



Altshuler Shaham Finance Ltd.

Interim Report for the Period ended March 31, 2023

ALTSHULER SHAHAM FINANCE LTD.

Interim Report as of March 31, 2023

Index:

- **Report of the Board of Directors on the State of Affairs of the Corporation**
- **Consolidated Financial Statements**

This is an English translation of a Hebrew report that was published on May 24, 2023 in "Magna" – ISA official website (reference no.: 2023-01-055533) ("the Hebrew Version"). This English version is only for convenience purposes. This is not an official translation and has no binding force. Whilst reasonable care and skill have been exercised in the preparation hereof, no translation can ever perfectly reflect the Hebrew Version. In the event of any discrepancy between the Hebrew Version and this translation, the Hebrew Version shall prevail.

ALTSHULER SHAHAM FINANCE LTD.

**Report of the Board of Directors on the State of Affairs
of the Corporation**

For the Period of Three Months ended March 31, 2023

Report of the Board of Directors on the State of Affairs of the Corporation

INDEX

1.	The Board's explanations for the state of the Company's business affairs	2
1.1	Condensed description of the Company and its business environment	2
1.2	The Company's holding structure as of the Report Approval Date	3
1.3	Significant developments and changes in the Company's business environment.....	4
1.4	Developments in the operating segments.....	7
1.5	Financial position.....	12
1.6	Operating results.....	13
1.7	Liquidity.....	15
1.8	Financing resources	16
2.	Material Events during and after the Reporting Period and Updates to Chapter A to the Periodic Report for 2022 – Description of Corporate Affairs	17
3.	Exposure to market risks.....	18
4.	Effectiveness of internal control over financial reporting and disclosure (ISOX)	19

Report of the Board of Directors on the State of Affairs of the Corporation

**Report of the Board of Directors on the State of Affairs of the Corporation
for the Period of Three Months ended March 31, 2023**

Altshuler Shaham Finance Ltd. ("**the Company**") is pleased to present the Report of the Board of Directors for the period of three months ended March 31, 2023 ("**the Reporting Period**" and/or "**Q1 2023**") in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 ("**the Reporting Regulations**"), which reviews the main changes in the Company's operations and results in the Reporting Period.

The review is limited in scope and solely addresses events and changes in the Company's business affairs in the Reporting Period whose effect is material. This report should be read in conjunction with the Company's periodic report for 2022, including the Company's financial statements and report of the board of directors as of December 31, 2022, as published on March 22, 2023 (TASE reference: 2023-01-029922) ("**the Periodic Report**"), whose information is hereby included by reference.

Glossary of terms used in this report:

"**Report Date**" – March 31, 2023.

"**Report Approval Date**" – May 23, 2023.

"**The Group**" – the Company and the corporations controlled by it, as they will be from time to time.

1. The Board's explanations for the state of the Company's business affairs

1.1 Condensed description of the Company and its business environment

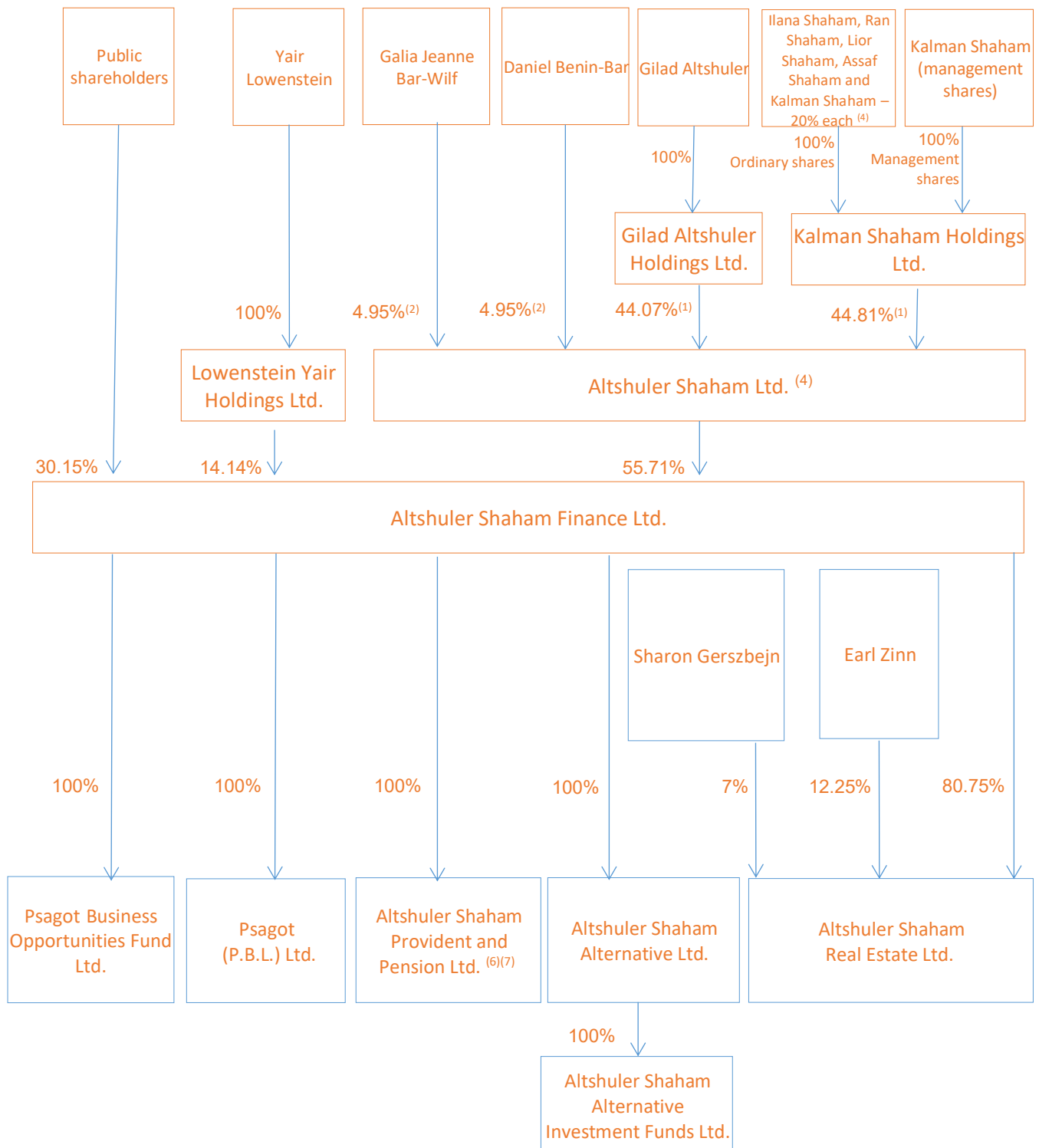
The Company was incorporated in Israel as a private company limited in shares on December 9, 2001. On April 4, 2022, the Company's shares began trading on the Tel-Aviv Stock Exchange Ltd. ("**the TASE**") and were allocated to the shareholders of Altshuler Provident Funds and Pension Ltd. ("**Altshuler Provident**") in return for Altshuler Provident's shares held by them ("**the Business Restructuring**"). Accordingly, the Company became a public company, as this term is defined in the Companies Law, 1999 ("**the Companies Law**") and a reporting entity, as this term is defined in the Securities Law, 1968 ("**the Securities Law**"). As of the Report Approval Date, the Company is held by Yair Lowenstein Holdings Ltd. (14.14%) ("**Yair Holdings**") and Altshuler Shaham Ltd. (55.71%) ("**Altshuler Ltd.**" and collectively with Yair Holdings – "**the Controlling Shareholders**"). The ultimate Controlling Shareholders in the Company are Messrs. Yair Lowenstein, Gilad Altshuler and Kalman Shaham.

