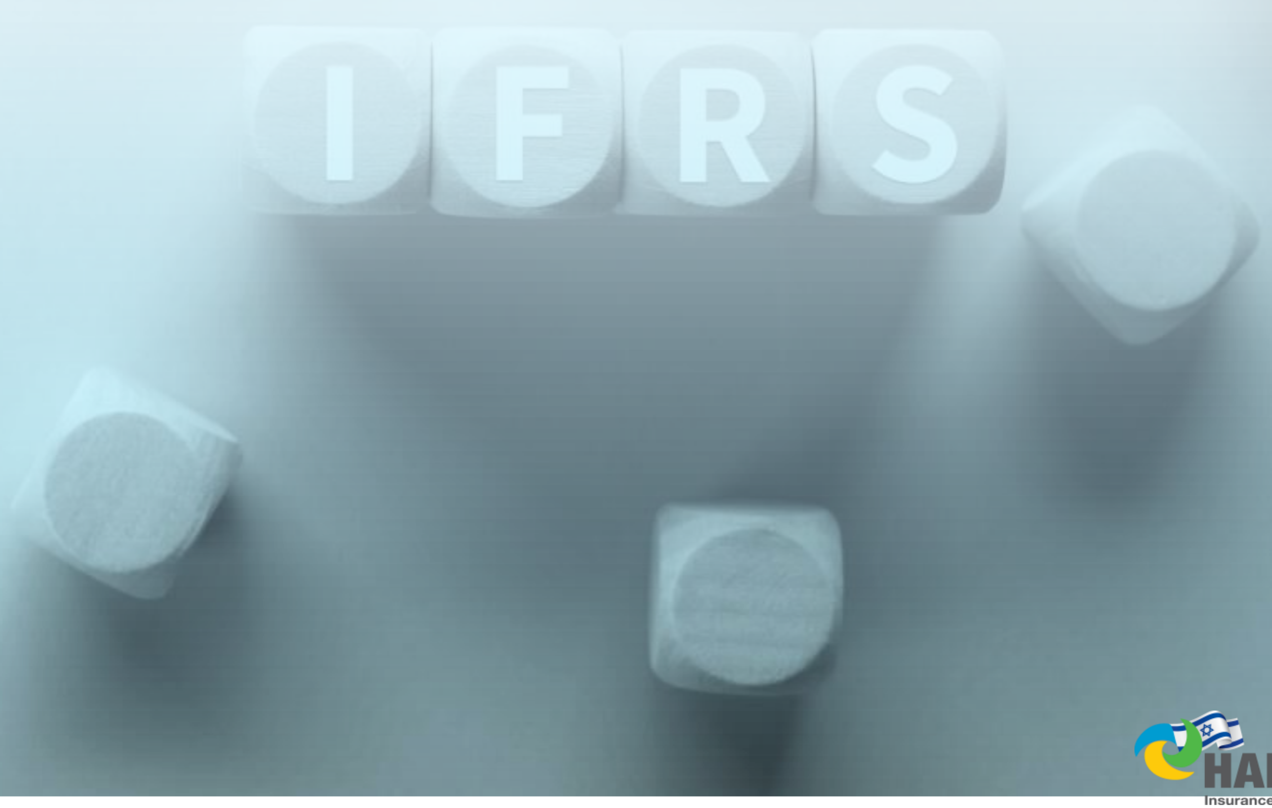
IFRS 17

December 2024



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HAREL
Insurance & Finance

IFRS 17 – new era in accounting reporting of insurance companies

Change in profits recognition in Life and Health LT

Transition to profits recognition over life of the insurance contracts (CSM)

Limited impact on Non-life insurance

One time impact on equity at transition
(January 1st 2024)

