haganim, Kfar Shmaryahu
Citizenship:	Israeli
Membership of Board of Directors committees:	Yes. Committee for Non-yield-dependent investments (Nostro).
External Director:	No.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	Yes. Chairman of the Company’s Board of Directors, director in Harel Insurance, Chairman of the Board of Harel Finance & Issues, director in Harel Finance, director in Harel-Mutual Funds, director in Interasco, director in Turk Nippon, director other companies in Harel Group.
Date of commencement of office:	April 20, 1982
Qualifications:	BA in Economics and Political Science, The Hebrew University of Jerusalem.
Occupation over the last five years:	Chairman of the Board of Directors of Harel Insurance (until June 2021) and served in Harel Group companies as detailed above.
Corporations in which he serves as a director (other than the Group's companies):	Kadid Ltd., Kaydan Ltd., Chairman of the Public Council of Alin Beit Noam, director of the IPO Foundation, Board of Governors of Tel Aviv University, member of the managing committee of Educating for Excellence (E4E), chairman of the Israel Friends of the National Library, deputy chair of the German-Israeli Future Forum Foundation, member of the Board of Governors of the (Type 1) Israel Diabetes Association, Chairman of the Israel Insurance Association, Chairman of the Association of Life Insurance Companies and Honorary President of Maccabi World Union.
Is he related to other principal shareholders in the Company:	Brother of Gideon Hamburger and Nurit Manor, brother-in-law of Yoav Manor.

The Company's Board of Directors has determined that Yair Hamburger has financial and accounting expertise, in accordance with the Qualifying Regulations, in light of his professional education and experience.

Name:	**Gideon Hamburger**
I.D. no.:	7048663
Date of birth:	June 9, 1944
Address for serving court documents:	64 Pinkas St., Tel Aviv
Citizenship:	Israeli
Membership of Board of Directors committees:	No.
External Director:	No.
Is he considered as having accounting and financial expertise:	No.
Is he an employee of the Company, a subsidiary, related company or interested party:	Yes. Director of the Company, President of Harel Insurance and Finance Group, director in Harel Finance, director in Harel Finance & Issues, director in Interasco, director in other Harel Group companies.
Date of commencement of office:	April 20, 1982
Qualifications:	Academic. FCII – graduate and Fellow of the London Chartered Insurance Institute.
Occupation over the last five years:	Served in Harel Group companies as noted above.
Corporations in which he serves as a director (other than the Group's companies):	Director in HG SBT Ltd., director in H. G. Hamburger Investments Ltd., director in Weizmann Institute, member of the Board of Governors of Bar Ilan University, President of Israel Switzerland & Liechtenstein Chamber of Commerce, Honorary President and member of management of Variety Israel.
Is he related to other principal shareholders in the Company:	Brother of Yair Hamburger and Nurit Manor, brother-in-law of Yoav Manor.

Name:	**Yoav Manor**
I.D. no.:	00551168
Date of birth:	January 4, 1950
Address for serving court documents:	62 Pinkas St., Tel Aviv.
Citizenship:	Israeli
Membership of Board of Directors committees:	No.
External Director:	No.
Is he considered as having accounting and financial expertise:	No.
Is he an employee of the Company, a subsidiary, related company or interested party:	Yes. Director of the Company, Chairman of the Board of Directors of Harel Hamishmar Computers, director in Harel Insurance, director in Harel Finance, director in Harel Finance & Issues, director in other Harel Group companies.

Date of commencement of term of office:	April 20, 1982
Qualifications:	B.Sc. in Electronic & Computer Engineering, Tel Aviv University.
Occupation over the last five years:	Served in Harel Group companies as noted above.
Corporations in which he serves as a director (other than the Group's companies):	Manorim Ltd.
Is he related to other principal shareholders in the Company:	Husband of Nurit Manor and brother-in-law of Yair Hamburger and Gideon Hamburger.

Name:	**Doron Cohen**
I.D. no.:	069418945
Date of birth:	August 9, 1964
Address for serving court documents:	2 Egoz St., Reut 71908.
Citizenship:	Israeli
Membership of Board of Directors committees:	Audit Committee.
External Director:	No.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of office:	July 12, 2006
Qualifications:	BA in Economics and Business Management, MBA (majored in financing), The Hebrew University of Jerusalem.
Occupation over the last five years:	Director in the Company, director in Harel Finance, deputy chairman of Yield-Dependent (Members) Investment Committee of Harel Group, director in Harel Finance Alternative, director in Harel Alternative Investment Funds Ltd. (commencing October 18, 2021), director in Harel Insurance (until October 7, 2018), Chairman of the Board of EMI (until October 7, 2018), director in Emcol Ltd. (until March 31, 2021), director in El Al Israel Airlines Ltd. (until August 2021), financial consulting and management.
Corporations in which he serves as a director (other than the Group's companies):	Mivne Ltd., Champion Motors Ltd., Trigger D.C. Holdings Ltd., and Trigger D.C. Ltd.
Is he related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Doron Cohen has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Name:	**Joseph Ciechanover**
I.D. no.:	5991468
Date of birth:	October 1, 1933
Address for serving court documents:	12 Amirim St., Savyon
Citizenship:	Israeli
Membership of Board of Directors committees:	No.
External Director:	No.
Is he considered as having accounting and financial expertise:	No.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of office:	January 21, 1995
Qualifications:	MJuris in Law, The Hebrew University of Jerusalem, LL.M Berkeley University, California, Graduate in Business Administration, The Hebrew University of Jerusalem (final paper not submitted). Ph.D in Philosophy, Boston University.
Occupation over the last five years:	Director in the Company, director in Harel Finance Alternative, director in Harel Finance, director in Azrieli Group Ltd. (until 2019).
Corporations in which he serves as a director (other than the Group's companies):	Chairman and President of Atidim Fund Management Ltd., Chairman and President of I.Y.Z. Investments Ltd., director of the Israel Museum (Public Benefit Corporation), member of the Eli Wiesel Foundation for Humanity - Israel, Jacob Isler Foundation Chairman, Head of the Board of Governors at the Dayan Center, Tel Aviv University, Director of Mifal Hapais (Public Benefit Corporation), director in Israel Science Foundation, chairman of J.C. Atara Ventures Ltd., member of the Association for Clinical Genetics, director in Israeli Aerospace Industries Ltd..
Is he related to other principal shareholders in the Company:	No.

Name:	**Hava Friedman-Shapira**
I.D. no.:	026742155
Date of birth:	September 22, 1954
Address for serving court documents:	3, Uriel Ofek Street, Herzliya.
Citizenship:	Israeli
Membership of Board of Directors committees:	Audit Committee and Compensation Committee
External Director:	Yes.

Is she considered as having accounting and financial expertise:	Yes.
Is she an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of office:	November 17, 2014
Qualifications:	Graduate (B.Sc.) of the College of Insurance, Communications and Management, Adelphi University – New York, MBA from New York Institute of Technology, MA in Diplomacy and Conflict Resolution from the IDC, Herzliya, and MA in Law, Technology and Innovation from Reichman University.
Occupation over the last five years:	External Director in the Company and External Director in EMI (until November 17, 2020).
Corporations in which she serves as a director (other than the Group's companies):	Member of the Board of Governors of the Ort Braude Academic College of Engineering, Karmiel and director in Eva Holdings Ltd.
Is she related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Hava Friedman-Shapira has financial and accounting expertise in accordance with the Qualifications Regulations, in light of her professional qualifications and experience.

Name:	**Ben Hamburger**
I.D. no.:	032254625
Date of birth:	March 14, 1975
Address for serving court documents:	13 HaTikva, Ramat HaSharon
Citizenship:	Israeli
Membership of Board of Directors committees:	Non-yield-dependent (Nostro) Investment Committee.
External Director:	No.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of office:	January 17, 2017
Qualifications:	BA in Economics and Accounting, Tel Aviv University. MBA specializing in financing, Columbia Business School, NY.
Occupation over the last five years:	Deputy Chairman of the Company's Board of Directors, director in Harel Insurance, CEO of HLO Advisory Limited – a family real-estate firm in England.
Corporations in which he serves as a director (other than the Group's companies):	Director in other family real-estate firms in England.

Is he related to other principal shareholders in the Company:	Ben Hamburger is the son of Mr. Gideon Hamburger and nephew of Yair Hamburger and Nurit Manor. Yair Hamburger, Gideon Hamburger and Nurit Manor are the Company's controlling shareholders.