The Company provides financial services. As of the Report Approval Date, the Company mainly operates through Altshuler Provident in managing provident and pension funds. The Company also operates in other industries, but these operations cannot be aggregated into a reportable segment in its financial statements. Those include managing real estate investments ("**the Real Estate Investment Management Operation**") through Altshuler Shaham Real Estate Ltd. ("**Altshuler Real Estate**") and managing alternative investments ("**the Alternative Operation**") through Altshuler Shaham Alternative Ltd. ("**Altshuler Alternative**").

The Company is promoting the possible branching out (subject to applicable laws) into other operating segments, whether on its own or through other subsidiaries that will be founded or purchased by it, including those which are synergetic to Altshuler Provident's operations.

Report of the Board of Directors on the State of Affairs of the Corporation

1.2 The Company's holding structure as of the Report Approval Date



(1) Of which 26.06% are held in trust by Altshuler Shaham Trustees Ltd. (or 11.49% of shares of Altshuler Ltd.); (2) Of which 27.28% are held in trust by Altshuler Shaham Trustees Ltd. (or 12.22% of shares of Altshuler Ltd.); (3) Of which 26.84% are held in trust by Altshuler Shaham Trustees Ltd. (or 1.33% of shares of Altshuler Ltd.); (4) Note that the remaining holdings in Altshuler Shaham Ltd. (about 1.22%) are held by Altshuler Shaham Trustees Ltd. (in trust for employees); (5) All ordinary shares are held in trust by Shenkar Laks Trustees Ltd.; (6) Altshuler Shaham Provident and Pension Ltd. wholly owns investment firms for the members of the provident and pension funds managed by it; (7) Altshuler Shaham Provident and Pension Ltd. holds several private companies of the Psagot Group that are in voluntary liquidation process.

Report of the Board of Directors on the State of Affairs of the Corporation

1.3 Significant developments and changes in the Company's business environment

Following is a description of the significant changes in the Company's business environment in the provident and pension fund management segment that is performed by Altshuler Provident as a managing company as per the Provident Fund Law and a licensed insurer as per the Insurance Control Law.

Capital market trends

In Q3 2023, the world's leading economies in Europe, the U.S. and Israel, continued to struggle with soaring inflation rates. Inflation began rising towards the end of the Covid-19 global crisis with growing consumption and demands encountering supply chain challenges in the backdrop of the ongoing Russia-Ukraine war and the consequent energy crisis. The fighting in Ukraine and the geopolitical crisis in the region have had extensive impact on global economy expressed by extreme fluctuations in local and global capital markets. Changes in the employment market also played a role in accelerating inflation while demands continued to rise and the cost of living index continued to climb, causing central banks around the world to adopt a contractionary monetary policy headed by sharp benchmark interest rate hikes. Nevertheless, despite the continued interest rate increases in the U.S. and in Europe in Q1 2023, the markets have shown recovery, including in risk assets, stocks and bonds.

The local market has also been affected by the constant increases in market interest rates with the annual and monthly inflation rates exceeding all expectations. Yet, the Israeli commerce activity in Q1 2023 closed with stock prices dropping in most indices compared to foreign markets and the devaluation of the NIS in relation to the USD and Euro. The uncertainty plaguing the markets contributed to capital flight and loss of investments amid the contentious judicial reform bill until the suspension of the legislation in late March 2023. As a result, the first quarter of 2023 ended with mixed yields in all of the Company's local and international investment channels.

Index overview

Owing to the recovery in the markets of risk assets, stocks and bonds in Q1 2023, U.S. stock indices rose with the S&P 500 gaining about 7% and the NASDAQ growing by about 16.8%. The STOXX Europe 600 increased by about 13.7% and the German DAX rose by about 12.25%. The MSCI WORLD Index also grew by about 7.3%. The global bond market also experienced a positive trend. In the U.S., the United States 10Y Government Bond yields dropped to 3.47% at the end of Q1 2023 compared with a yield of 3.87% at the beginning of the year.

As opposed to leading international indices, the Israeli stock market sustained declines in Q1 2023 with the TA 35 Index falling by about 3.2%, the TA 125 Index losing about 4.8% and the TA 90 Index dropping by about 9%.

Report of the Board of Directors on the State of Affairs of the Corporation

Israel

In keeping with the global trend, the local economy and market trade were affected in Q1 2023 by continued interest rate hikes and growing inflation. These market conditions were aggravated by a growing social-political conflict amid the government's judicial reform bill and continuing protests against the reform. Although the proposed reform legislation had been suspended in the Reporting Period, the uncertainty regarding the government's next steps pursued, causing capital raising and trading halt and investment flight. This also led to the devaluation of the NIS against the USD and Euro, reaching as high as NIS 3.68 and NIS 3.94, respectively. The local stock and bond market also weakened in relation to the positive foreign indices.

In the backdrop of this high inflation rate which exceeded forecasts, the Bank of Israel continued to raise the interest rate which reached 4.25% at the end of Q1 2023 and 4.5% in early April 2023, raising it again in May 2023 to 4.75%. The annual inflation rate as of the Report Approval Date is almost 5.0%. The BOI's decision to raise the interest rate relied on the Bank's forecast which considers the expected judicial reform as a risk of increased risk premium for the State, impairment of exports, loss of local investments and reduced demand for private consumption. As per the BOI's forecast, the impact on the GDP is estimated at 0.8%-2.8% in each of the first three years, based on the economic scenarios governing the judicial reform and the timeframe needed to settle the debate and mitigate the effects of the change in legislation and also restore consumer and investor confidence in financial markets.

The BOI's Research Division lowered Israel's growth forecast for 2023 to 2.5% compared with the previous forecast of 2.8%.

U.S.

In keeping with the increasing inflation rates in the U.S. and worldwide, in 2022, the Fed began raising the interest rate following years of low interest rates. Within a year, amidst a wave of consecutive interest rate hikes, the U.S. interest rate rose from 0.25% to 5% at the end of Q1 2023 and to 5.25% in May 2023. Numerous central banks around the world echoed the Fed and sharply raised their benchmark interest rate in the course of the year in an attempt to mitigate the inflation which reached its highest level in decades despite the risk of impairing growth and slowing down per capital consumption.