IFRS 17 – new era in accounting reporting of insurance companies

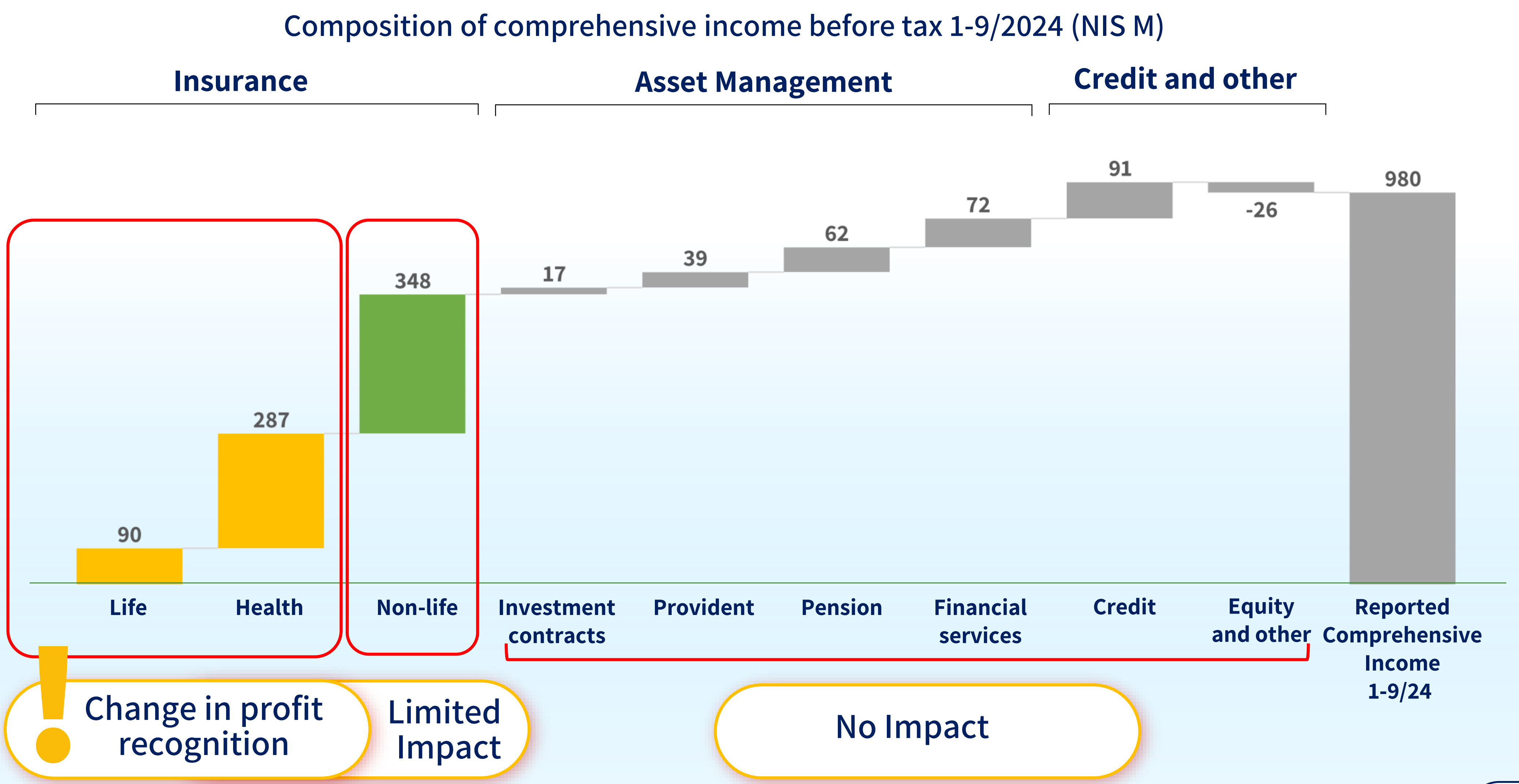
No impact on non insurance business

Asset Management, Credit and other

No impact on value creation ability, growth potential and cash flows

No impact on Solvency Capital Ratio, capital management and dividend policy

IFRS 17 – new era in accounting reporting of insurance companies



IFRS 17 – new era in accounting reporting of insurance companies

IFRS 17
Significant accounting change

- Key changes in presentation in the financial statements, more extensive presentation and disclosure requirements
  Presentation of **underwriting profit separately** from investment and financing activities
  Contributes to increased **transparency** of profitability components

- Improving **comparability and monitoring** of expected development of the underwriting profit

- Changes in actuarial assumptions are deferred and recognized **over life of the insurance contract**, which reduces volatility of the underwriting profitability and provides better understanding of **the underwriting profit**

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Today’s focus

- Introduction to the **key terms** of IFRS 17
- Understanding what will happen on **transition** to IFRS 17 (January 1, 2024)
- Learning the **new structure of the P&L statement** under IFRS 17
- Presentation of an **example** illustrating the difference between current accounting and IFRS 17
- Definition of **KPI’s** than can be monitored under IFRS 17

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IFRS 17 – Key terms

Best estimate (BE) – best estimate of future cash flows (premiums, claims, expenses) with no conservative margins, discounted at risk-free interest plus an illiquidity premium

Risk adjustment (RA) – the compensation an insurer requires for bearing the insurance risk – the uncertainty about the amount and timing of future cash flows

Contractual service margin (CSM) – the profit from the insurance contract that is expected to be released over life of insurance contracts

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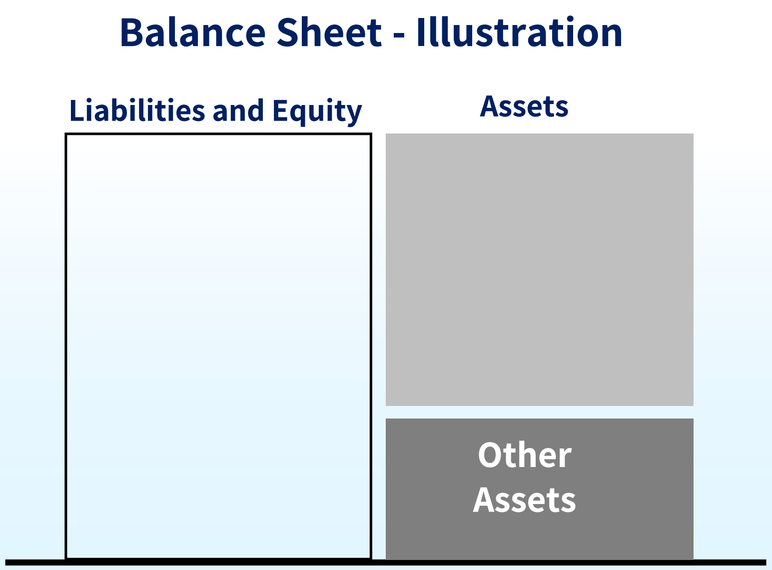
On transition date (January 1, 2024) – shift to economic balance sheet

Assets:

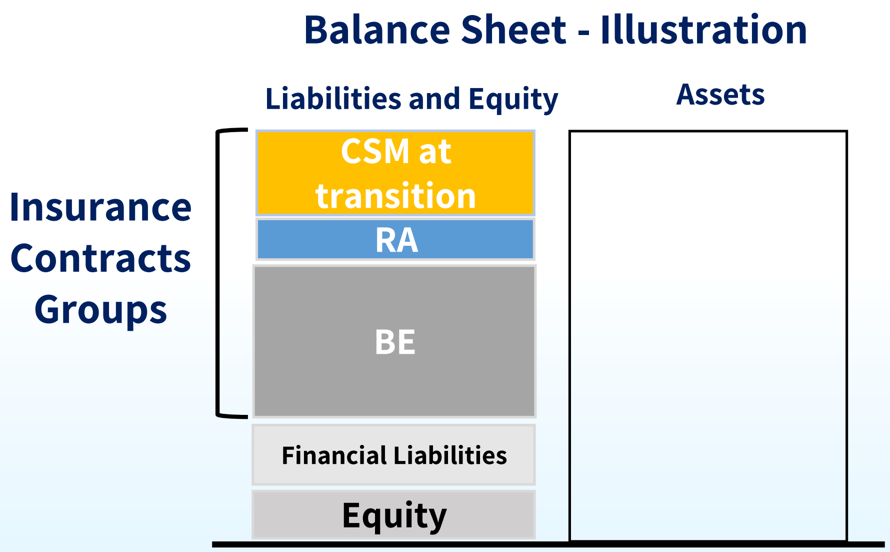
- **Measurement** of all financial assets **at fair value** (including Hetz* earmarked bonds and other non-marketable financial assets currently measured at amortized cost)

- Deferred acquisition costs (DAC) are **written off**



*Hetz – designated government bonds with fixed yield issued against yield guaranteed life liabilities (until 1991)

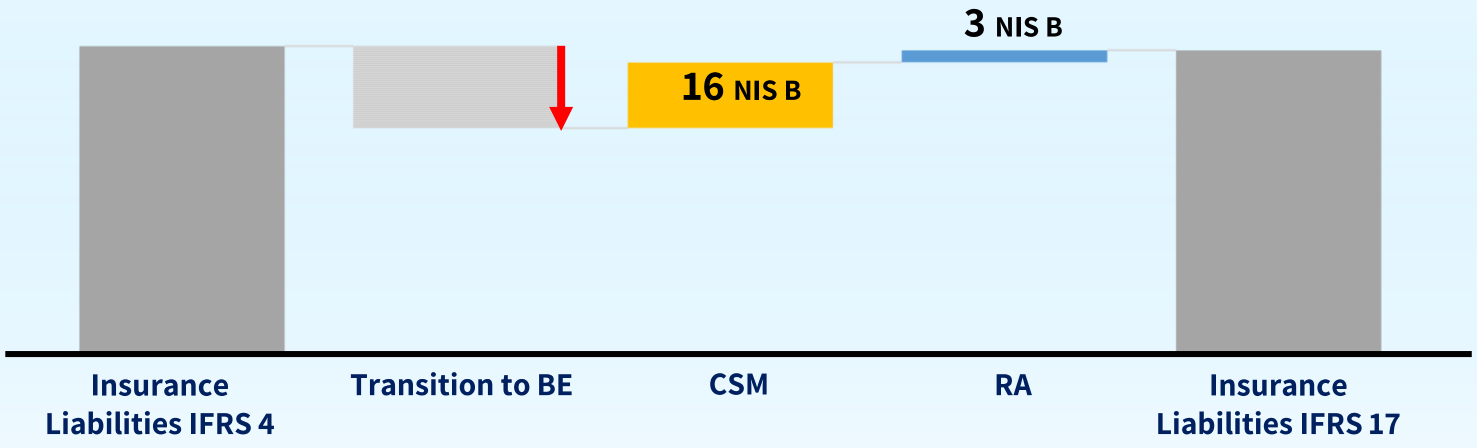
On transition date (January 1, 2024) – shift to economic balance sheet