The Board of Directors has determined that Ben Hamburger has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Name:	**Eli Defes**
I.D. no.:	052016631
Date of birth:	July 31, 1953
Address for serving court documents:	24 HaZayit, Mazkeret Batya
Citizenship:	Israeli
Membership of Board of Directors committees:	Audit Committee
External Director:	No.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of office:	May 2, 2018
Qualifications:	BA in Political Science, Sociology and Anthropology, Bar Ilan University in Ramat Gan and MA in Political Science / National Security from Haifa University and the IDF Israel National Defense College.
Occupation over the last five years:	Director in the Company, director in Harel Insurance, Chairman of the Board of Directors of El Al Israel Airlines Ltd. (until 2020), CEO of Clalit Health Services (until 2017), Chairman of the Board in subsidiaries of Clalit Health Services (until 2017).
Corporations in which he serves as a director (other than the Group's companies):	Chairman of the Board of Directors' of Raphael Hospitals Ltd.
Is he related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Eli Defes has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Name:	**Naim Najjar**
I.D. no.:	028162824
Date of birth:	October 6, 1970
Address for serving court documents:	5093/20 Street, Nazareth
Citizenship:	Israeli
Membership of Board of Directors committees:	Audit Committee and Compensation Committee
External Director:	Yes.
Is he considered as having accounting and financial expertise:	Yes.
Is he an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of office:	June 1, 2020
Qualifications:	BA in Accounting and Economics – The Hebrew University of Jerusalem, MBA – Haifa University. Graduate of course "Training for Directors in Corporations" on behalf of the Institute of Certified Public Accountants in Israel.
Occupation over the last five years:	External Director in the Company, Managing Partner in CPA firm Gerst, Sadeh, Kirson, Najjar, founder and CEO of investment consultancy N.N. Nazareth Ltd., member of the Bank of Israel's Supervisory Council (from 2018), CFO in Polyphony Education Ltd., chairman of Al-Ittihad Football Club, Nazareth.
Corporations in which he serves as a director (other than the Group's companies):	Chairman of the Board of Directors' of Raphael Hospitals Ltd.
Is he related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Naim Najjar has financial and accounting expertise in accordance with the Qualifications Regulations, in light of his professional qualifications and experience.

Name:	**Efrat Yavetz**
I.D. no.:	058677881
Date of birth:	1964
Address for serving court documents:	71 HaVradim, Yahud
Citizenship:	Israeli
Membership of Board of Directors committees:	Audit Committee and Compensation Committee.
External Director:	Yes.
Is she considered as having accounting and financial expertise:	Yes.

Is she an employee of the Company, a subsidiary, related company or interested party:	No.
Date of commencement of office:	January 7, 2021
Qualifications:	B.Sc. (Cum Laude) in Biochemistry and Nutrition – The Hebrew University of Jerusalem, Faculty of Agriculture. MBA, Tel Aviv University as part of the Executive MBA program, Investment Consulting Diploma from the Israel Securities Authority.
Occupation over the last five years:	External Director in the Company, strategic advisor and member of management, Deputy CEO in Bank Hapoalim (until 2017).
Corporations in which she serves as a director (other than the Group's companies):	None
Is she related to other principal shareholders in the Company:	No.

The Board of Directors has determined that Efrat Yavetz has financial and accounting expertise in accordance with the Qualifications Regulations, in light of her professional qualifications and experience.

Director who terminated his service in the Reporting Period:

Name:	**Prof. Israel Gilad**
I.D. no.:	050629005
Position held in the Company, its subsidiary, a related company or in any interested party therein:	External Director, member of the Audit Committee and member of the Compensation Committee.
Commenced office on:	January 18, 2012
Terminated office on:	January 17, 2021

Regulation 26A - Senior officers of the Company (other than directors)

Name:	**Michel Siboni**
I.D. no.:	027065697
Date of birth:	April 9, 1959
Date of commencement of term of office:	2009 (served in other positions in Harel Group from 1993).
Position in the Company, a subsidiary, or principal shareholder therein:	CEO of the Company, Chairman of the Board of Harel Insurance, Chairman of the Board and shareholder in Hamazpen Shutaphim Laderech Ltd., director in Interasco, Chairman of the Board in Turk Nippon director in other Harel Group companies.
Is he related to any other senior officer in the Company:	No.
Qualifications:	B.Sc. in Natural Sciences – Physics and Atmosphere, The Hebrew University of Jerusalem, and Diploma in Business Management for Engineers, College of Management.
Occupation over the last five years:	CEO of Harel Insurance (until June 2021), Chairman of the Board of Harel Pension & Provident and Tzva Hakeva (until August 2021) and served in companies in Harel Group as noted above.

Name:	**Nataly Mishan-Zakai**
I.D. no.:	31781180
Date of birth:	September 8, 1974
Date of commencement of office:	August 20, 2014
Position in the Company, a subsidiary, or principal shareholder therein:	The Group's Legal Advisor (Corporate Counsel), Deputy CEO Harel Insurance, chairman of the Board of Harel Pension & Provident, Tzva Hakeva and Leatid, member of the (Nostro) non-yield-dependent investments committee.
Is she related to any other senior officer in the Company:	No.
Qualifications:	LL.B. (Cum Laude) from Tel Aviv University. LL.M. (Cum Laude) in Commercial Law from Tel Aviv University, Tel Aviv-Berkley program.
Occupation over the last five years:	Head of the Service Division in Harel Insurance (until 2021) and served in Harel Group, as detailed above.

Name:	**Sami Babecov**
I.D. no.:	58378985
Date of birth:	September 10, 1963
Date of commencement of office:	2007
Position in the Company, a subsidiary, or principal shareholder therein:	Head of investments in Harel Group, Deputy CEO and head of the Investment Division in Harel Insurance, director in companies in Harel Group.
Is he related to any other senior officer in the Company:	No.
Qualifications:	MBA, Bar Ilan University. BA in Economics, Tel Aviv University.
Occupation over the last five years:	Served in Harel Group as specified above.

Name:	**Tal Kedem**
I.D. no.:	027105212
Date of birth:	January 6, 1974
Date of commencement of office:	March 1, 2017
Position in the Company, a subsidiary, or principal shareholder therein:	CEO of Harel Finance Holdings Ltd., director in companies in the financial services arm of Harel Group.
Is he related to any other senior officer in the Company:	No.
Qualifications:	BA in Business Administration, The College of Management. LL.M. Bar Ilan University.
Occupation over the last five years:	Served in Harel Group as specified above.

Name:	**Arik Peretz**
I.D. no.:	031761257
Date of birth:	July 22, 1974
Date of commencement of office:	April 15, 2017
Position in the Company, a subsidiary, or principal shareholder therein:	CFO of the Company, Head of Finance & Resources Division in Harel Insurance and Deputy CEO of Harel Insurance, Chairman of the Board of EMI, Chairman of the Board of Harel 60+, Hamazpen and other companies in Harel Group.
Is he related to any other senior officer in the Company:	No.
Qualifications:	BA in Accounting and Economics, The Hebrew University of Jerusalem MBA, The Hebrew University of Jerusalem LL.B., The Hebrew University of Jerusalem LL.M., The Hebrew University of Jerusalem

Occupation over the last five years:	VP Finance and HQ at Meitav Dash Ltd. and director in companies in Meitav Dash Group (until 2017).

Name:	**Osnat Manor Zisman**
I.D. no.:	23096233
Date of birth:	November 19, 1967
Date of commencement of office:	February 1, 2014
Position in the Company, a subsidiary, or principal shareholder therein:	Internal auditor of the Company and companies in Harel Group.
Is she related to any other senior officer in the Company:	No.
Qualifications:	BA in Economics and Business Administration, Tel Aviv University, qualified CPA.
Occupation over the last five years:	Serves in Harel Group companies as detailed above.

Name:	**Tomer Goldberg**
I.D. no.:	026660951
Date of birth:	May 27, 1980
Date of commencement of office:	March 1, 2021
Position in the Company, a subsidiary, or principal shareholder therein:	Head of Strategic Investments and Alternatives.
Is he related to any other senior officer in the Company:	No.
Qualifications:	LL.B Haifa University, MA in Management and Strategy, Columbia University, New York
Occupation over the last five years:	Investment manager in Cisco (until 2020).

Regulation 26B - Company's Authorized Signatories

The company does not have independent authorized signatories.

Regulation 27 - The Company's CPA

Somekh Chaikin

Millennium Tower, 17 Haarba'ah St., Tel Aviv 64739

Regulation 28 - Changes in the Articles and Memorandum of Incorporation

In the reporting year, no changes were made in the Memorandum or Articles of Incorporation of the Company.

Regulation 29 - Recommendations of the Board of Directors and an Extraordinary General Meeting

A. **Resolutions of the Board of Directors which are not subject to the approval of the General Meeting**

On the distribution of dividends – see Note 16 to the Financial Statements.

B. **Resolutions of the General Meeting that were passed not in accordance with the recommendations of the Board of Directors**

None.

C. **Resolutions passed by Extraordinary General Meetings**

On January 7, 2021, a special general meeting of the Company took place with the following item on the agenda: appointment of Ms. Efrat Yavetz to serve as an external director in the Company. The general meeting approved the appointment of Ms. Yavetz. For additional information about this resolution, see an Immediate Report of the Company dated November 30, 2020, Ref.: 2020-01-129825.

On June 30, 2021, an annual and special general meeting of the Company took place, 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 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 (no change compared with his present conditions). The general meeting approved all the items that were on the agenda. For additional information about these resolutions, see an Immediate Report of the Company dated May 26, 2021, Ref.: 2021-01-031033.

On October 6, 2021, a special general meeting of the Company took place, the agenda of which included the following topics: (1) amendment to the Company's present compensation policy so that, in the event of an allotment of options, the exercise price will not be linked to the Consumer Price Index; (2) approval of an allotment of 180,000 options to Mr. Michel Siboni, the Company's CEO, which may be exercised for up to 180,000 ordinary shares, in accordance with the stock options plan approved by the Company's Compensation Committee and Board of Directors. The general meeting approved all the items that were listed on the agenda. For additional information about these resolutions, see an Immediate Report of the Company dated August 30, 2021, Ref.: 2021-01-073666.