Despite reduced consumption and real estate market slowdown caused by the soaring interest rates, the U.S. economy proved its strength with continued high employment rates, low unemployment rates and better performances than anticipated. This positive trend persisted in Q1 2023 with notable recovery felt in tech indices as a result of excellent performances and revenue growth in core businesses of the major hi-tech firms. The NASDAQ closed the first quarter of 2023 with an increase of 16.8% and the S&P 500 rose by 7%.

However, in March 2023, the U.S. economy was traumatized by the collapse of SVB followed by the shutdown of Signature Bank, both of which undermining the hi-tech industry and investor expectations and leading to sharp bond market declines. The Fed's extreme measures which consisted of providing liquidity to the banks and guarantees to investor deposits as well as moderately raising the interest rate by 0.25% towards the end of March 2023 sent a calming message to the markets.

Report of the Board of Directors on the State of Affairs of the Corporation

In addressing the bank sector in the U.S., the Fed reaffirmed the system's strength and the stability in deposit flow. The Fed's forecast also hinted at another interest rate hike by the end of the year but assured that all future decisions will be made based on actual data. The Fed's economic growth forecast indicates a 0.4% growth in GDP which is lower than previously expected. In the unemployment front, the Fed's forecast suggests an expected increase from 3.6% at the end of Q1 2023 to 4.5% at year end.

Europe

The European economy experienced deep turmoil in 2022 in view of rising inflation and the Russia-Ukraine war which persisted in Q1 2023. However, the European Commission estimated in February 2023 that Europe will not undergo a recession and that the EU's inflation rates will be lower than previously forecasted with a higher growth of about 0.9% in Eurozone economy.

The European bank sector was also shaken by the SBV collapse in Q1 2023, causing a chain reaction that led to a severe crisis in Credit Suisse. Despite the Swiss Government's support followed by the acquisition of Credit Suisse by UBS, the financial system experienced sharp index declines.

The European Central Bank also raised the interest again to 3.5% at the end of Q1 2023 in order to mitigate inflation which in February this year reached 8.5%, crushing the 2% target. In the UK, the Central Bank raised the interest to 4.25%. The UK annual inflation rate was 10.4% in February, exceeding the 9.9% forecast, also affected by a sharp markup in food prices. At the end of Q1 2023, the European stock exchanges showed positive results with the Euro Stoxx 50 increasing by 13.7% and the Euro Stoxx 600 gaining 7.8%.

Report of the Board of Directors on the State of Affairs of the Corporation

1.4 Developments in the operating segments

1.4.1 General data of the assets managed by Altshuler Provident

As of March 31, 2023 and for the period of three months then ended (NIS in thousands)

	New pension funds		Personal provident funds for benefits and severance pay	Study funds	Investment provident funds	Long-term Savings for Every Child Plan	Central funds *	Total
	Comprehensive	General						
Number of members**	365,598	23,359	971,747	847,715	188,202	983,351	6,380	3,386,352
Managed assets	25,370,109	675,612	60,240,107	58,685,482	10,505,736	6,468,331	927,133	162,872,510
Receipts from fees	1,021,594	56,636	197,456	1,294,468	287,502	259,007	1,562	3,118,225
Of which, nonrecurring fees	-	-	27,215	13,792	112,009	11,403	-	164,419
Annualized fees for newly enrolled members	208,719	20,914	21,481	162,537	25,829	9,888	4	449,372
Annualized fees for all members	4,268,433	258,106	756,326	5,334,834	723,467	993,299	6,220	12,340,685
Accruals transferred to the fund	233,367	5,132	124,395	29,770	5,649	469	362	399,144
Accruals transferred from the fund	(2,260,189)	(62,717)	(3,377,362)	(4,392,820)	(568,000)	(21,626)	(16,636)	(10,699,350)
Payments	(56,383)	(632)	(967,955)	(1,439,368)	(435,405)	(28,628)	(20,984)	(2,949,355)
Surplus revenues (losses) over expenses in the period	832,488	17,645	706,306	784,326	186,983	146,127	11,105	2,684,980
Revenues from accrual management fees	8,407	333	100,912	109,343	17,772	3,657	1,413	241,837
Revenues from deposit management fees	14,208	687	977	-	-	-	-	15,872
Average annual rate of management fees from active assets	0.12	0.17	0.67	0.74	0.67	0.23	0.21	
Average annual rate of management fees from inactive assets	0.13	0.26	0.64	0.70	0.64	0.23	0.64	
Average annual rate of management fees from assets – annuities	0.36	0.34	-	-	-	-	-	
Average annual rate of management fees from deposits	1.42	1.43	0.43	-	-	-	-	

* Central funds include Altshuler Shaham Severance – Central Severance Pay Fund, Altshuler Shaham Sick Pay – Central Sick Pay Fund and Altshuler Shaham Central Provident Fund for Participation in Budgetary Pension which were transferred to the Company's management in a voluntary management transfer process from October 1, 2021.

** Refers to the number of provident fund member and pension fund member accounts.

Report of the Board of Directors on the State of Affairs of the Corporation
As of March 31, 2022 and for the period of three months then ended (NIS in thousands)

	New pension funds		Personal provident funds for benefits and severance pay	Study funds	Investment provident funds	Long-term Savings for Every Child Plan	Central funds *	Total
	Comprehensive	General						
Number of members**	357,411	26,548	1,178,195	1,105,740	234,727	971,352	6,990	3,880,963
Managed assets	30,250,728	650,971	88,384,622	85,979,535	15,263,147	6,299,099	1,132,526	227,960,628
Receipts from fees	1,179,153	68,149	418,468	2,049,211	1,109,934	243,947	1,736	5,070,598
Of which, nonrecurring fees	-	-	175,302	184,060	825,951	9,950	-	1,195,263
Annualized fees for newly enrolled members	327,034	54,261	21,137	254,779	74,725	11,468	6,739	750,143
Annualized fees for all members	4,906,519	318,907	1,012,901	8,023,253	1,218,759	938,430	6,924	16,425,693
Accruals transferred to the fund	751,430	14,399	286,227	137,742	10,370	2,243	3,450	1,205,861
Accruals transferred from the fund	(1,173,369)	(24,880)	(5,918,750)	(5,703,464)	(981,667)	(13,138)	(32,594)	(13,847,862)
Payments	(68,570)	(2,318)	(784,944)	(833,249)	(402,968)	(19,957)	(18,846)	(2,130,852)
Surplus revenues (losses) over expenses in the period	(652,442)	(24,525)	(2,401,280)	(2,485,426)	(545,532)	(223,464)	(28,772)	(6,361,441)
Revenues from accrual management fees	8,965	342	151,254	160,413	26,320	3,543	1,738	352,575
Revenues from deposit management fees	18,174	1,060	1,332	-	-	-	-	20,566
Average annual rate of management fees from active assets	0.12	0.19	0.69	0.76	0.66	0.23	0.24	
Average annual rate of management fees from inactive assets	0.13	0.33	0.66	0.71	0.67	0.23	0.64	
Average annual rate of management fees from assets – annuities	0.33	0.32	-	-	-	-	-	
Average annual rate of management fees from deposits	1.48	1.49	0.28	-	-	-	-	

* Central funds include Altshuler Shaham Severance – Central Severance Pay Fund, Altshuler Shaham Sick Pay – Central Sick Pay Fund and Altshuler Shaham Central Provident Fund for Participation in Budgetary Pension which were transferred to the Company's management in a voluntary management transfer process from October 1, 2021.