Liabilities:

- **Measurement** of insurance contracts groups in accordance with the transition approaches set out in the IFRS 17 (Fair Value Approach or Modified Retrospective Approach) and in accordance with Supervision Regulations
- BE, RA, and CSM (for the existing long-term life and health portfolio) is calculated **independently**

Illustration

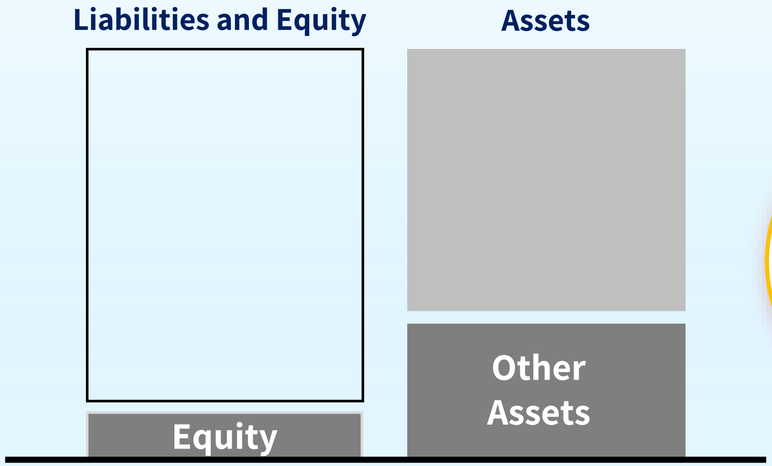


Transition date

Measurement of assets and groups of insurance contracts will affect equity at the transition date (January 1, 2024) – one time impact

The **difference** between the balances (assets and liabilities) based on the new and old measurement rules **is recognized in capital**

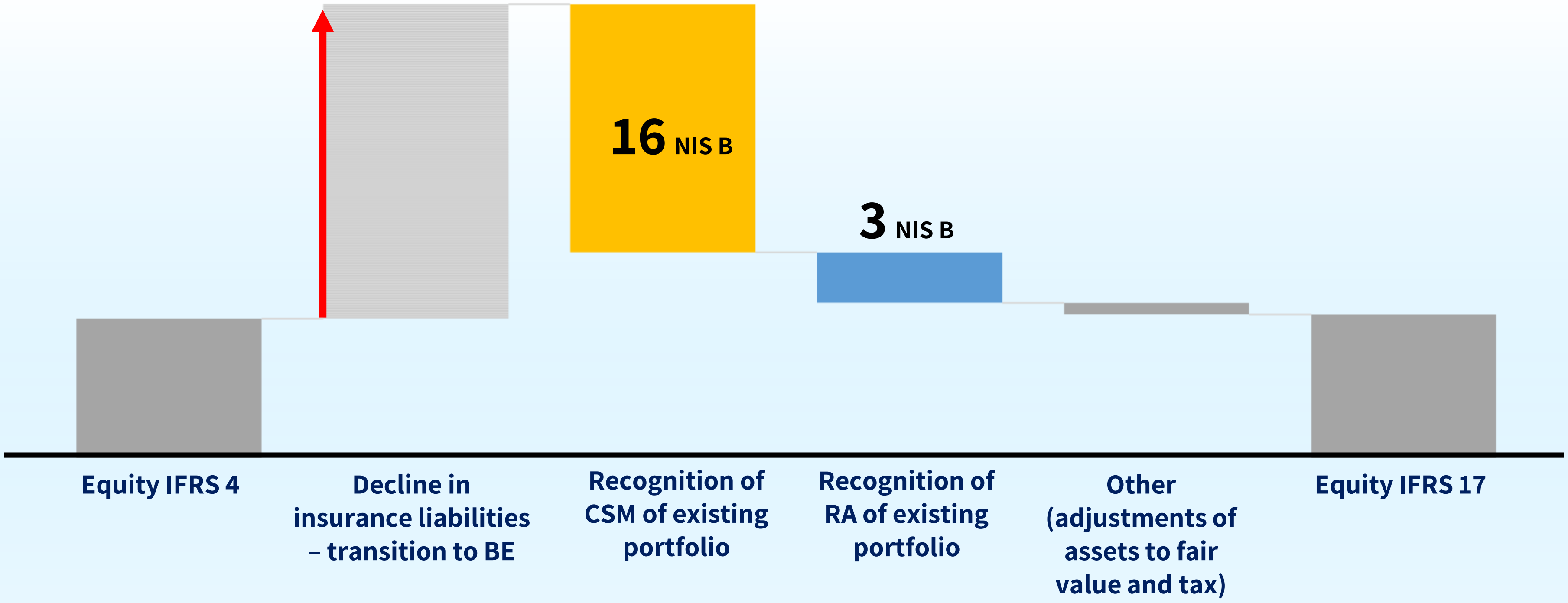
An **increase in assets and/or decrease in liabilities** for groups of insurance contracts results in **a decrease** in equity on transition



An **increase in assets and/or decrease in liabilities** for groups of insurance contracts results in **an increase** in equity on transition

At the transition date (January 1, 2024), there is no significant change in the equity of Harel Investments

NIS 300 M increase in capital is about 3% of the capital of Harel Investments



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Transition date

For the first time, within Q3.24 Board of Directors Report we published IFRS 17 quantitative data for the transition date (January 1, 2024) related to IFRS 17

RA	CSM	Equity
Existing portfolio of life and health LT at transition	Existing portfolio of life and health LT at transition	At transition (January 1st, 2024)
~3 NIS B Net of reinsurance, before tax	**~16** NIS B Net of reinsurance, before tax	**Increase of ~ 300** NIS M

Total estimated future profit related to the existing portfolio of life and health LT at transition amounts to NIS **19** billion