Regulation 29 A - Corporate decisions

The Company has committed itself to insurance contracts, whereby the senior officers and directors of the Company and its subsidiaries have Directors and Officers liability insurance (D&O). The Sum Insured is up to USD 176 million per event or in aggregate for the policy period. At the date of approval of the report, the insurance policy is in force until October 31, 2022.

Ramat Gan, March 28, 2022

Harel Insurance Investments & Financial services Ltd.

By:

Yair Hamburger, Chairman of the Board of Directors ____________________

Michel Siboni, CEO ____________________

CORPORATE GOVERNANCE QUESTIONNAIRE[1]

BOARD OF DIRECTORS INDEPENDENCE

		YES	NO
1.	Throughout the Reporting Year, two or more external directors served the Company. *You may reply "Yes" to this question if the period in which two external directors did not hold office in the Company did not exceed 90 days, as noted in Section 363A.(b)(10) of the Companies Law; nevertheless, for both replies (yes/ no), the period (in days) in which two or more external directors did not hold office in the Company in the Reporting Year must be specified (including a term of office approved retroactively, while differentiating between the various external directors);* Director A: Hava Friedman Shapira Director B: Naim Najjar Director C: Efrat Yavetz (from January 7, 2021) Director D: Israel Gilad (up to January 17, 2021) Number of external directors who held positions in the Company at the date of publication of this questionnaire: 3 (Hava Friedman Shapira, Naim Najjar and Efrat Yavetz.)	✓	
2.	Percentage[2] of independent directors[3] serving the Company at the date of publication of this questionnaire: **3/10.** Percentage of independent directors defined in the Corporation's Articles of Association:[4] [5] **the Articles stipulate that the percentage of external directors shall be as defined in the Companies Law. The Companies law stipulates that at least two external directors shall serve in a public company.** ☐ Not applicable (no provision specified in the Articles).	________	________

[1] Published as part of a bills to improve company reports on March 16, 2014.
[2] In this questionnaire, "percentage" – a particular number out of the total. For example 3/8.
[3] Including External Directors as they are defined in the Companies Law.
[4] Regarding this questionnaire – "Articles" including in accordance with specific statutory provisions that apply to the corporation (e.g. for banks – the provisions of the Supervisor of Banks).
[5] Bond issuing companies are not required to answer this section.

3.		During the Reporting Year, a survey was conducted of the external directors (and the independent directors) which found them to be in compliance with the provisions of Section 240(b) and (f) of the Companies Law regarding the absence of a "connection" between the external (and independent) directors holding office in the Company and that they are in compliance with the relevant conditions for holding office as an external (or independent) director.	✓	
4.		None of the directors who served the Company in the Reporting Year are subordinate[6] to the general manager [CEO], directly or indirectly (other than a director who represents the employees, if the Company has employee representation). If your reply is "No" (i.e. the director is subordinate to the CEO) – please specify the number of directors who did <u>not</u> comply with this restriction: __________ .	✓	
5.		None of the directors who stated that they have a personal interest in approving a transaction on the agenda of the meeting, attended the meeting or cast a vote (other than a discussion and/or vote under circumstances that were satisfied under Section 278(b) of the Companies Law): If your reply is "No"- Was this to present a specific topic as noted at the end of Section 278(a) of the Companies Law : ☐ yes ☐ no Please specify the rate of attendance by directors at meetings and/or who cast votes, except for those circumstances noted in subsection A: _______	✓	
6.		The controlling shareholder (including his relative and/or representative) who is not a director or any other senior officer in the Company did not attend Board of Directors meetings held during the Reporting Year. If your reply is "No" (i.e. the controlling shareholder and/or his relative and/or representative who is not a Board member and/or senior officer in the Company attended the Board meetings) – please provide the following information about the presence of any other person at the Board meetings: Identity ______________ .	✓	

[6] Regarding this question - serving as a director of an investee (subsidiary) company which is controlled by the Company, will not be considered "subordinate". In contrast, a director who is an officer (other than a director) and / or employee in an investee company controlled by the Company would be considered "subordinate" for the purpose of this question.

		Position in the Company (if any) _______________ . Details of the relationship to the controlling shareholder (if the attendee was not the actual controlling shareholder): ________________ . Was this due to the presentation of a particular topic: □ yes □ no His rate of attendance[7] at Board meetings held during the Reporting Year for the purpose of presenting a particular topic: _______. Other attendance: __________. □ *Not applicable (the Company has no controlling shareholder).*		

DIRECTORS' QUALIFICATIONS AND COMPETENCE		
	YES	**NO**

[7] Differentiating between a controlling shareholder, his relative and / or his representative.

7.		The Company's Articles of Association contain no provision limiting the possibility of the immediate termination of service of all Company directors who are not external directors (in this context – a resolution passed by an ordinary majority **is not** deemed a limitation).[8] If your reply is "No" (i.e. there is such a restriction), please specify -		✓	
		A.	The term of office for a director specified in the Articles of Association: ________.		
		B.	The required majority defined in the Articles of Association for terminating the service of directors: ______ .		
		C.	The quorum for a general meeting defined in the Articles of Association for terminating the service of directors: __________ .		
		D.	The majority required to change these provisions in the Articles of Association: ________ .		
8.		The Company has a training program for new directors, for its business activities and the laws applicable to the Company and its directors, as well as a plan for follow-up training for serving directors, which is tailored, *inter alia*, to the director's position in the Company. If your reply is "Yes" – please specify whether the program was run during the Reporting Year: ✓ YES ☐ NO		✓	
9.		A.	The Company has defined the minimum number of Board directors who must have accounting and financial expertise. If your reply is "Yes" please specify the minimum number defined: **2**	✓	
		B.	Number of directors who served the Company in the Reporting Year:		

[8] A bond issuing company is not required to answer this section.

			With accounting and financial expertise:[9] **7** With professional qualifications:[10] **10** *If changes were made in the number of directors, as aforementioned, in the Reporting Year, please provide the lowest number (except for the 60-day period from the date of the change) of each class of directors who held office during the Reporting Year.*		
10.		A.	Throughout the Reporting Year, both men and women served on the Board of Directors. If your reply is "No" – please specify the time period (in days) in which this was not the case: __________. *You may reply "Yes" to this question if the Company's Board of Directors did not include men and women for a period that did not exceed 60 days, however all replies (Yes / No) must specify the period (in days) in which the Board did not consist of both men and women:* ___________	✓	
		B.	At the date of publication of this questionnaire, the number of directors of each gender serving on the Board of Directors is: Men:8, Women: **2**.	_____	_____

[9] After an assessment by the Board of Directors, based on the provisions of the Companies (Conditions and Examinations for Directors with Accounting and Financial Expertise and Directors with Professional Qualifications) Regulations, 2005.

[10] See Footnote 9.

BOARD OF DIRECTORS MEETINGS (AND CONVENING OF A GENERAL MEETING)

<table>
<tr><td colspan="4"></td><td>YES</td><td>NO</td></tr>
<tr><td rowspan="3">11.</td><td rowspan="3"></td><td>A.</td><td colspan="1">Number of Board meetings held in each quarter of the Reporting Year:

Q1 (2021): 4
Q2: 9
Q3: 2
Q4: 2</td><td>_____</td><td>_____</td></tr>
<tr><td rowspan="2">B.</td><td>Next to each of the names of the Board members who served the Company in the Reporting Year, please specify their rate[11] of attendance at Board meetings (in this subsection – including meetings of Board of Directors' committees on which they are members, and as noted below) which took place in the Reporting Year (and with reference to their term of office):

(Please insert additional lines according to the number of directors).

A table listing the requirements of this section is attached to the questionnaire as Appendix A.</td><td rowspan="2">_____</td><td rowspan="2">_____</td></tr>
<tr><td><table><tr><td>Director's name</td><td>Rate of attendance at Board meetings</td><td>Rate of attendance at meetings of the Audit Committee[12]</td><td>Rate of attendance at meetings of the Committee for the Review of the Financial Statements[13]</td><td>Rate of attendance at meetings of the Compensation Committee[14]</td><td>Rate of participation at meetings of other Board committees of which s/he is a member (specifying the name of the committee)</td></tr></table></td></tr>
</table>

[11] See Footnote 2.
[12] For a director who is a member of this committee.
[13] For a director who is a member of this committee.
[14] For a director who is a member of this committee.

12.		In the Reporting Year, the Board of Directors held at least one meeting concerning management of the Company's business by the CEO and his subordinate officers, at which they were not present, and they were given an opportunity to express their opinion.							✓	

SEGREGATION OF DUTIES OF THE CEO [GENERAL MANAGER] AND CHAIRMAN OF THE BOARD

				YES	NO
13.		Throughout the Reporting Year the Company was served by a Chairman of the Board. You may reply "Yes" to this question if the period in which the Company had no Chairman of the Board did not exceed 60 days, as noted in Section 363(a)(2) of the Companies Law, however all replies (Yes / No) must specify the period (in days) in which there was no serving Chairman of the Board: _________.		✓	
14.		Throughout the Reporting Year the Company had a CEO. You may reply "Yes" to this question if the period in which the Company had no CEO did not exceed 90 days, as noted in Section 363(a)(6) of the Companies Law, however all replies (Yes / No) must specify the period (in days) in which there was no serving CEO: _________ .		✓	
15.		In a company in which the Chairman of the Board is also the company's CEO and/or exercises his powers, this dual service was approved in accordance with the provisions of Section 121(c) of the Companies Law.[15] ✓ *Not applicable (insofar as there is no dual service of this kind in the Company).*		Not applicable	Not applicable
16.		The CEO <u>is not</u> a relative of the Chairman of the Board. If your reply is "No" (i.e. – the CEO <u>is</u> related to the Chairman of the Board) -		✓	
		A.	Please specify the family relationship between the parties: _________________.	———	———
		B.	The office was approved under Section 121(c) of the Companies Law:[16]	———	———

[15] In bond issuing companies – approval under Section 121(d) of the Companies Law.