** Refers to the number of provident fund member and pension fund member accounts.

Report of the Board of Directors on the State of Affairs of the Corporation
As of December 31, 2022 and for the year then ended (NIS in thousands)

	New pension funds		Personal provident funds for benefits and severance pay	Study funds	Investment provident funds	Long-term Savings for Every Child Plan	Central funds *	Total
	Comprehensive	General						
Number of members**	358,617	24,969	1,009,413	906,628	198,421	980,874	6,449	3,485,371
Managed assets	25,657,541	662,068	63,577,265	62,409,112	11,029,007	6,112,983	951,724	170,379,700
Receipts from fees	4,613,290	272,914	1,172,043	6,931,138	2,367,630	977,946	7,317	16,342,278
Of which, nonrecurring fees	-	-	332,721	218,692	1,394,299	41,739	20	1,987,471
Annualized fees for newly enrolled members	702,483	98,947	38,052	566,791	112,755	43,088	14	1,562,130
Annualized fees for all members	4,229,116	363,437	778,977	6,050,310	804,841	934,933	6,635	13,168,249
Accruals transferred to the fund	1,810,817	40,390	614,515	257,500	31,267	4,906	2,402	2,761,797
Accruals transferred from the fund	(7,648,040)	(165,376)	(22,237,971)	(23,673,116)	(3,585,997)	(71,386)	(103,239)	(57,485,125)
Payments	(188,677)	6,815	(2,971,441)	(3,665,567)	(1,646,676)	(83,912)	(60,890)	(8,610,348)
Surplus revenues (losses) over expenses in the period	(2,965,821)	(103,723)	(9,804,670)	(10,261,707)	(2,210,227)	(1,024,014)	(101,418)	(26,471,580)
Revenues from accrual management fees	34,798	1,343	514,046	549,872	89,390	13,835	6,350	1,209,634
Revenues from deposit management fees	67,273	4,061	4,450	-	-	-	-	75,784
Average annual rate of management fees from active assets	0.11	0.18	0.68	0.75	0.67	0.23	0.21	
Average annual rate of management fees from inactive assets	0.12	0.28	0.65	0.70	0.65	0.23	0.64	
Average annual rate of management fees from assets – annuities	0.34	0.33	-	-	-	-	-	
Average annual rate of management fees from deposits	1.45	1.46	0.37	-	-	-	-	

* Central funds include Altshuler Shaham Severance – Central Severance Pay Fund, Altshuler Shaham Sick Pay – Central Sick Pay Fund and Altshuler Shaham Central Provident Fund for Participation in Budgetary Pension which were transferred to the Company's management in a voluntary management transfer process from October 1, 2021.

** Refers to the number of provident fund member and pension fund member accounts.

Report of the Board of Directors on the State of Affairs of the Corporation

1.4.2 Developments and major changes in the provident and pension fund segment in the Reporting Period

1.4.2.1 The provident and pension fund management operation

In the Reporting Period, Altshuler Provident continued marketing activities for sale and distribution of products approved by State legislation and initiatives such as the investment provident fund and in promoting and enhancing its private pension fund and positioning it among the Israeli public. These initiatives and the products developed as a result thereof have placed the financial debate on the public agenda and contributed to increasing saver awareness and involvement. However, the decrease in assets managed by Altshuler Provident was mainly caused by loss of savers to competitors and excess withdrawals over deposits in provident funds, which were partly offset by the positive yields of the funds in Q1 2023. See more information of the global capital market trend in paragraph 1.3 above.

Provident fund assets

As of March 31, 2023, total local provident fund assets (compensation and severance pay, study funds, central severance pay funds, investment provident funds and the Savings for Every Child long-term investment provident fund) totaled approximately NIS 656.04 billion compared with approximately NIS 648.11 billion at the end of 2022, representing an increase of about 1.22%.

In the Reporting Period, the scope of provident fund assets managed by Altshuler Provident decreased from approximately NIS 144.06 billion at the end of 2022 to approximately NIS 136.83 billion as of March 31, 2023, representing a decrease of about 5.02% in total provident fund assets managed by Altshuler Provident.

Pension fund assets

As of March 31, 2023, total local pension fund assets (new, comprehensive and general) totaled approximately NIS 648.78 billion compared with approximately NIS 621.45 billion at the end of 2022, representing an increase of about 4.40%.

In the Reporting Period, the scope of pension fund assets managed by Altshuler Provident decreased from approximately NIS 26.32 billion at the end of 2022 to approximately NIS 26.05 billion as of March 31, 2023, representing a decrease of about 1.04%.

Report of the Board of Directors on the State of Affairs of the Corporation

Investments in provident fund and pension fund assets

In Q1 2023, Altshuler Provident increased the exposure of its managed assets to the stock component by about 1% from 49% to 50% in the general tracks. The main increase in the stock exposure was to leading stock indices in the U.S. The main stock exposure in Israel remains to local bank and investment property stocks and the main stock exposure abroad remains to the leading U.S. indices and underlying stocks. There were no major changes in the bond channel. In addition, in Q1 2023, Altshuler Provident increased its exposure to foreign currency by about 1%.

1.4.2.2 The real estate investment management operation

In the Reporting Period, Altshuler Real Estate completed another investment round in the U.S. in the segment in a total of approximately US\$ 20,500 thousand.

1.4.2.3 The alternative operation

See details of the foundation of the operation and the signing of a business partnership term sheet after the Reporting Perion in paragraph 2.3 below.

Report of the Board of Directors on the State of Affairs of the Corporation

1.5 Financial position

Following are data from the Company's interim consolidated financial statements for the period of three months ended March 31, 2023.