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Transition date

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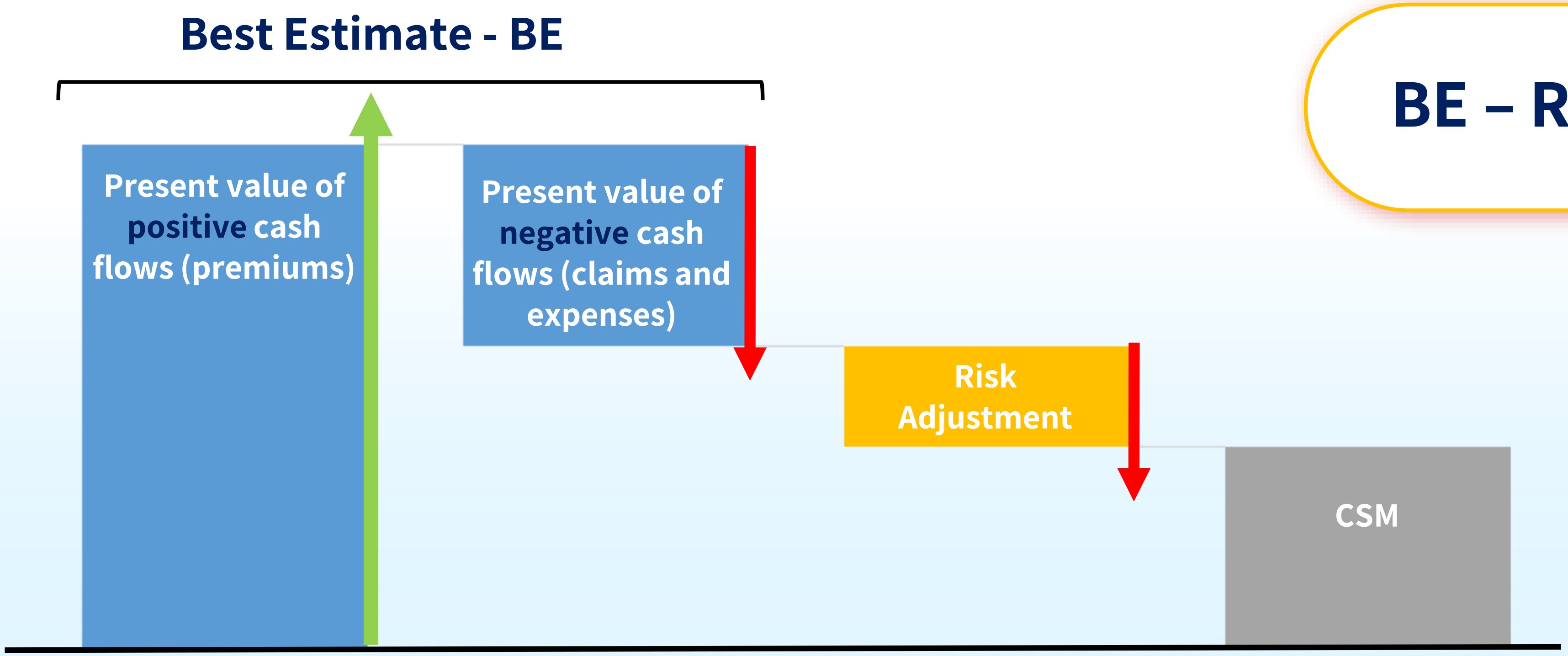
CSM – new business (new sales from 2024 onwards)



BE – RA = CSM !

Best estimate (BE) – best estimate of future cash flows (premiums, claims, expenses) with no conservative margins, discounted at risk-free interest plus an illiquidity premium

RA – the compensation an insurer requires for bearing the insurance risk – the uncertainty about the amount and timing of the cash flows

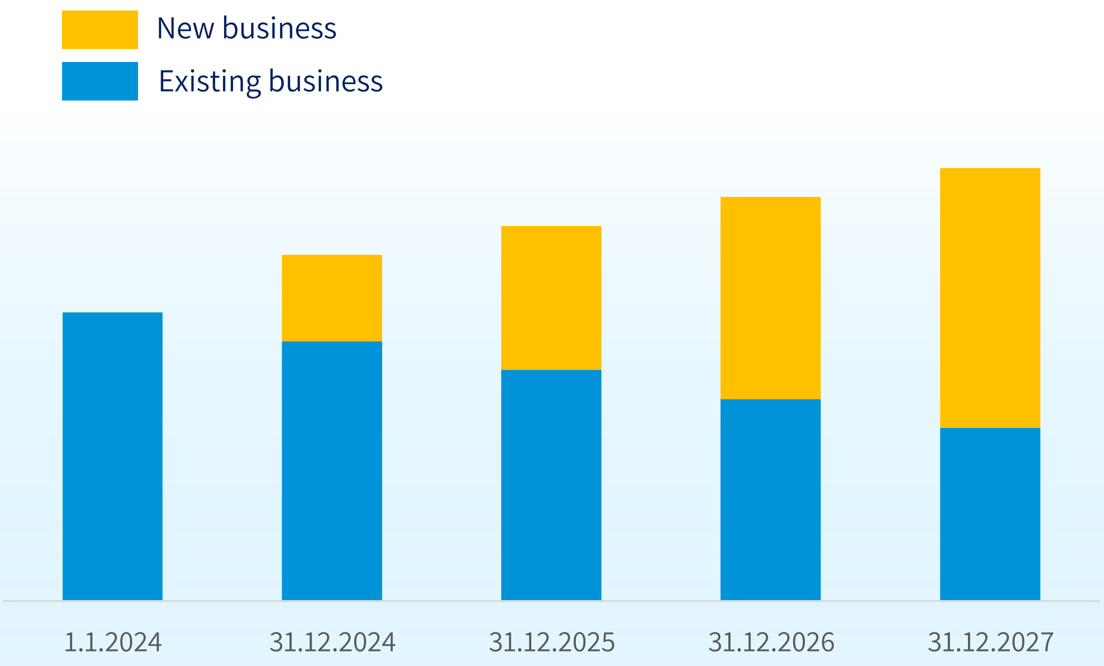
CSM – the profit from the insurance contract that is expected to be received over the period of insurance contract

The CSM (existing and new portfolio) is a significant component of underwriting profitability

- The CSM reflects an estimated **future profit** from the insurance contract that is expected to be released over life of insurance contract

- In the first years (subsequent to the transition date – January 1, 2024) most of the profit is from the existing portfolio (existing CSM portfolio). Over time, the profit from a new business becomes more significant and "replaces" the profit from the existing portfolio