[16] In bond issuing companies – approval under Section 121(d) of the Companies Law.

			☐ YES ☐ NO		
17.		The Company's controlling shareholder or his relative does not hold the position of CEO or senior officer, other than a director. ☐ Not applicable (the Company has no controlling shareholder).		✓	

THE AUDIT COMMITTEE

				YES	NO
18		The following <u>did not serve</u> on the Audit Committee in the Reporting Year -		_____	_____
		A.	Controlling shareholder or his relative. ☐ Not applicable (the Company has no controlling shareholder).	✓	
		B.	Chairman of the Board.	✓	
		C.	Director employed by the Company or by the Company's controlling shareholder or by another company controlled by him.	✓	
		D.	A director who regularly provides services to the Company or the controlling shareholder or a company controlled by him.	✓	
		E.	A director whose principal source of income is from the controlling shareholder. ☐ Not applicable (the Company has no controlling shareholder).	✓	
19.		Meetings of the Audit Committee were not attended by any person who is not eligible to be a member of the Audit Committee, including a controlling shareholder or his relative, during the Reporting Year, other than in accordance with the provisions of Section 115(e) of the Companies Law.		✓	
20.		The quorum for discussing and passing resolutions at all meetings of the Audit Committee held during the Reporting Year was a majority of the committee's members, where a majority of those present were independent directors and at least one of them was an external director. If your reply is "No" – please specify the percentage of meetings at which this requirement was not satisfied: _________ .		✓	

21.	The Audit Committee held at least one meeting in the Reporting Year concerning flaws in the Company's business administration which was attended by the Internal Auditor and external auditors and from which senior officers of the Company who are not Committee Members were absent.	✓	
22.	At all meetings of the Audit Committee that were attended by persons who are not eligible to be a committee member, this was done with the approval of the committee chairman and/or as requested by the committee (with respect to the Corporate Counsel and Company Secretary who are not a controlling shareholder or his relative).	✓	
23.	In the Reporting Year, arrangements were in force determined by the Audit Committee with respect to the manner of handling complaints by Company employees in connection with flaws in its business administration and the defense to be provided to employees who filed such complaints.	✓	
24.	The Audit Committee (and/or the Committee for the Review of the Financial Statements) was satisfied that the scope of the external auditors' work and their fee in relation to the financial statements in the Reporting Year were reasonable for conducting a proper audit and review.	✓	

DUTIES OF THE COMMITTEE FOR THE REVIEW OF THE FINANCIAL STATEMENTS ("THE COMMITTEE") PRIOR TO THE APPROVAL OF THE FINANCIAL STATEMENTS

			YES	NO
** The Company's Audit Committee serves as the Committee for the Rveiew of the Financial Statements **				
25.	A.	Please specify the time period (in days) determined by the Board as reasonable for submitting the Committee's recommendations in preparation for the Board meeting to approve the financial statements: **2**.	_____	_____
	B.	The actual number of days which passed between submittal of the recommendations to the Board of Directors and the date of the Board meeting at which the financial statements were approved: Q1 (2021): 4 Q2: 4 Q3: 8 Annual report: 5	_____	_____
	C.	The number of days which passed between submittal of the draft financial statements to the directors and the date of the Board meeting at which the financial statements were approved: Q1 (2021): 5 Q2: 5 Q3: 4 Annual report: 5		
26.	The Company's external auditor attended all meetings of the Committee and Board of Directors that discussed the Company's financial statements relating to the periods included in the Reporting Year. If your reply is "No", please specify his rate of attendance: ______		✓	
27.	Throughout the Reporting Year, until the publication of the annual report, the Committee was in compliance with all the following conditions:		_____	_____
	A.	The number of Committee members was not less than three (on the date of the Committee meeting and approval of the statements).	✓	

	B.	The Committee met all the conditions prescribed in Section 115(b) & (c) of the Companies Law (with respect to serving Audit Committee members).	✓	
	C.	The Audit Committee chairman is an external director.	✓	
	D.	All the Audit Committee members are directors, and the majority are independent directors.	✓	
	E.	All the Committee's members are capable of reading and understanding financial statements and at least one of the independent directors has accounting and financial expertise.	✓	
	F.	The Committee members provided declarations prior to their appointment.	✓	
	G.	The quorum for discussing and passing resolutions by the Committee is a majority of its members, provided that the majority of those present were independent directors, including at least one external director.	✓	
	If you reply "No" to one or more of the sub-sections in this question, please specify in relation to which report (Periodic / quarterly) the aforementioned condition was not met and the condition that was not met: ________________ .		_____	_____

COMPENSATION COMMITTEE				
			YES	**NO**
28.		In the Reporting Year, the Committee included at least three members and the external directors formed a majority of the members (on the date of the Committee meeting). ☐ Not applicable (no meetings were held).	✓	
29.		The conditions of the service and employment of all members of the Compensation Committee in the Reporting Year are in accordance with the Companies (Rules Concerning Compensation and Expenses for External Directors) Regulations, 2000.	✓	
30.		In the Reporting Year, the following did not serve on the Compensation Committee -	_____	_____
	A.	The controlling shareholder or his relative. ☐ Not applicable (the Company has no controlling shareholder).	✓	
	B.	Chairman of the Board of Directors	✓	
	C.	A director employed by the Company or by the Company's controlling shareholder or by another company controlled by him.	✓	
	D.	A director who regularly provides services to the Company or to the Company's controlling shareholder, or to a company under his control.	✓	
	E.	A director whose principal source of income is from the controlling shareholder. ☐ Not applicable (the Company has no controlling shareholder).	✓	
31.		In the Reporting Year, the controlling shareholder or his relative did not attend meetings of the Compensation Committee, unless the Committee chair determined that one of them was required to attend to present a specific topic.	✓	

32.		The Compensation Committee and Board of Directors did not exercise their powers under Sections 267a(c), 272(c)(3) and 272(c1((1)(c) to approve a transaction or compensation policy, despite the objection of the general meeting. I your reply is "No", please specify – The type of transaction approved: _________________ The number of times in the Reporting Year that such powers were exercised: __________	✓	

INTERNAL AUDITOR

		YES	NO
33.	The Chairman of the Board of Directors or CEO of the Company is the entity within the organization responsible for the Internal Auditor.	✓	
34.	The Chairman of the Board of Directors or the Audit Committee approved the work plan in the Reporting Year. Additionally, please specify the audit subjects in which the Internal Auditor was involved in the Reporting Year: **Harel Group's audit topics are derived from the multi-year work plan of Harel Investments and the subsidiaries. The multi-year work plan is based on risk surveys conducted periodically and on the results of audits, organizational changes and events, regulatory updates, etc. in Harel Group. The subjects include the Group's different operating segments which include life assurance, non-life insurance, investments, financial services, information systems, and more.**	✓	
35.	Scope of employment of the Company's Internal Auditor in the Reporting Year (in hours):[17] **As a percentage of a full-time position.**	______	______
	A meeting was held in the Reporting Year (in the Audit Committee or Board of Directors) to discuss the Internal Auditor's findings.	✓	
36.	The Internal Auditor is not an interested party in the Company, his relative, external auditor or any entity acting on their behalf, nor does he have any material business relationships with the Company, its controlling shareholder, his relative or companies under their control.	✓	

[17] Including work hours invested in investee companies and in audits outside Israel, as applicable.

TRANSACTIONS WITH INTERESTED PARTIES

		YES	NO
37.	The controlling shareholder or his relative (including a company under its control) are not employed by the Company and does provide it with management services. If your reply is "No" (i.e. the controlling shareholder or his relative <u>is</u> employed by the Company or provides it with management services) please specify – - the number of relatives (including the controlling shareholder) employed by the Company (including companies under their control and/or controlled through a management company): **4** - whether the said employment agreements and/or management services were approved by the organs prescribed by law: ✓ Yes ☐ No ☐ Not applicable (the Company has no controlling shareholder).		✓
38.	To the best of the Company's knowledge, the controlling shareholder has no other business in the Company's area of activity (in one or more sectors). If your reply is "No" – please specify whether any arrangement is in place to delineate activity between the Company and its controlling shareholder: ☐ Yes ☐ No ☐ Not applicable (the Company has no controlling shareholder).	✓	

<u>Appendix A</u> - **<u>The rate of participation of the directors in the meetings of the board of directors and its committees during the reporting year.</u>**

Director's name	**Board of Directors ***	**Audit Committee**	**Compensation Committee**
Yair Hamburger	17/17	Not a serving member	Not a serving member
Gideon Hamburger	17/17	Not a serving member	Not a serving member
Yoav Manor	17/17	Not a serving member	Not a serving member
Ben Hamburger	17/17	Not a serving member	Not a serving member
Yosef Ciechanover	17/17	Not a serving member	Not a serving member
Doron Cohen	17/17	8/8	Not a serving member
Hava Friedman Shapira	17/17	8/8	7/7
Eli Defes	17/17	8/8	Not a serving member
Naim Negar (as of 1.6.2020)	16/17	8/8	7/7
Efrat Yavetz	17/17	8/8	7/7

** The Audit Committee also functions as the Committee for the Review of the Financial Statements.

Yair Hamburger, Chairman of the Board: __________________

Hava Friedman Shapira, Chairman of the Audit Committee: ____________________

Harel Insurance Investments and Financial Services Ltd.