Main items from the Company's consolidated statements of financial position (NIS in thousands):

	March 31,		December 31, 2022	Company's explanations
	2023	2022		
Assets	1,036,475	1,101,856	1,059,329	The decrease in assets in the Reporting Period compared to the corresponding period of 2022 mainly stems from a decrease in intangible assets, right-of-use assets, DAC, receivables and assets held for sale against an increase in lease investment, net, property, plant and equipment and current and deferred tax assets. The change in DAC in the Reporting Period arises from the payment of agent commissions totaling approx. NIS 4,306 thousand less amortizations of approx. NIS 20,953 thousand.
Financial investments	152,364	222,673	172,229	The decrease in financial investments in the Reporting Period compared to the corresponding period of 2022 mainly arises from a decrease in quoted debt assets in view of the alleviation of the minimum capital requirements applicable to Altshuler Provident.
Cash and cash equivalents	125,738	282,970	96,521	The increase in cash and cash equivalents in the Reporting Period compared to the corresponding period of 2022 arises from net cash from operating activities of approx. NIS 58.8 million and net cash from investing activities of approx. NIS 17 million, offset by a decrease in net cash from financing activities of approx. NIS 46.6 million.
Total assets	1,314,577	1,607,499	1,328,079	---
Equity	498,921	621,368	493,133	The increase in equity in the Reporting Period derives from comprehensive income of approx. NIS 37.3 million in the Reporting Period and approx. NIS 0.4 million in capital reserve for share-based payment transactions, offset by a decrease of approx. NIS 32 million in equity due to dividend declared.
Liabilities	815,656	986,131	834,946	The decrease in liabilities in the Reporting Period mainly arises from a decrease in financial liabilities, current tax liabilities, lease liabilities, liabilities attributable to assets held for sale, employee benefit liabilities, net and payables, against an increase in deferred taxes.
Total liabilities and equity	1,314,577	1,607,499	1,328,079	---

Report of the Board of Directors on the State of Affairs of the Corporation

1.6 Operating results

Main items from the Company's consolidated statements of profit or loss and other comprehensive income (NIS in thousands):

	Three months ended March 31,		Year ended December 31,
	2023	2022	2022
Revenues:			
From management fees, net	265,209	371,824	1,282,992
From commissions	1,811	-	2,507
Net investment gains (losses) and finance income	1,116	(2,678)	(5,361)
Other income	1,600	450	1,862
Total revenues	269,736	369,596	1,282,000
Expenses:			
Commissions, marketing expenses and other acquisition costs	93,438	130,251	454,246
General and administrative expenses	106,457	125,653	456,564
Other expenses	6,557	6,435	27,512
Finance expenses	3,953	3,938	15,513
Total expenses	210,405	266,277	953,835
Income before taxes on income	59,331	103,319	328,165
Taxes on income	20,160	37,003	115,306
Net income	39,171	66,316	212,859
Other comprehensive income (loss)	(1,828)	1,862	2,718
Total comprehensive income	37,343	68,178	215,577
Net income for the period attributable to:			
Equity holders of the Company	39,145	66,316	213,121
Non-controlling interests	26	-	(262)
	39,171	66,316	212,859
Comprehensive income attributable to:			
Equity holders of the Company	37,317	68,178	215,839
Non-controlling interests	26	-	(262)
	37,343	68,178	215,577

Report of the Board of Directors on the State of Affairs of the Corporation

Revenues

Revenues from management fees, net – the decrease in revenues from management fees in the Reporting Period compared with Q1 2022 mainly arises from a decrease in assets managed by Altshuler Provident and a decrease in the average rate of management fees charged by it. Moreover, in the Reporting Period, Altshuler Provident received approximately NIS 8.5 million as refund of member fees in 2020.

Revenues from commissions – revenues from commissions in the Reporting Period compared with Q1 2022 derive from the initiation of the real estate alternative investment management and development operation through Altshuler Real Estate.

Net gains (losses) from investments and finance income – the increase in finance income in the Reporting Period compared to Q1 2022 mainly arises from losses from financial investments recognized in the Reporting Period and an increase in interest income on deposits.

Other income – the increase in other income in the Reporting Period compared to Q1 2022 is mainly a result of income from a settlement agreement reached in a mediation proceeding to which Altshuler Provident was a party (see more information in Note 27d to the Company's annual financial statements for 2022).

Expenses

Commissions, marketing expenses and other acquisition costs – the decrease in commissions, marketing expenses and other acquisition costs in Q1 2023 compared with Q1 2022 is mainly a result of a decrease in current commissions due to the decrease in assets managed by Altshuler Provident.

G&A expenses – the decrease in G&A expenses in Q1 2023 compared to Q1 2022 is mainly due to the decrease in wages and related expenses, related party expenses and IT and communication expenses.

Other expenses – the increase in other expenses in Q1 2023 compared with Q1 2022 mainly stems from an increase in amortization of intangible assets against a capital loss on lease recognized in Q1 2022.

Finance expenses – the decrease in finance expenses in Q1 2023 compared with Q1 2022 mainly stems from commissions and other finance expenses against a decrease in lease expenses recognized in Q1 2022.

Report of the Board of Directors on the State of Affairs of the Corporation**1.7 Liquidity**

Main items from the Company's consolidated statements of cash flows (NIS in thousands):

	Three months ended March 31,		Year ended December 31,
	2023	2022	2022
Cash flows from operating activities:			
Net income in the period	39,171	66,316	212,859
Adjustments to income	19,665	(21,831)	16,891
Net cash provided by operating activities	58,836	44,485	229,750
Net cash provided by (used in) investing activities	16,957	10,783	(23,207)
Net cash used in financing activities	(46,576)	(68,868)	(406,592)
Increase (decrease) in cash and cash equivalents	29,217	(13,600)	(200,049)
Cash and cash equivalents at beginning of period	96,521	296,570	296,570
Cash and cash equivalents at end of period	125,738	282,970	96,521

Cash flows from operating activities – the increase in cash flows from operating activities in Q1 2023 compared with Q1 2022 is mainly a result of the decrease in the Company's net income and items not involving cash flows against a decrease in other balance sheet items and cash paid and received in the period.

Cash flows from investing activities – the increase in cash flows from investing activities in Q1 2023 compared with Q1 2022 is mainly a result of a decrease in investment in intangible assets.

Cash flows from financing activities – the decrease in cash flows from financing activities in Q1 2023 compared with Q1 2022 is mainly a result of a decrease in repayment of loans from banks and others.

Report of the Board of Directors on the State of Affairs of the Corporation

1.8 Financing resources

As of the Report Approval Date, the Company finances its operations and the operations of the Group companies using its own resources and loans and borrowings provided to the Group companies by banks.

As of March 31, 2023 and the Report Approval Date, the average scope of long-term and short-term loans (including current maturities) from banks approximates NIS 412.7 million and NIS 114.6 million, respectively.

To secure its entire credit facilities from banks, Altshuler Provident has undertaken to meet the following financial covenants towards the banks:

- a) Altshuler Provident's revenues from management fees will not be lower than NIS 200 million a quarter. In Q1 2023, Altshuler Provident's revenues from management fees totaled NIS 265 million.
- b) Altshuler Provident's shareholders' equity less capital reserves will not be lower than NIS 245 million. As of the Report Date, Altshuler Provident's shareholders' equity less capital reserves approximated NIS 434 million.
- c) Altshuler Provident's bank debt coverage ratio divided by its EBITDA in the latest four calendar quarters will not exceed 2.8. As of the Report Date, the ratio is 1.8.
- d) The debt service coverage ratio (DSCR) – the result of dividing the EBITDA less investments in PP&E and in software and less tax in the latest relevant calendar quarters (accumulated interest expenses and linkage differences with the addition of current maturities – principal and interest, excluding principal on credit provided to finance compliance with minimum capital requirements of provident fund manager and repayment of any credit principal for a period not exceeding 12 months but rather only interest on such credit, which Altshuler Provident will have to pay the banks in the four consecutive calendar quarters as of the Report Date, other than borrowings repayable in a lump sum at period end will not be lower than 1.5. As of the Report Date, the ratio is 3.3.