CSM evolution over time: illustration



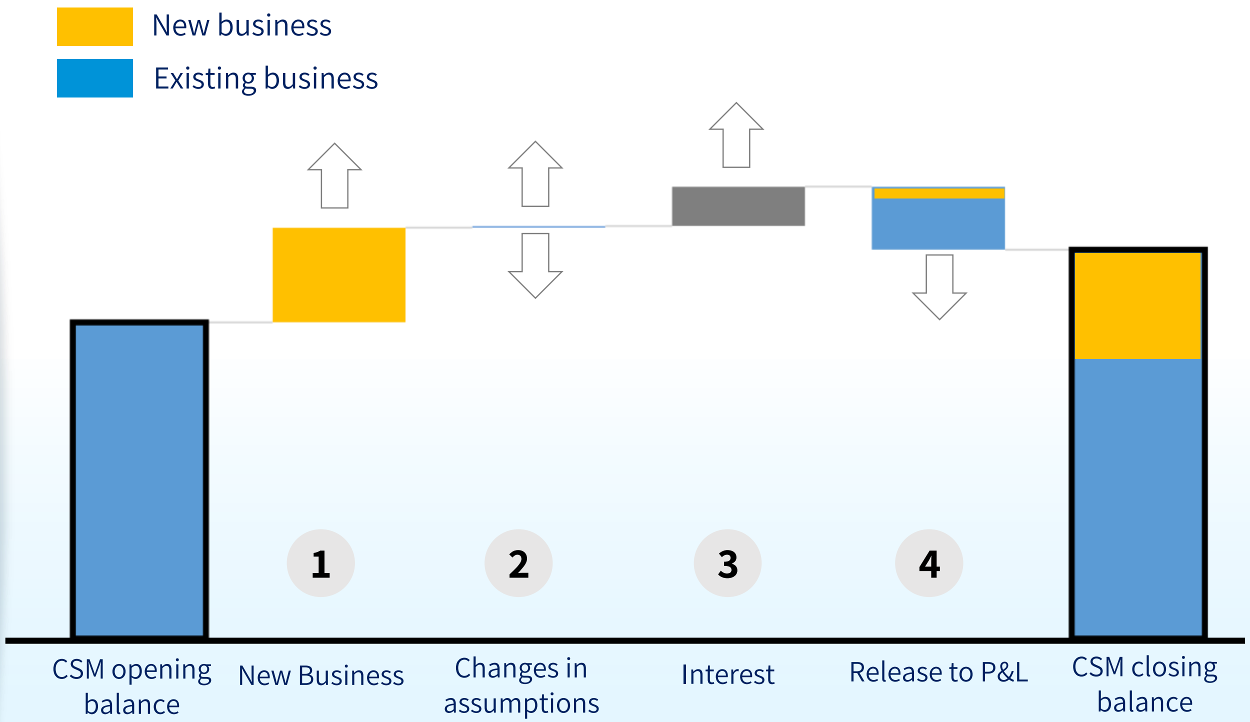
CSM development

1 Profit from a new business sold in the period increases the CSM balance

2 Changes in actuarial assumptions are recognized in full in the CSM

3 Accretion of interest on the CSM balance based on the interest rate used on recognition of the CSM

4 CSM from existing business and a new business is released to profit over life of insurance contracts



Interest rate changes over the insurance service period will be recognized in profit under financing expenses – not part of underwriting profit

Changes in actuarial assumptions are recognized in CSM and released over life of insurance contracts, which reduces volatility in underwriting profitability compared with the current accounting

CSM balance is expected to be released to profit over time, therefore an increase in the CSM balance will be a significant indicator for expected growth in profitability

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Structure of the P&L under IFRS 17

Underwriting profit

Profit (loss) from insurance services

+

Profit (loss) from investment activities

+

Profit (loss) from financing activities

+

Profit (loss) from non-insurance activities

Profit (loss) for the period

Presentation of underwriting profit separately from investment and financing activities contributes to **increased transparency and improved comparability**

Structure of the P&L under IFRS 17

Underwriting profit

Profit (loss) from insurance services

+

Profit (loss) from investment activities

Investment profits from the nostro portfolio and profit-sharing portfolio. Nostro profits and profit-sharing profits are presented separately

+

Profit (loss) from financing activities

Changes in insurance liabilities arising from changes in the CPI, changes in the risk-free interest curve and/or in the illiquidity premium
Changes in the liabilities in the profit-sharing portfolio for returns on assets held to cover liabilities

+

Profit (loss) from non-insurance activities

Asset management (Pension, Provident, and Financial Services) credit, agencies and others

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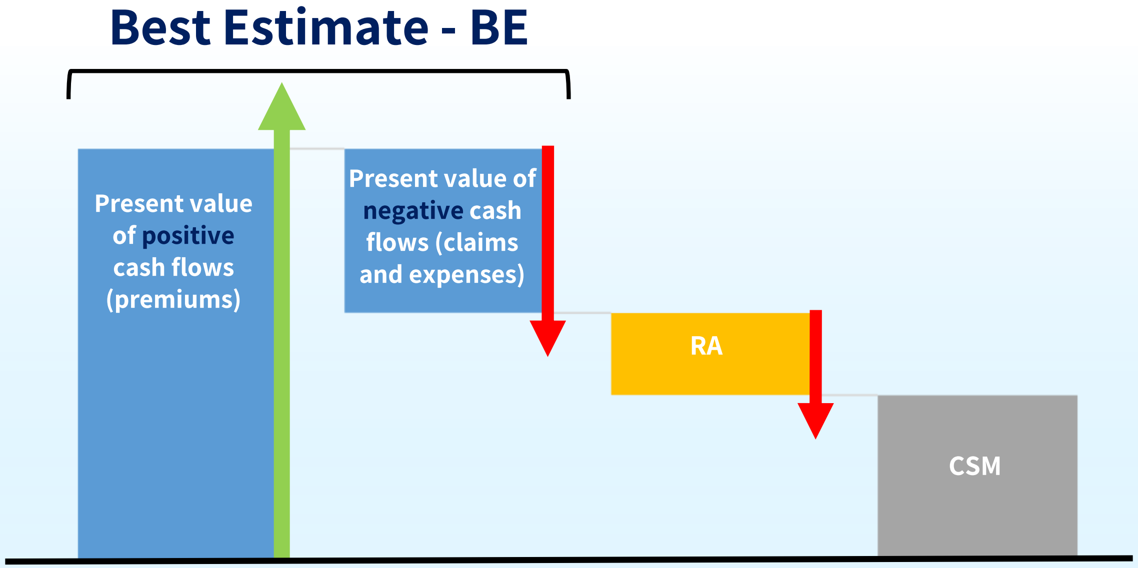
Profit (loss) for the period

Structure of the P&L under IFRS 17 – insurance service result

CSM release (new and existing business) for the insurance services provided	
RA release	Reflects the compensation for assuming the insurance risk – released when the insurance service is rendered and the risk diminishes
Differences between actual vs. expected (for past services)	
Loss (reversal of loss) in an onerous contracts	Recognized immediately in the P&L
Reinsurance results	Income less net reinsurance expenses. Reinsurance contracts are measured separately
Profit (loss) from insurance services	**Underwriting profit**

Numerical example – to illustrate the differences between current accounting and IFRS 17

3-years insurance contract with variable increasing annual premium and expectation of increase in cost of claims. **Actual = expected**



BE – RA = CSM

Expected

	Year 1	Year 2	Year 3	BE
Premiums	5	35	60	100
Claims	(10)	(15)	(40)	(65)
Profit (loss)	**(5)**	**20**	**20**	**35**

IFRS 17

Premiums	100
Claims	(65)
BE	35
RA	(5)
CSM	**30**

P&L

Numerical example – to illustrate the differences between current accounting and IFRS 17

3-years insurance contract with variable increasing annual premium and expectation of increase in cost of claims. **Actual = expected**