Chapter 7

Annexes

1. Harel Insurance Company Ltd. - Certification regarding the disclosure in the financial statements and Report concerning internal control over financial reporting.
2. Harel Insurance Company Ltd. - Actuarial Statement Regarding the General Insurance Sectors.
3. Harel Insurance Company Ltd. - Actuarial Statement Regarding the Health Insurance Sector.
4. Harel Insurance Company Ltd. - Actuarial Statement Regarding Life Assurance Sector.

ANNEX 1

Harel Insurance Company Ltd. -
Certification regarding the disclosure in the financial statements and
Report concerning internal control over financial reporting

Certification

I the Undersigned, Michel Siboni, certify that:

1. I have reviewed the annual report of Harel Insurance Company Ltd. ("the Insurance Company") for 2021 ("the Report").
2. Based on my knowledge, the Report contains no misstatement of a material fact nor does it omit any material fact necessary to ensure that the statements that 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 Report.
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, changes in equity and cash flows of the Insurance Company at the dates and for the periods covered in the Report.
4. I and others in the Insurance Company who submit this Certification are responsible for determining and maintaining the controls and procedures with respect to the disclosure and internal control over financial reporting[1] of the Insurance Company, and we also -

   A. Determined these controls and procedures, or ensured that such controls and procedures are determined and in place under our oversight, for the purpose of ensuring that material information relating to the Insurance Company, including its subsidiaries, is brought to our attention by others in the Insurance Company and in those subsidiaries, particularly during the preparation of the Report;

   B. We determined internal control over financial reporting, or we supervised the determination of internal control over financial reporting the purpose of which is to provide 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 IFRS and the directives of the Commissioner of the Capital Market;

   C. We evaluated the effectiveness of the controls and procedures with respect to the Insurance Company's disclosure, and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as at the end of the period covered in the Report based on our evaluation; and –

   D. We disclosed in the Report any change in the Insurance Company's internal control over the financial reporting that took place in the fourth quarter that materially affected, or may reasonably be expected to materially affect, the Insurance Company's internal control over financial reporting, and

5. I and others in the Insurance Company who submit this Certification disclosed to the external auditors, to the Board of Directors and to the Audit Committee of the Insurance Company's Board of Directors, based on our most recent evaluation of the internal control over financial reporting:

   A. Any significant deficiencies and material weaknesses in the determination or operation of the internal control over financial reporting, that may reasonably be expected to affect the Insurance Company's ability to record, process, summarize and report financial information; and –

   B. Any fraud, whether material or immaterial, that involves Management or other employees who hold a significant role in the Insurance Company's internal control over financial reporting.

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

March 28, 2022

Nir Cohen
CEO

[1] According to their definition in the financial institutions circular concerning the internal control over financial reporting – certification, reports and disclosures.

Certification

I the Undersigned, Arik Peretz, hereby certify that:

1. I have reviewed the annual report of Harel Insurance Company Ltd. ("the Insurance Company") for 2021 ("the Report").
2. Based on my knowledge, the Report contains no misstatement of a material fact nor does it omit any material fact necessary to ensure that the statements that 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 Report.
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, changes in equity and cash flows of the Insurance Company at the dates and for the periods covered in the Report.
4. I and others in the Insurance Company who submit this Certification are responsible for determining and maintaining the controls and procedures with respect to the disclosure and internal control over financial reporting[1] of the Insurance Company, and we also -

   A. Determined these controls and procedures, or ensured that such controls and procedures are determined and in place under our oversight, for the purpose of ensuring that material information relating to the Insurance Company, including its subsidiaries, is brought to our attention by others in the Insurance Company and in those subsidiaries, particularly during the preparation of the Report;

   B. We determined internal control over financial reporting, or we supervised the determination of internal control over financial reporting the purpose of which is to provide 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 IFRS and the directives of the Commissioner of the Capital Market;

   C. We evaluated the effectiveness of the controls and procedures with respect to the Insurance Company's disclosure, and presented our conclusions regarding the effectiveness of the disclosure controls and procedures, as at the end of the period covered in the Report based on our evaluation; and –

   D. We disclosed in the Report any change in the Insurance Company's internal control over the financial reporting that took place in the fourth quarter that materially affected, or may reasonably be expected to materially affect, the Insurance Company's internal control over financial reporting, and

5. I and others in the Insurance Company who submit this Certification disclosed to the external auditors, to the Board of Directors and to the Audit Committee of the Insurance Company's Board of Directors, based on our most recent evaluation of the internal control over financial reporting:

   A. Any significant deficiencies and material weaknesses in the determination or operation of the internal control over financial reporting, that may reasonably be expected to affect the Insurance Company's ability to record, process, summarize and report financial information; and –

   B. Any fraud, whether material or immaterial, that involves Management or other employees who hold a significant role in the Insurance Company's internal control over financial reporting.

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

March 28, 2022

Arik Peretz
VP Finance & Resources

[1] According to their definition in the financial institutions circular concerning the internal control over financial reporting – certification, reports and disclosures.

Report by the Board of Directors and Management concerning the internal control over financial reporting

Management, under the oversight of the Board of Directors of Harel Insurance Company Ltd. (“the Insurance Company") is responsible for defining and maintaining due internal control over financial reporting. The Insurance Company's internal control system was designed to provide the Board of Directors and Management with a reasonable measure of certainty with respect to the proper preparation and presentation of the financial reports published in accordance with IFRS and the directives of the Commissioner of the Capital Market, Insurance and Savings. Irrespective of the quality of their planning, all the internal control systems have inherent limitations. Consequently, even if it is determined that these systems are effective, they are only able to provide a reasonable measure of certainty with respect to the preparation and presentation of a financial report.

Management, under the oversight of the Board of Directors, maintains a comprehensive control system designed to ensure that transactions are performed as per Management's authorization, that assets are protected, and accounting records are reliable. Furthermore, Management, under the oversight of the Board of Directors, takes steps to ensure that the channels of information and communications are effective and that performance, including implementation of internal control procedures, is monitored.

Management of the Insurance Company, under the oversight of the Board of Directors, assessed the effectiveness of the Insurance Company’s internal control over financial reporting at December 31, 2021, based on the criteria prescribed in the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control model. Based on this assessment, Management believes that at December 31, 2021, the Insurance Company's internal control over financial control is effective.

Chairman of the Board of Directors:	Michel Siboni	Signature: ___________________
CEO:	Nir Cohen	Signature: ___________________
VP Finance & Resources	Arik Peretz	Signature: ___________________

Date of approval of the Report: March 28, 2022

ANNEX 2

Harel Insurance Company Ltd. -
Actuarial Statement Regarding the General Insurance Sectors

Actuarial Statement regarding the General Insurance Sectors

Section 1 – The actuary

I was requested by Harel Insurance Company Ltd. ("the Company") to assess the provisions listed in Section 2 below in the general insurance sectors for the Company's financial statements as at 31st December 2021, as specified below.

I am a salaried employee of the Company. I am not a party at interest in the Company, in any subsidiary of the company or in any affiliated company and I do not have any business connections with the company, with any party at interest in it or with a relative of any party at interest in it, with any subsidiary of the company or with any affiliated company. Likewise, I am not an employee or permanent adviser of a subsidiary of the company or of an affiliated company or any other party who provides various services to the company.

I took up this position on 1st August 2003.

Section 2 – Scope of the actuary's opinion

A. In computing the insurer's provisions I relied on data provided by the insurer. My requests for information and data were met adequately for the purpose of evaluating the provisions for the financial statements.

   I reviewed the feasibility and adequacy of the data, and I also compared the said data with those for the year addressed by the statement as well as for previous years.

B. Where necessary, my assessment was based on data obtained from other reliable sources. I reviewed the extent to which the data were appropriate and relevant.

C. The actuarial assumptions that I used in my work, as well as the methods used to assess the provisions in the sectors listed below were set by me, to the best of my professional judgment, and subject to the provisions, instructions and rules specified in Section 3, Para.1 below.

D. In computing the retention, I asked the Company's entities responsible for reinsurance for information regarding its reinsurance arrangements, the ability to collect claims and problems with the reinsurers' payment policies. Based on the information I received, I reviewed the repercussions and impact of the reinsurance arrangements on the provisions.

E. My opinion also took the following issues into account:

   1. The provision in respect of the retention insurance arrangement (the Pool) was based on the calculation made by the Pool.

   2. The provision for co-insurance, where the Company is not the leading insurer, was computed by me.

3. The lack of correlation between the different sectors was not taken into account for the purpose of reducing the overall provision for outstanding claims for all the sectors included in my evaluation.