See more information of the Group's financing resources, including financing agreements entered into by the Group, in Note 4 to the Company's interim financial statements hereby attached and Note 18 to the Company's annual financial statements for 2022.

Report of the Board of Directors on the State of Affairs of the Corporation

2. Material Events during and after the Reporting Period and Updates to Chapter A to the Periodic Report for 2022 – Description of Corporate Affairs

As per Regulation 39A to the reporting Regulations, following is a description of the material developments in the Company's business in the period of three months ended March 31, 2023 through the Report Approval Date which have not yet been disclosed in the Periodic Report. The updates address the relevant items in the Periodic Report based on their order therein. Please note that the terms used in this chapter are ascribed the same meaning as in the Periodic Report, unless explicitly stated otherwise.

2.1 Dividend distributions

2.1.1 On March 21, 2023, the Company's Board approved the distribution of a dividend based on the Company's financial statements as of December 31, 2022 in the amount of NIS 32 million. See also the Company's immediate reports of March 22, 2023 and April 2, 2023 (TASE references: 2023-01-029934 and 2023-01-037458, respectively), whose information is hereby included by reference.

2.1.2 On May 23, 2023, after having established that the Company meets the distribution tests in the Companies Law, the Company's Board approved the distribution of a dividend of NIS 29 million based on the Company's interim financial statements attached to this report. See also Note 7b to the Company's interim financial statements hereby attached.

2.2 Effects of inflation and market interest rises

As described in paragraph 1.3 above, in the Reporting Period, the trend of accelerated rise in inflation rates continued along with a growing concern for global and local recession. The increase in the Israeli CPI for March 2023 reflected an annual growth of about 4.98%. Accordingly, in an attempt to mitigate the soaring inflation, Israel and the U.S. raised their interest rates to 4.25% and 5.0%, respectively. In the UK, the interest rate was also raised to 4.25%. The rising inflation and interest rate hikes have impacted business activity in the market, which is also expressed in an increase in various costs such as operation, raw materials, labor, finance and more and affects the conditions in the capital markets.

Due to the nature of its operations, the Group is exposed to capital market fluctuations. It should be noted that the bulk of the Group's financial debt, which was assumed by Altshuler Provident, bears unindexed fixed interest and therefore the Group's finance expenses have not been materially affected. In general, rises in inflation and interest rates are liable to have a negative impact on the capital markets and the business environment in which Altshuler Provident operates, thereby also causing a decrease in the scope and value of assets managed by it, whether due to changes in the number of active members of the various saving channels or due to market slowdown and price decline trends. Nevertheless, the Company believes that Altshuler Provident's financial stability, asset portfolio, debt structure, composition of financial investments, free cash flow and high cash flow generated by operating activities will all allow it to continue to finance its operations and meet its obligations.

Disclaimer - the Company's evaluations of the future effects of the inflation acceleration and interest increase trends on Altshuler Provident's operating results represent forward-looking information, as this term is defined in the Securities Law, whose materialization is uncertain and not controlled by the Company. Such evaluations rely on the assessments of the Company's and Altshuler Provident's managements and may not materialize or materialize differently than expected due to factors which are not under the Company's control such as continued inflation acceleration and market interest rises and other macroeconomic changes, as well as the materialization of any of the other risk factors detailed in paragraph 4.11 to Chapter A to the periodic Report.

Report of the Board of Directors on the State of Affairs of the Corporation

2.3 The alternative investment management operation

On January 26, 2023, the Company's Board approved the foundation of the alternative operation in which the Company, through an SPV, will serve as general partner in limited partnerships and/or designated funds for which the Company will raise capital from private and/or public investors. This operation will be performed simultaneously with the real estate investment management operation performed by the Company through Altshuler Real Estate.

In the Reporting Period, the Company founded Altshuler Alternative and Altshuler Shaham Alternative Investment Funds, which is a wholly owned subsidiary of Altshuler Alternative ("**Altshuler Investment Funds**").

After the Reporting Period, on May 16, 2023, the Company, through Altshuler Alternative and Altshuler Investment Funds and the fund managers (as defined below) signed a term sheet for partnering with Pantheon Ventures (US) LP ("**the term sheet**" and "**Pantheon**", respectively) to cofound private alternative investment funds that will be managed by entities held by Altshuler Investment Funds ("**the fund managers**"). The fund managers also signed an agreement with Pantheon according to which the latter will provide investment management services to the first private alternative investment fund that will be founded by them ("**the service agreement**" and "**the fund**", respectively).

The term sheet consists of various commercial terms regarding the parties' business partnership, the foundation and management of the fund and future funds, the services provided by Pantheon, the marketing of the funds and mutual exclusivity conditions which may be eliminated as per the agreement between the parties.

According to the service agreement, the fund managers will serve as the fund's manager and general partner. Pantheon will provide the fund investment management services in return for management fees and carried interest as agreed between the parties.

Disclaimer - the above information and assessments made by the Company in connection with the business partnership and the effect of the term sheet on implementing the Company's business strategy represent forward-looking information, as this term is defined in the Securities Law, which may not materialize or may materialize differently than anticipated and whose materialization depends on factors which are not under the Company's control.

3. Exposure to market risks

The Group's financial operations, which are mainly performed by Altshuler Provident, expose it various market risks. Market risks include interest rate risk, stock price risk, CPI risk and foreign currency risk. Market risk is the risk that the fair value or future cash flows of financial assets and liabilities will fluctuate as a result of changes in market prices, exchange rates, returns, margins and other market parameters.

Market risks including at the nostro portfolio level are supervised by the Board and reported in the financial statements.

Report of the Board of Directors on the State of Affairs of the Corporation

Altshuler Provident has a nostro portfolio whose main purpose is to retain the monetary value of its investments and enable it to meet the liquid asset requirement in the Supervision of Financial Services Regulations (Provident Fund) (Investment Rules Applicable to Institutional Investors), 2012 ("**the Investment Rules Regulations**"). According to the Investment Rules Regulations, Altshuler Provident must hold liquid assets, as this term is defined in the Regulations, against 50% of its mandatory minimum shareholders' equity as required by the Supervision of Financial Services Regulations (Provident Fund) (Minimum Shareholders' Equity of Provident Fund or Pension Fund Management Company), 2012. Moreover, any amount in the Group's nostro portfolio in excess of the mandatory liquid assets is invested in quoted or unquoted assets at the discretion of its finance managers and with the approval of the qualified functions.