IFRS 4

	Year 1	Year 2	Year 3	BE
Premiums income	5	35	60	100
Actual claims	(10)	(15)	(40)	(65)
Profit (loss)	**(5)**	**20**	**20**	**35**

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P&L

Numerical example – to illustrate the differences between current accounting and IFRS 17

3-years insurance contract with variable increasing annual premium and expectation of increase in cost of claims. **Actual = expected**

	Year 1	Year 2	Year 3	Total
CSM release in the period	10	10	10	30
RA release in the period	1.67	1.67	1.67	5
Actual vs expected	-	-	-	-
Total profit from insurance service	**11.67**	**11.67**	**11.67**	**35**

IFRS 17

Premiums	100
Claims	(65)
BE	35
RA	(5)
CSM	**30**

The CSM and the RA are released to P&L according to drivers that vary between the products; the release is not linear (in the example, the release is linear for illustration purposes only)

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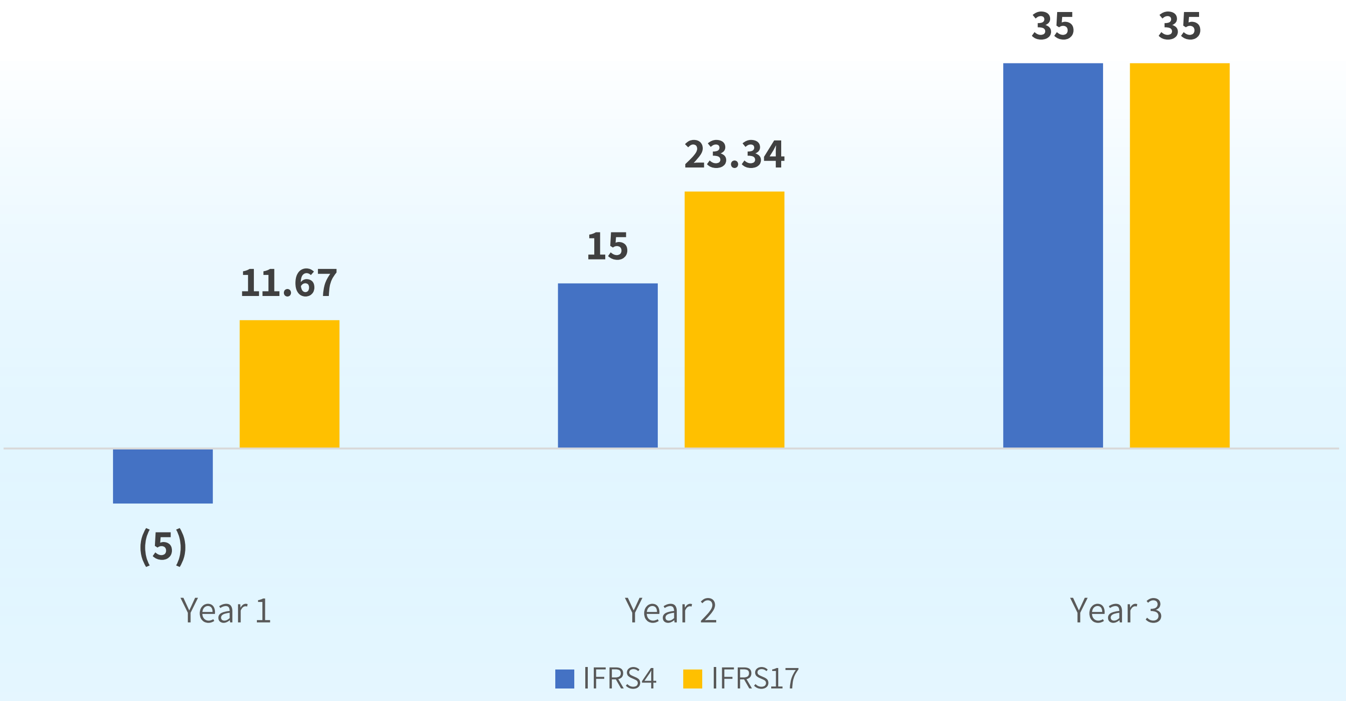
P&L

Numerical example – to illustrate the differences between current accounting and IFRS 17

Composition of cumulative profit under the current accounting and IFRS 17



Total cumulative profit remains unchanged, but timing of profit recognition changes

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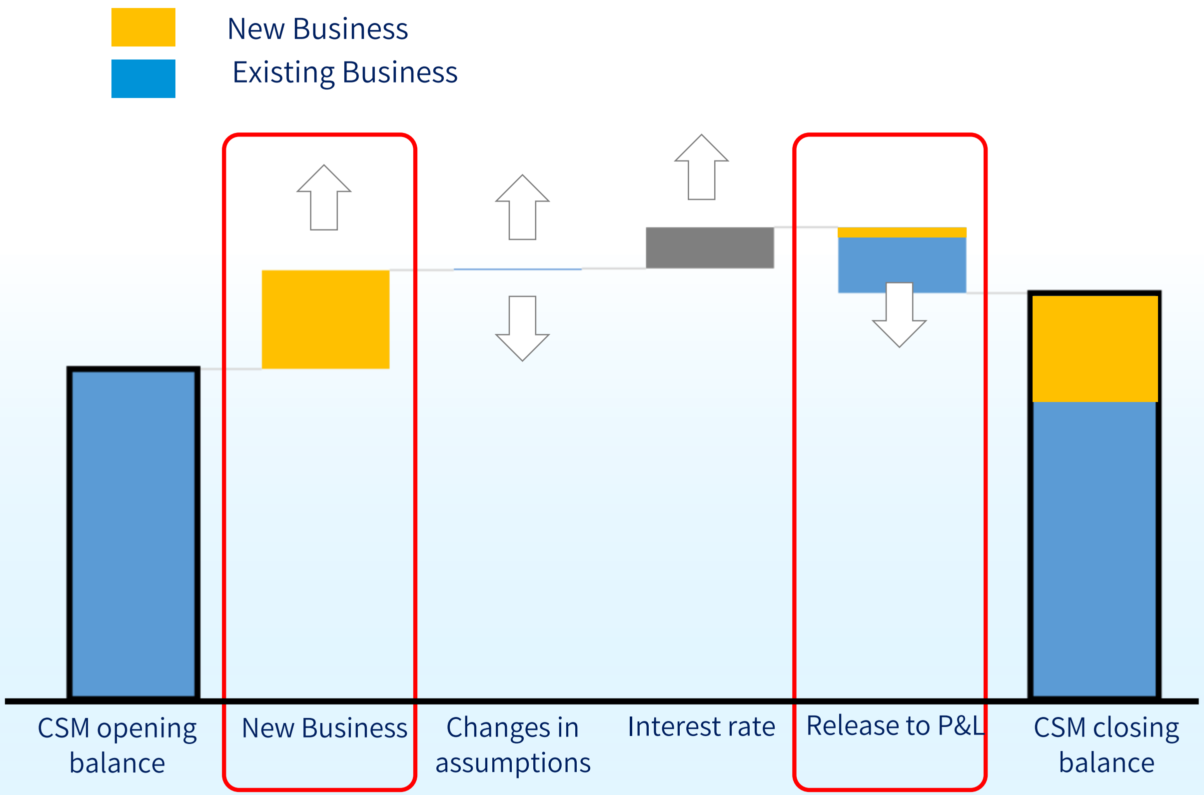
Ratio between new business CSM and CSM released this year