F. Following is an assessment of the sum of the provisions at 31 December 2021:

		Gross Provision (NIS million)	Net Provision (NIS million)
	<u>Outstanding Claims</u>		
F.1.a	Non-Aggregated Sectors		
	Comprehensive household incl. mortgage banks	115	16
	Motor property	279	253
	Compulsory motor	3,379	2,832
	Employers' liability	805	767
	Third party liability	1,274	453
	Professional Indemnity (including Medical Malpractice and Directors and Officers)	3,217	2,067
	Products liability	87	35
	Total for Non-Aggregated Sectors	9,156	6,424
F.1.b	Total for Aggregated and Non-Aggregated Sectors	9,335	6,449
F.2	Unallocated Loss Adjustment Expenses - All Sectors	180	180
	Unearned Premium Reserve less Deferred Acquisition Costs	563	390
F.3	<u>Premium Deficiency</u>		
	Compulsory motor	Not Required	***
	Motor property	Not Required	29
	Comprehensive household	Not Required	None
	Total Insurance Liabilities in Non-Life Sector estimated by actuarial analysis	8,951	6,267

* The aggregated sectors include: loss of property, comprehensive business, engineering, agriculture, cargo and goods in transit, and marine and aviation.

** In the compulsory motor and liabilities sectors the reserve for outstanding claims and claims expenses includes all the exposure for all annual underwriting periods, and therefore includes allowance for the unexpired period of cover.

*** In the compulsory motor sector, an amount of NIS 21 million is included in net outstanding claims in respect of the premium deficiency.

Section 3 – The Opinion

Positive opinion

I hereby state and confirm that in the following sectors: comprehensive household (including mortgage banks), motor property, compulsory motor, employers' liability, third-party liability, professional indemnity (including medical malpractice and directors and officers), products liability, loss of property, comprehensive business, engineering, agriculture, cargo and goods in transit, marine and aviation:

1. I assessed the Company's provisions specified in Chapter 2 in accordance with the provisions, instructions and rules listed below, and as valid on the date of the financial statement:
   A. Provisions of the Supervision of Financial Services (Insurance) Law, 5741-1981;
   B. Provisions and instructions issued by the Supervisor of Capital Markets;
   C. The viewpoint of the Supervisor regarding the calculation of provisions in General Insurance
   D. Accepted actuarial practice.
2. After reviewing the information mentioned in Section 2, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my assessment.
3. The assumptions and methods used to assess the provisions were determined by me, to the best of my professional discretion and in line with the provisions, instructions and rules specified above.
4. As far as I am aware, the provision for outstanding claims specified in Section 2 in respect of the non-aggregated sectors comprehensive household (including mortgage banks), motor property, compulsory motor, employers' liability, third-party liability, professional indemnity (including medical malpractice and directors and officers) and products liability constitutes an appropriate reserve for covering the insurer's liabilities in respect of the unpaid claims as listed above, for each sector separately, as valid on the date of the financial statements.
5. As far as I am aware, the provision for outstanding claims specified in Section 2 constitutes an appropriate reserve for covering the insurer's liabilities in respect of the unpaid claims as listed above, in total for the aggregated and non-aggregated sectors as grouped, as valid on the date of the financial statements.
6. As far as I am aware, the provision for unpaid unallocated loss adjustment expenses specified in Section 2 constitutes an appropriate reserve for covering the insurer's liabilities in respect of the unpaid unallocated loss adjustment expenses, as valid on the date of the financial statements.
7. As far as I am aware, the provision for premium deficiency specified in Section 2 constitutes an appropriate reserve for covering the insurer's liabilities in respect of the difference between the net unexpired risk and the net unearned premium (where such a deficiency exists) in the sectors listed, as valid on the date of the financial statements.

Section 4 – Comments, clarifications

Statistical limitations

The actuarial calculation contains an element of statistical uncertainty. Consequently, even if the distribution of the claims remains unchanged, the ultimate cost of the claims may be different from the actuarial assessment and this even though fluctuations and changes in the actual calculation are reflected in the actuarial assessment.

Exposure to future changes and developments

Furthermore, there may be other changes in the future regarding risks, policyholder behavior, social and environmental factors, court rulings and precedents and economic changes that cannot be predicted in advance and are not under the control of the Insurer. All of these may affect the ultimate cost of the claims.

Medical Malpractice

This sector is characterized by an extended duration of claims settlement. This greatly increases the uncertainty and possible deviation in the actuarial assessment. The provision for Unallocated Loss Adjustment Expenses allow also for the fact that claims handling is carried out by external claims settlement companies.

Sectors excluded from the Actuarial Assessment

An actuarial assessment is a statistical process whereby the fitting of a statistical model is dependent on the availability of sufficient historic data broken down into homogeneous groups. In the following sectors it was not possible to provide an actuarial assessment for the following reasons:

In the Contractors sector the variety of covers and the type and size of claims, all in relation to the size of the sector, do not allow the breakdown into sufficiently large homogeneous groups.

In the Natural Disasters, Terror, Surety, Special Risks and Incoming Business sectors the portfolio is too small and there is not sufficient historic data on which to base an actuarial model.

Shirbit

On July 20, 2021, an agreement was signed between the Company and Shirbit Insurance Company ("Shirbit") under which the Company will acquire Shirbit's insurance business. The transaction was completed on 30/11/2021. The provisions for Shirbit's activity are included in the actuarial assessment above.

Negative claims development – Prior Years

In the Compulsory Motor sector there has been negative development in ultimate claims estimates for prior years due to an increase in claims settlement costs.

In the Professional Liability sector there has been negative development in ultimate claims estimates for prior years both due to an increase in claims settlement costs and an increase in the number of reported claims

Change in method of calculation between the National Insurance Institute (NII) and Insurance companies

On March 22, 2018, the Economic Efficiency Law 2019 was published. The framework changes the accounting mechanism between the National Insurance Institute and the insurance companies regarding road accidents. In the absence of regulations regarding the amount to be transferred to the National Insurance Institute in 2019 past cases will be discussed according to the settlement mechanism that was in force before the Economic Efficiency Law 2019, and insurance companies will pay an advance in respect of past claims filed between 2014-2022 in the total amount of NIS 1 billion, of which the company will pay an advance of c.NIS 140 m. The down payment was paid on during 12/2021.

Viewpoint of the Commissioner – Best Practice

The Commissioner's viewpoint regarding the best practice for calculating provisions in General Insurance determines, amongst other things, that "an appropriate reserve for covering the insurer’s liabilities" as required in section 3 above, is such that it is "fairly likely" that the insurance liability in the retention as calculated is sufficient to cover the insurer's liabilities. Regarding outstanding claims in Liability and Motor Bodily Injury branches, the method to be used for testing "fairly likely" is such that is intended to represent, at least, the 75% percentile. The appropriate rate of discount is in line with the risk-free curve adjusted for the illiquidity of the liabilities. Similarly, consideration should be given to the way in which the assets backing the liabilities are valued in the financial statements.

The Commissioner stated however that where limitations of the statistical analysis arise in calculating the sources of risk and required margin, the actuary should exercise judgment together with possible use of accepted actuarial methods. The Commissioner acknowledged that as at the time of the publication of the viewpoint, statistical limitations did exist when analyzing the systemic risk.

Due to the absence of suitable statistical models, the assessment of the systemic risk requires a high degree of judgment regarding the potential impact of matters that might, or might not, occur in the future. I have made my judgments professionally and using my best efforts. It should be understood that there is a high degree of subjectivity in my assessment and that a different actuary, operating in the same circumstances, might make different judgments and might therefore estimate total provisions at a 75% confidence level that are different from those that I have estimated, perhaps materially different.

On February 17, 2022, a circular was published regarding the "Amendment of the provisions of the consolidated circular regarding the measurement of liabilities - illiquidity premium", which updated the formula for calculating the illiquidity premium. According to the circular, the liquidity premium must be calculated using the methodology of the Volatility Adjustment component that is currently used in the Framework of an Economic Solvency Regime (Solvency II). The Company implemented the provisions of the circular in its financial statements as of December 31, 2021 as a change in accounting estimate in accordance with International Accounting Standard (IAS) No. 8. Following the implementation of the circular, Harel Insurance Company Ltd. reduced its insurance liabilities in the General Insurance sector by c. NIS 60 million before tax (c. NIS 21 million before tax in the Compulsory Motor Bodily Injury sector and c. NIS 39 million before tax in the Liability sector).

The Best Practice viewpoint, after allowing for the risk-free interest rate curve with the addition of the liquidity premium, and after considering the difference between the fair value and book value of non-tradable assets, resulted in an increase in insurance liabilities at 31 December 2021 in the Liabilities and Compulsory Motor lines of approximately NIS 292 million before tax.

28th March 2022 Jeffrey Cohen F.I.A., F.Il.A.A

ANNEX 3

Harel Insurance Company Ltd. -
Actuarial Statement Regarding the Health Insurance Sector

Health Insurance Sector - Actuary's Statement

Chapter 1 - Identity of Appointed Actuary

I was asked by Harel Insurance Company Ltd. ("the Insurer") to assess the provisions specified in Chapter 2 below in the health insurance sector for the Insurer's financial statements as at December 31, 2021, as detailed below.

I am a salaried employee of the Insurer. I am not a stakeholder in the Insurer or any related company.

I was appointed to this position on April 7, 2013.