According to this policy, the changes in the nostro portfolio have little effect on the Company's profits and financial strength.

In the Reporting Period, there were no material changes in the market risks to which the Company is exposed. See also the Report of the Board of Directors attached to the Periodic Report.

The Value at Risk ("**VaR**") model

VaR is a standard model used for measuring exposure to market risks in companies in the financial services industry. VaR estimates the maximum loss in a certain investment or investment portfolio within a given timeframe and given probability of occurrence. As any statistical tool, VaR provides an estimate within reasonable ranges by measuring the potential loss for an investor due to the materialization of market risks (interest, inflation, exchange rates, commodity prices and security prices). To use the metric, the investment mix, holding period and predetermined statistical significance must all be taken into consideration.

As of the Report Date, the fair value of the Group's short-term investments is NIS 146,221 thousand whereas the VaR of these assets is NIS 62 thousand, accounting for 0.04% of the fair value of short-term investments.

4. Effectiveness of internal control over financial reporting and disclosure (ISOX)

Given the date of the IPO of the Company's shares by virtue of the prospectus of March 2022, the Company is not legally required to attach a report of the Board's and Management's evaluation of the effectiveness of internal control over financial reporting and disclosure or letters of representations by its senior officers. This mandate will apply to the Company from the annual financial statements as of December 31, 2023.

Ran Shaham
Chairman of the Board of Directors

Yair Lowenstein
CEO

Report Approval Date: May 23, 2023

ALTSHULER SHAHAM FINANCE LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2023

UNAUDITED

INDEX

	<u>Page</u>
Review of Interim Consolidated Financial Statements	2
Consolidated Statements of Financial Position	3
Consolidated Statements of Profit or Loss and Other Comprehensive Income	4
Consolidated Statements of Changes in Equity	5 – 7
Consolidated Statements of Cash Flows	8 - 9
Notes to Interim Consolidated Financial Statements	10 - 20

Auditors' review report to the shareholders of Altshuler Shaham Finance Ltd.

Introduction

We have reviewed the accompanying financial information of Altshuler Shaham Finance Ltd. and its subsidiaries ("**the Company**"), which comprises the consolidated statement of financial position as of March 31, 2023 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period in accordance with IAS 34, "Interim Financial Reporting", and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
May 23, 2023

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>March 31,</u>		<u>December 31,</u>
	<u>2023</u>	<u>2022</u>	<u>2022</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in thousands</u>		
Assets:			
Intangible assets	554,963	567,674	562,797
Right-of-use assets	47,582	72,036	48,229
Investment in lease, net	52,714	21,220	56,481
Deferred acquisition costs	273,110	341,026	289,758
Deferred tax assets	4,541	-	4,287
Property, plant and equipment	32,536	20,822	33,357
Assets held for sale	-	1,680	-
Accounts receivable	59,924	77,398	51,081
Current tax assets	11,105	-	13,339
Financial investments:			
Quoted debt assets	146,221	212,599	162,383
Other debt assets	6,143	10,074	9,846
Total financial investments	152,364	222,673	172,229
Cash and cash equivalents	125,738	282,970	96,521
Total assets	1,314,577	1,607,499	1,328,079
Equity:			
Share capital	2,019	2,015	2,018
Share premium	239,174	236,679	238,622
Capital reserve from transaction with related party	(3,991)	(2,447)	(3,668)
Capital reserve from share-based payment transactions	33,022	31,166	32,807
Capital reserve from financial assets measured at fair value through other comprehensive income	67	1,350	1,895
Retained earnings	228,866	352,605	221,721
Equity attributable to equity holders of the Company	499,157	621,368	493,395
Non-controlling interests	(236)	-	(262)
Total equity	498,921	621,368	493,133
Liabilities:			
Deferred tax liabilities	27,771	9,042	26,762
Employee benefit liabilities, net	3,958	4,545	3,870
Current tax liabilities	3,977	21,433	819
Accounts payable	167,338	243,892	147,157
Lease liability	105,310	109,932	109,123
Liabilities attributable to assets held for sale	-	1,680	-
Financial liabilities	507,302	595,607	547,215
Total liabilities	815,656	986,131	834,946
Total equity and liabilities	1,314,577	1,607,499	1,328,079

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

<u>May 23, 2023</u>			
Date of approval of the financial statements	Ran Shaham Chairman of the Board of Directors	Yair Lowenstein CEO	Sharon Gerszbejn Deputy CEO, CFO

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Three months ended		Year ended
	March 31,		December 31,
	2023	2022	2022
	Unaudited		Audited
	NIS in thousands (except per share data)		
Revenues from management fees, net	265,209	371,824	1,282,992
Revenues from commissions	1,811	-	2,507
Net investment gains (losses) and finance income	1,116	(2,678)	(5,361)
Other income	1,600	450	1,862
Total revenues	269,736	369,596	1,282,000
Commissions, marketing expenses and other acquisition costs	93,438	130,251	454,246
General and administrative expenses	106,457	125,653	456,564
Other expenses	6,557	6,435	27,512
Finance expenses	3,953	3,938	15,513
Total expenses	210,405	266,277	953,835
Income before taxes on income	59,331	103,319	328,165
Taxes on income	20,160	37,003	115,306
Net income	39,171	66,316	212,859
<u>Other comprehensive income (loss) (net of taxes):</u>			
Gain from remeasurement of defined benefit plans	-	1,062	1,373
Gain from investments in financial instruments measured at fair value through other comprehensive income	12	800	1,345
Amount reclassified to profit or loss for sale of investments in debt assets at fair value through profit or loss	(1,840)	-	-
Total other comprehensive income (loss) (net of taxes)	(1,828)	1,862	2,718
Total comprehensive income	37,343	68,178	215,577
Net income attributable to:			
Equity holders of the Company	39,145	66,316	213,121
Non-controlling interests	26	-	(262)
	39,171	66,316	212,859
Comprehensive income attributable to:			
Equity holders of the Company	37,317	68,178	215,839
Non-controlling interests	26	-	(262)
	37,343	68,178	215,577
Basic net earnings per share attributable to equity holders of the Company (in NIS)	0.20	0.34	1.08
Diluted net earnings per share attributable to equity holders of the Company (in NIS)	0.20	0.33	1.07