Note 18 - Assets and liabilities for insurance contracts and reinsurance contracts

Assets as of January 1, 2025
Liabilities as of January 1, 2025
Net balance as of January 1, 2025
Changes in the statement of income and other comprehensive income
Changes attributable to current services:
CSM amount recognized in profit or loss for services rendered
Changes in RA for non-financial risk arising from past risks
Adjustments according to experience:
Changes attributable to future services:
Initial recognition of contracts in the period
Changes in estimates adjusting the CSM

The ratio reflects the Company's ability to continue generating future profits

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Ratio between new business CSM and present value of new business premiums

Note 4 – Additional information about the Company's activities according to main portfolio groups

(3) Additional information

Annualized premium for insurance contracts – new business

One off premium for insurance contracts

The information will be provided with breakdown into segments

The ratio reflects the future profitability from new sales

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For the first time, within Q3.24 Board of Directors Report we published IFRS17 quantitative data for the transition date (January 1, 2024) related to IFRS 17

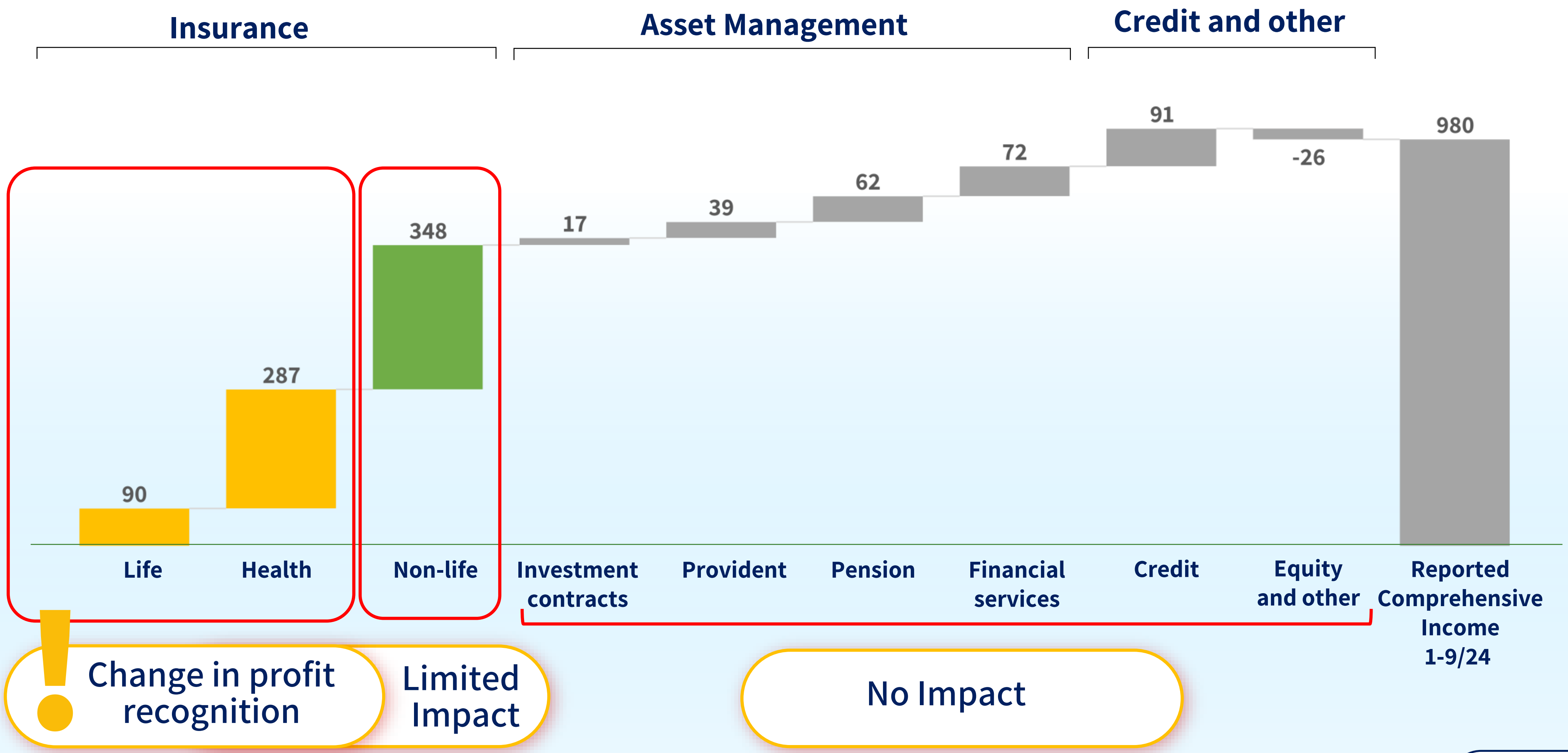
NIS B	Harel	Phoenix	Migdal	Clal
Impact on equity at transition	+0.3	(0.4-0.8)	(1.7-2.2)	(0.95-1.55)
CSM	16	9.5-10	11-11.5	8.4-9.2
RA	3	1.5-2		

It should be noted that the recognition rate and the actual CSM amounts recognized in profit or loss subsequent to transition are uncertain and depend, among other things, on changes in developments and actuarial estimates for future service. Additionally, the total CSM amounts to be recognized under profit from insurance activities in profit or loss subsequent to transition depend not only on the CSM on transition but also on any additional CSM that may be produced, due to the sale of insurance policies to be sold and recognized for the first time subsequent to transition.

It should be emphasized that the estimated CSM refers only to the CSM from insurance activity for long-term life and health products that existed on the transition date and does not include future profitability for additional insurance activities, including short-term health and non-life insurance, nor does it include profits from the Company's non-insurance investments or other activities.