Chapter 2 - Scope of Actuarial Opinion

1. Actuarial Opinion

For the purpose of calculating the insurer's provisions, I relied on the data that I received from the insurer. My requests for information and data were met adequately for the purpose of assessing the provisions for the financial statements. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and to the data for previous years.

Where necessary, my assessment also relied upon data received from other reliable sources. I reviewed the consistency and adequacy of the data and its relevance.

The actuarial assumptions that were used, as well as the methods for evaluating the provisions noted above were determined by me, to the best of my professional judgment, subject to the instructions, directives and standards specified in Chapter 3, Paragraph 1, hereunder.

In order to calculate the retention, I requested and received from the entities responsible for the insurer's reinsurance, information concerning the insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on this information, I reviewed the impact of the reinsurance arrangements on the reserves held.

My opinion also took into consideration the following:

The reserve calculated for incoming business from Interasco was not calculated by me and is not material. The reserve calculated for incoming business from Clal Insurance Company was based on the calculation of Clal's actuary. In this instance, "incoming business" is in accordance with its definition in the Control of Insurance Business (modes of calculating provision for future claims in non-life insurance) Regulations, 5745-1984.

2. Reserve Estimate included in this Actuarial Opinion

The following is a summary of the Reserves held (in thousands NIS) Gross and Net of Reinsurance.

Reserves Gross of Reinsurance

Statement	Reserve Type	Individual**	Group**	Total
Life	Contract Reserves*	44,272	-	44,272
	Indirect Expenses Reserve	-	-	-
	Pending Claims, including IBNR	94,213	-	94,213
Total Life		138,485	-	138,485
Health	Contract Reserves*	631,163	133,997	765,160
	Indirect Expenses Reserve	11,219	6,884	18,103
	Pending Claims, including IBNR	471,908	364,914	836,822
Total Health		1,114,290	505,795	1,620,085
Total Life & Health		**1,252,775**	**505,795**	**1,758,570**

Reserves Net of Reinsurance

Statement	Reserve Type	Individual**	Group**	Total
Life	Contract Reserves*	44,272	0	44,272
	Indirect Expenses Reserve	0	0	0
	Pending Claims, including IBNR	76,521	0	76,521
Total Life		120,793	0	120,793
Health	Contract Reserves*	628,685	133,997	762,682
	Indirect Expenses Reserve	11,219	6,884	18,103
	Pending Claims, including IBNR	460,693	357,650	818,343
Total Health		1,100,597	498,531	1,599,128
Total Life & Health		**1,221,390**	**498,531**	**1,719,921**

* Includes future profitability that was attributed to the liabilities, resultant from the acquisition of the Eliahu portfolio in 2013.

** The numbers do not include UPR of 124 million NIS gross and 121 million NIS net .

2. Influence of changes on the reserves

1) With regard to policies that became effective after the end of the period of the last annual financial report – the adjustment sum of the reserves emanating from the differences between the assumed basic premium and the assumed gross reserve basis is immaterial for business reported in the Health sector.

With regard to policies that became effective after the end of the period of the last annual financial report – the adjustment sum of the reserves emanating from the differences between the assumed basic premium and the assumed gross reserve basis is immaterial for non-LTC reserves reported on the Life financial statement.

2) With regard to policies which became valid before the end of the period of the last annual financial report – the adjustment sum of the reserves emanating from the differences between the assumptions, systems or anticipated premium level to be collected and from other amendments for business which is reported in the Health sector: an increase of approximately 30 million NIS, as described below in chapter 4.

With regard to policies which became valid before the end of the period of the last annual financial report – the adjustment sum of the reserves emanating from the differences between the assumptions, systems or anticipated premium level to be collected and from other amendments for non-LTC reserves reported on the Life financial statement is immaterial.

Chapter 3 - The Opinion

I hereby declare and confirm that in the following health insurance sub-sectors: medical expenses, foreign workers, critical illness, dental, overseas travel, and personal accident:

1. I assessed the insurer's provisions as specified in Chapter 2, in accordance with the instructions, directives and regulations noted hereunder, and all as valid on the date of the financial statements:

   A. Provisions of the Control of Insurance Business Law, 5741-1981, and its subsequent regulations;

   B. Instructions of the Commissioner of Insurance;

   C. Accepted actuarial standards.

2. After reviewing the data described in Chapter 2, I concluded that the data is reasonable and adequate, and that it can be relied upon for the purpose of my assessment.

3. The assumptions and methods for evaluating the provisions were determined by me to the best of my professional judgment and experience and in accordance with the instructions, directives and standards noted above.

4. As far as I am aware and in my opinion, the provisions specified in Chapter 2, form an adequate reserve for covering the insurer's commitments in respect of its liability arising from health insurance contracts associated with the health sub-sectors noted above, valid as of the date of the financial statement.

Chapter 4 - Comments, Clarifications

Statistical limitation

Actuarial calculations incorporate an inherent statistical uncertainty. Therefore, even if there is no change in the distribution of claims, the final cost of the claims may differ from the actuarial assessment and this notwithstanding the fact that the actuarial assessment incorporates an expectation of variance of the actual liabilities.

Exposure to future changes and developments

There is some uncertainty in health insurance with regard to predicting the cost of claims that are affected by several parameters that are impossible to forecast, for example: changes in morbidity and/or incidence rates, cancellations, changes in the basket of health services and medical inflation, Finance Ministry policy, reinsurers' policy, as well as social and environmental factors.

Material changes

The company updated the morbidity assumption in the medical expenses line of business, pursuant to a study in 2021. As a result, there was a 300 million NIS decrease in the reserves.

March 28, 2022 ______________________________

Date Jonathan Brody F.IL.A.A.

ANNEX 4

Harel Insurance Company Ltd. -
Actuarial Statement Regarding Life Assurance Sector

Actuary's Declaration – Life Insurance

Chapter A – Identity of the Actuary

I was requested by Harel Insurance Company Ltd. (hereinafter the Insurer) to assess the provisions in Life Insurance specified in Chapter B hereunder for the Financial Statements (hereinafter – the Provisions) as at December 31, 2021, as detailed hereunder.

I am a salaried employee of the Insurer. I am not a stakeholder in the Insurer, its subsidiary or in a related company and I have no business relationship with the Insurer, with an interested party or a family member of an interested party or its subsidiary or related company to it. Also, I am not a regular employee or consultant of a subsidiary of the Insurer or related company of the Insurer or other entity that provides various services to the Insurer.

I was appointed to this position by the Insurer on June 22nd, 2017.

Chapter B – Extent of the actuarial opinion

1. Extent of the actuarial opinion.

a. For the purpose of calculating the Insurer's Provisions, I relied on the data that I received from the Insurer. My requests for information and data were met adequately for the purpose of assessing the provisions for the financial statements. I reviewed the reasonability and adequacy of the data, including comparing the said data with the data for the year to which the statement refers and the data for previous years.

b. Where necessary, my assessment also relied on data received from other reliable sources. I reviewed the consistency and adequacy of the data and their relevance.

c. The actuarial assumptions that I used in my work, as well as the methods for evaluating the provisions detailed below were determined by me, to the best of my professional judgment, and this subject to the instructions, directives and standards specified in paragraph 1 of Chapter C hereunder.

d. In order to calculate the retention, I asked the competent entities responsible for the Insurer's reinsurance for information concerning the Insurer's reinsurance arrangements, the ability to collect claims, and problems with the reinsurers' payment policy. Based on the information that I received, I reviewed the impact and repercussions of the reinsurance arrangements on the provisions.

e. My opinion also took into consideration the following:

The Insurer has no "incoming business". For this purpose, "incoming business" as defined in the Insurance Business (Calculation methodology of provisions for future claims in general insurance) Law - 1984.

For co-insurance where the Insurer is not the leading insurer, calculation of the reserve was based on the calculation prepared by the actuaries for the leading insurers.

2. Data attached to the scope of the actuarial opinion

a. Forms 12A and 12B, attached, detail the amounts of the Provisions in thousands of NIS, at both gross and retention level, as follows:

   1) Provision for outstanding claims (claims that occurred but have not yet been paid in full, whether or not they have been approved, excluding claims paid in the form of annuity, for example: Long Term Care, Permanent Health Insurance and Family Income Benefit) without the direct and indirect expenses resulting from them (including provision for claims for which the insurer has not yet received a report).

   2) Provision (reserve) arising from the conditions of the insurance contract in life insurance separately, including:

      a) Reserve for a plan with accrual;
      b) Provision required where part of the premium collected in the contract's early years is designated to provide future cover at a later date, for example: provision in respect of a fixed premium, insurability and continuity;

   3) Part of the reserve in respect of claims in payment, including claims paid in the form of an annuity, such as: Long Term Care (LTC), Permanent Health Insurance (PHI) and Family Income Benefit (FIB).

   4) Supplement arising from the Liability Adequacy Testing (LAT) of the reserves – after testing I concluded that there was need for a supplement of approximately 764 million NIS in the LTC line of business.

   5) Additional provisions in accordance with the Commissioner's instructions, for example: supplementing the reserve for Annuity policies in accordance with Commissioner's Circular 2013-1-2, from March 6th, 2013.

b. The impact of the changes specified below on the provisions, at both gross and retention level:

   1) For policies that took effect after the end of the last annual reporting period – the adjusted amount of the provisions, resulting from the differences between the assumptions underlying the premium and the assumptions underlying the provision – no such adjustment was necessary.