The profit in life insurance and health insurance changes

Composition of comprehensive income before tax 1-9/2024 (NIS M)



Impact on Harel

The CSM composition of the existing portfolio at the transition date (January 1, 2024)

~16
NIS B
Before tax, net of reinsurance

10.5-11	• Risk of death • Medical expenses • Critical illness
3-3.5 2.0	• Long-term care • Yield guaranteed and profit participating managers insurance

Products in Run Off
33%

67% of the CSM balance is from risk products

70% of the CSM balance from risk products is from 2019-2023 sales

This demonstrates our current and future value creation ability

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It should be noted that the recognition rate and the actual CSM amounts recognized in profit or loss subsequent to transition are uncertain and depend, among other things, on changes in developments and actuarial estimates for future service. Additionally, the total CSM amounts to be recognized under profit from insurance activities in profit or loss subsequent to transition depend not only on the CSM on transition but also on any additional CSM that may be produced, due to the sale of insurance policies to be sold and recognized for the first time subsequent to transition.
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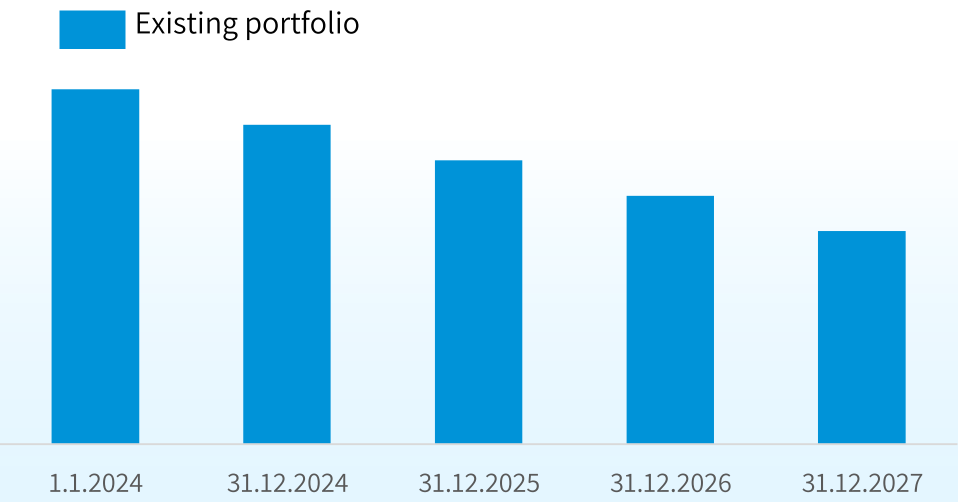
CSM evolution of the existing portfolio (life and health long term) on transition

CSM evolution over time: illustration



The CSM balance will be released to P&L gradually and recognized as profit from insurance services. This may result in an increase in the Company's profit compared with the results under the existing accounting standards

According to the Company’s initial estimate, **35%** of the CSM balance for the existing portfolio (life and health long term) at the transition date is expected to be released to profit in **5** years subsequent to transition

35% of the CSM balance for the existing portfolio (life and health long-term) on transition = **NIS 5.5 billion**

It should be noted that the recognition rate and the actual CSM amounts recognized in profit or loss subsequent to transition are uncertain and depend, among other things, on changes in developments and actuarial estimates for future service. Additionally, the total CSM amounts to be recognized under profit from insurance activities in profit or loss subsequent to transition depend not only on the CSM on transition but also on any additional CSM that may be produced, due to the sale of insurance policies to be sold and recognized for the first time subsequent to transition.
It should be emphasized that the estimated CSM refers only to the CSM from insurance activity for long-term life and health products that existed on the transition date and does not include future profitability for additional insurance activities, including short-term health and non-life insurance, nor does it include profits from the Company’s non-insurance investments or other activities.

What’s next?

The Q1 2025 statements are the first financial statements to be prepared in accordance with IFRS 17

These statements will include comparative figures of the corresponding quarter and of the annual financial statements for 2024 and they will be in IFRS 17 format

January 1st, 2024

Transition date
(comparative figures)

January 1st, 2025

Application date of IFRS 17

March 2025

2024 Annual financial statements
Disclosure for the balance sheet at the transition date (January 1, 2024) and specific P&L figures for the 6-month period ended June 30, 2024

May 2025

Q1 2025 financial statements
full financial statements in accordance with IFRS 17

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Q&A

Is there a link between income from insurance services recognized in profit or loss and premiums received in the period?

No. Income from insurance services includes several components, mainly the periodic release of the CSM and RA. The total premiums received in the period do not appear in the statement of income, unlike in the current standard.

What is the method used for release of CSM to profit or loss? And is there a difference between the products?

The CSM is released to profit or loss according to coverage units – the **scope and duration of the** insurance coverage provided in the reporting period compared with the expected total scope of the insurance coverage in all insurance service periods.

The difference between the products depends on the scope of coverage and the insurance service period, therefore the release is not linear.

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Q&A

Why Harel's equity on transition remains almost unchanged?

At the transition date, we shift to an economic balance sheet. As such, on the assets side, all financial assets will be measured at fair value and deferred acquisition costs (DAC) will be written off. On the liabilities side, insurance contracts will be measured in accordance with the IFRS 17and in accordance with the Supervision Regulations.

Consequently, there is an increase in capital in the amount of NIS 0.3 billion, representing 3% of the capital of Harel Investments.

The benchmark for the impact of global application of the Standard indicates that in most companies, the change in capital on transition amounted to a decrease/increase in capital of up to 5%.

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Q&A

Why Harel's CSM from Long-term care amounts to NIS 3-3.5 billion?

- The CSM reflects the prudence margin that a market participant sees for this product due to its long duration, and accordingly, sees higher liabilities compared with the BE, which derives the CSM - the estimated future profit from the product.

- The CSM also serves as a significant buffer for the uncertainty in this sector, for model risks and for any regulatory developments.

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Q&A

What is the reason for Harel's high CSM on transition – NIS 16 billion?

- The portfolio mix has a direct impact on the CSM balance.
- Harel is a long-standing leader in **risk** products (life and health long- term).
- 67% of the CSM balance is attributable to risk products and 70% of the CSM balance from risk products is for sales in 2019-2023.

Disclaimer on adoption of IFRS 17

It should be noted that the recognition rate and the actual CSM amounts recognized in profit or loss subsequent to transition are uncertain and depend, among other things, on changes in developments and actuarial estimates for future service. Additionally, the total CSM amounts to be recognized under profit from insurance activities in profit or loss subsequent to transition depend not only on the CSM on transition but also on any additional CSM that may be produced, due to the sale of insurance policies to be sold and recognized for the first time subsequent to transition.

It should be emphasized that the estimated CSM refers only to the CSM from insurance activity for life and health products that existed on the transition date and does not include the future profitability for additional insurance activities, including short-term health and non-life insurance, and does not include the profits from the Company's non-insurance investments or other activities.

Notably, Harel Insurance has not yet completed all the controls and reviews relating to this data, and some changes may be made in the aforesaid data prior to the actual date of application.

The said information is included in the data sent to the Capital Market Authority, in accordance with the Roadmap published by the Authority for the adoption of IFRS 17 and in the quantitative impact studies (QIS) designed to help Harel Insurance and the Capital Market Authority to evaluate the extent to which Harel Insurance and the Authority are prepared for application of the new standards, while providing assistance in the decision making process. Consequently, there may be adjustments to the data, in part based on the Authority's instructions or as a result of further deployment by Harel Insurance for application of the Standard, including as an outcome of discussions with the external auditors.

Application of the Standard may also be subject to changes or adjustments following clarifications or updates in the international financial reporting standards, changes in current practice abroad and the practice being formulated in Israel, regulatory changes, tax changes or changes and adjustments in various estimates prepared by Harel Insurance based on professional discretion. The above data should therefore not be treated as binding data or results. The information contained above is therefore forward-looking information, according its definition in the Securities Law, 1968.

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