   2) For policies that took effect before the last annual financial statements – the adjustment reserves which is due to changes in the assumptions, methods or premium expected to be collected: decrease of approximately 863 million NIS in gross reserves.

Chapter C – The opinion

I hereby declare and confirm that in the Life Insurance sector:

1. I have assessed the Insurer's Provisions as specified in Chapter B, in accordance with the instructions, directives and standards noted hereunder, and all as valid on the date of the financial statements:
   a. Provisions of the Supervision of Financial Services (Insurance) Law, 5741-1981, and its subsequent regulations;
   b. Instructions and directives of the Commissioner of Insurance;
   c. Accepted actuarial standards.
2. After reviewing the data noted in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied upon for the purpose of my assessment.
3. I determined the assumptions and methods for evaluating the Provisions to the best of my professional discretion and in accordance with the instructions, directives and standards noted above.
4. In my opinion, the provisions specified in Chapter B, form an adequate reserve for covering the insurer's undertakings in respect of its liability arising from life insurance contracts valid on the date of the Financial Statements.

Chapter D – Comments and clarifications

1. **Comments and clarifications**

   a) The future profits of the life portfolio acquired from the Eliahu Insurance Company limited was deducted from the provisions calculated by me. There were no other adjustments in the insurance provisions calculated by me.

   b) Details regarding the various reserves, interest rates etc. are included in the Notes to the Financial Statements.

   c) Due to the fact that the breakdown of the data that appears in Forms 12A and 12B is based on a separation of policy components (covers sold in the policy), this breakdown does not necessarily correspond with the data in the Company's Financial Statements and Notes to the Financial Statements, where the breakdown of the data is based on data at policy level.

   d) In the same matter, the forms reflect the total liabilities, excluding daughter companies, in respect of insurance contracts and investment contracts and prior to reducing the liabilities in respect of insurance for the Insurer employees, a reduction required in accordance with paragraph 4 (b), IFRS 4.

   e) Statistical limitations
   There is a statistical uncertainty in the process of actuarial calculation. Consequently, even if there is no change in the breakdown of claims, the final cost of the claims may differ from the actuarial assessment, and this notwithstanding the fact that the actuarial assessment took into account fluctuations in and the variance of the actual calculation.

f) Exposure to future changes and developments
There may be changes and developments in the future regarding aspects of the insurance market in Israel resulting from regulatory changes, court rulings, technological developments and social or environmental changes that cannot be predicted and may affect the actuarial assessment of the provisions.
There is some uncertainty in projecting the cost of claims that are affected by several parameters that are impossible to forecast, for example: changes in morbidity and/or incidence rates, cancellations, changes in the basket of health services and medical inflation, Finance Ministry policy, reinsurers' policy and social and environmental factors.

2. Material changes

During the report period the following change was implemented:

On February 17, 2022, a circular was published regarding "Amendment of the provisions of the consolidated circular regarding the measurement of liabilities - illiquidity premium" (hereinafter: "the circular"), which updated the formula for calculating the illiquidity premium. According to the circular, the calculation method of the illiquidity premium must use the calculation methodology of the Volatility Adjustment component that is currently used within the framework of Solvency II. According to the latest formula, the liquidity premium for data as of December 31, 2021 stands at approximately 0.54%. The Company implemented the provisions of the circular in calculating the LAT in its financial statements as of December 31, 2021 as a change in accounting estimate in accordance with International Accounting Standard (IAS) No. 8. Following the implementation of the circular, Harel Insurance reduced its insurance liabilities in the Long Term Care business line by approximately 863 million NIS before tax.

March 28, 2020	Jonathan Brody, F.IL.A.A.	___________
Date	Appointed Actuary's Name	Signature

Attached: Form 12A: Outstanding claims, reserve and reserve for extraordinary risks – gross
Form 12B: Outstanding claims, reserve and reserve for extraordinary risks – in retention

Form 12A - Outstanding claims, reserve, and reserve for extraordinary risks - gross
Company Name: Harel Insurance Company Ltd *31/12/21*

in NIS 000

			Total	Savings and Death Risk (Traditional Insurance)		Pure Savings or Savings Component (Adif, Unit Linked)		Risk - Pure Death or Death Component		PHI	LTC		Other Covers (1)
				Guaranteed Yield	Profit Participating	Guaranteed Yield	Profit Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding Claims		446,223	16,210	6,484	8,885	99,592	139,860	77,986	0	0	0	97,206
2	Reserve (Total Rows 2a1 to 6)		98,180,089	2,016,654	1,071,431	8,208,692	72,632,028	273,476	47,118	2,042,157	5,716,325	6,006,744	165,463
2a1	Policies including Savings Component (Including Riders) by Issue Date of Policy.	Policies issued until 1990	5,963,282	1,176,105	5,160	4,598,643	176,379	2,212	0	4,289	0	0	493
2a2		Policies issued between 1991 to 2003	24,441,700	0	966,738	0	23,396,025	4,278	0	65,381	0	0	9,278
2a3		Policies issued after 2004	43,621,754	0	85	28,764	43,481,231	12,682	0	96,833	0	0	2,159
2a4		Total (2a1 to 2a3)	74,026,736	1,176,105	971,984	4,627,406	67,053,635	19,172	0	166,503	0	0	11,930
2b	Policies without Savings Component		6,449,772	0	0	0	0	253,736	47,118	104,431	3,907,654	1,983,300	153,533
3	Part of Reserves in respect of Claims in Payment		15,802,584	737,029	83,094	3,077,323	5,065,205	568	0	1,771,222	1,044,698	4,023,444	0
4	Profit Participating		0	0	0	0	0	0	0	0	0	0	0
5	Addition resulting from Liability Adequacy Testing		763,973	0	0	0	0	0	0	0	763,973	0	0
6	Other		1,137,024	103,520	16,353	503,963	513,189	0	0	0	0	0	0
7	Reserve for Extraordinary Risks		0	0	0	0	0	0	0	0	0	0	0

(1) Other Covers, including Disability, Double Indemnity, etc.

8a	Effect of Adjustment of Reserves in respect of New Business		0	0	0	0	0	0	0	0	0	0	0
8b1	Effect of Adjustment of Reserves in respect of Existing Business	Changes in Assumptions	0	0	0	0	0	0	0	0	0	0	0
8b2		Changes in Methodology	0	0	0	0	0	0	0	0	0	0	0
8b3		Changes in Premium	0	0	0	0	0	0	0	0	0	0	0
8b4		Other changes	0	0	0	0	0	0	0	0	0	0	0

Form 12B - Outstanding claims, reserve, and reserve for extraordinary risks - in Retention
Company Name: Harel Insurance Company Ltd *31/12/21*

in NIS 000

			Total	Savings and Death Risk (Traditional Insurance)		Pure Savings or Savings Component (Adif, Unit Linked)		Risk - Pure Death or Death Component		PHI	LTC		Other Covers (1)
				Guaranteed Yield	Profit Participating	Guaranteed Yield	Profit Participating	Individual	Group		Individual	Group	
				1a	1b	2a	2b	3a	3b	4	5a	5b	6
1	Outstanding Claims		418,721	15,328	6,484	8,885	99,124	133,979	77,986	0	0	0	76,935
2	Reserve (Total Rows 2a1 to 6)		96,606,285	2,016,522	1,071,412	8,208,544	72,631,500	270,071	47,118	1,836,015	4,832,113	5,543,790	149,201
2a1	Policies including Savings Component (Including Riders) by Issue Date of Policy.	Policies issued until 1990	5,963,282	1,176,105	5,160	4,598,643	176,379	2,212	0	4,289	0	0	493
2a2		Policies issued between 1991 to 2003	24,441,700	0	966,738	0	23,396,025	4,278	0	65,381	0	0	9,278
2a3		Policies issued after 2004	43,621,754	0	85	28,764	43,481,231	12,682	0	96,833	0	0	2,159
2a4		Total (2a1 to 2a3)	74,026,736	1,176,105	971,984	4,627,406	67,053,635	19,172	0	166,503	0	0	11,930
2b	Policies without Savings Component		5,959,889	0	0	0	0	253,736	47,118	104,431	3,421,428	1,979,642	153,533
3	Part of Reserves in respect of Claims in Payment		14,718,663	736,896	83,075	3,077,174	5,064,677	(2,837)	0	1,565,080	646,712	3,564,147	(16,263)
4	Profit Participating		0	0	0	0	0	0	0	0	0	0	0
5	Addition resulting from Liability Adequacy Testing		763,973	0	0	0	0	0	0	0	763,973	0	0
6	Other		1,137,024	103,520	16,353	503,963	513,189	0	0	0	0	0	0
7	Reserve for Extraordinary Risks		0	0	0	0	0	0	0	0	0	0	0

(1) Other Covers, including Disability, Double Indemnity, etc.

8a	Effect of Adjustment of Reserves in respect of New Business		0	0	0	0	0	0	0	0	0	0	0
8b1	Effect of Adjustment of Reserves in respect of Existing Business	Changes in Assumptions	0	0	0	0	0	0	0	0	0	0	0
8b2		Changes in Methodology	0	0	0	0	0	0	0	0	0	0	0
8b3		Changes in Premium	0	0	0	0	0	0	0	0	0	0	0
8b4		Other changes	0	0	0	0	0	0	0	0	0	0	0