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Total equity
	Share capital	Share premium	Capital reserve from transaction with related party	Capital reserve from share-based payment transactions	Capital reserve from financial assets measured at fair value through other comprehensive income	Retained earnings	Non-controlling interests	
	Unaudited							
	NIS in thousands							
Balance at January 1, 2023 (audited)	2,018	238,622	(3,668)	32,807	1,895	221,721	(262)	493,133
Net income	-	-	-	-	-	39,145	26	39,171
Other comprehensive income (loss), net of taxes:								
Gain from investments in financial instruments measured at FVOCI	-	-	-	-	12	-	-	12
Amount reclassified to profit or loss for sale of investments in debts assets at FVOCI	-	-	-	-	(1,840)	-	-	(1,840)
Total comprehensive income (loss)	-	-	-	-	(1,828)	39,145	26	37,343
Transactions with owners carried directly to equity:								
Cost of share-based payment	-	-	(323)	768	-	-	-	445
Exercise of employee options	1	552	-	(553)	-	-	-	-
Dividend to equity holders of the Company	-	-	-	-	-	(32,000)	-	(32,000)
Balance at March 31, 2023	<u>2,019</u>	<u>239,174</u>	<u>(3,991)</u>	<u>33,022</u>	<u>67</u>	<u>228,866</u>	<u>(236)</u>	<u>498,921</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Capital reserve from transaction with related party	Capital reserve from share-based payment transactions	Capital reserve from financial assets measured at fair value through other comprehensive income	Retained earnings	Total equity
	Unaudited						
	NIS in thousands						
Balance at January 1, 2022 (audited)	2,013	235,669	(1,805)	29,867	550	285,227	551,521
Net income	-	-	-	-	-	66,316	66,316
Other comprehensive income, net of taxes:							
Actuarial gains from employee defined benefit plan	-	-	-	-	-	1,062	1,062
Gain from investments in financial instruments measured at FVOCI	-	-	-	-	800	-	800
Total comprehensive income	-	-	-	-	800	67,378	68,178
Transactions with owners carried directly to equity:							
Cost of share-based payment	-	-	(642)	2,311	-	-	1,669
Exercise of employee options	2	1,010	-	(1,012)	-	-	-
Balance at March 31, 2022	<u>2,015</u>	<u>236,679</u>	<u>(2,447)</u>	<u>31,166</u>	<u>1,350</u>	<u>352,605</u>	<u>621,368</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Total equity
	Share capital	Share premium	Capital reserve from transaction with related party	Capital reserve from share-based payment transactions	Capital reserve from financial assets measured at fair value through other comprehensive income	Retained earnings	Non-controlling interests	
	Audited							
	NIS in thousands							
Balance at January 1, 2022	2,013	235,669	(1,805)	29,867	550	285,227	-	551,521
Net income (loss)	-	-	-	-	-	213,121	(262)	212,859
Other comprehensive income, net of taxes:								
Actuarial gains from employee defined benefit plan	-	-	-	-	-	1,373	-	1,373
Gain from investments in financial instruments measured at FVOCI	-	-	-	-	1,345	-	-	1,345
Total comprehensive income (loss)	-	-	-	-	1,345	214,494	(262)	215,577
Transactions with owners carried directly to equity:								
Cost of share-based payment	-	-	(1,863)	5,898	-	-	-	4,035
Exercise of employee options	5	2,953	-	(2,958)	-	-	-	-
Dividend to equity holders of the Company	-	-	-	-	-	(278,000)	-	(278,000)
Balance at December 31, 2022	<u>2,018</u>	<u>238,622</u>	<u>(3,668)</u>	<u>32,807</u>	<u>1,895</u>	<u>221,721</u>	<u>(262)</u>	<u>493,133</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2023	2022	2022
	Unaudited		Audited
	NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income for the period	<u>39,171</u>	<u>66,316</u>	<u>212,859</u>
Items not involving cash flows:			
Net losses (gains) from financial investments:			
Quoted debt assets	1,366	3,072	5,971
Other investments	(1,484)	(124)	646
Finance expenses on financial liabilities	2,973	2,995	11,478
Finance expenses (income), net	(900)	33	2,518
Loss (gain) from disposal of property, plant and equipment and right-of-use asset	(31)	915	749
Finance expenses on lease liability	382	607	1,579
Cost of share-based payment	445	1,670	4,035
Depreciation and amortization:			
Right-of-use assets	2,076	3,179	9,797
Property, plant and equipment	2,134	1,772	7,872
Intangible assets	12,869	10,934	52,696
Taxes on income	<u>20,160</u>	<u>37,003</u>	<u>115,306</u>
	<u>39,990</u>	<u>62,056</u>	<u>212,647</u>
Changes in other balance sheet items:			
Change in deferred acquisition costs, net	16,648	12,545	63,813
Change in accounts receivable	(8,842)	(6,268)	20,095
Change in accounts payable	(17,969)	(25,556)	(122,698)
Change in employee benefit liabilities, net	<u>88</u>	<u>(39)</u>	<u>(301)</u>
	<u>(10,075)</u>	<u>(19,318)</u>	<u>(39,091)</u>
Cash paid and received during the period for:			
Interest paid	(3,097)	(3,067)	(12,823)
Interest received	900	892	213
Taxes paid	<u>(8,053)</u>	<u>(62,394)</u>	<u>(144,055)</u>
	<u>(10,250)</u>	<u>(64,569)</u>	<u>(156,665)</u>
Net cash provided by operating activities	<u>58,836</u>	<u>44,485</u>	<u>229,750</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,	2022	December 31,
	2023	2022	2022
	Unaudited		Audited
	NIS in thousands		
<u>Cash flows from investing activities:</u>			
Receipts from lease	4,836	3,747	9,164
Payment of contingent consideration for acquisition of investees	-	-	(37,348)
Investment in and purchase of property, plant and equipment	(1,214)	(3,132)	(21,619)
Investment in intangible assets	(4,821)	(9,197)	(39,762)
Sale of financial investments, net	18,156	19,365	66,358
Net cash provided by (used in) investing activities	16,957	10,783	(23,207)
<u>Cash flows from financing activities:</u>			
Receipt of bank loans	-	-	75,650
Repayment of lease liability	(6,662)	(6,823)	(18,155)
Repayment of loans from banks and others	(39,914)	(62,045)	(186,087)
Dividend paid to equity holders of the Company	-	-	(278,000)
Net cash used in financing activities	(46,576)	(68,868)	(406,592)
<u>Increase (decrease) in cash and cash equivalents</u>	29,217	(13,600)	(200,049)
<u>Cash and cash equivalents at the beginning of the period</u>	96,521	296,570	296,570
<u>Cash and cash equivalents at the end of the period</u>	125,738	282,970	96,521
<u>Material non-cash transactions:</u>			
Right-of-use asset recognized against lease liability	2,048	37,887	43,871
Purchase of intangible assets	214	783	5,538
Purchase of property, plant and equipment	99	457	-
Issue of shares	553	1,012	2,958
Dividend declared	32,000	-	-

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. Altshuler Shaham Finance Ltd. ("**the Company**") was incorporated in Israel as a private company limited in shares on December 9, 2001 by the name of A.S. Matrat Hanpaka Ltd. and on March 17, 2022 changed its name to the current name – Altshuler Shaham Finance Ltd. The Company operates out of its offices on 19a HaBarzel Street, Ramat HaChayal, Tel Aviv.

On March 31, 2022, the Company obtained a merger certificate from the Registrar of Companies according to which Altshuler Provident and Pension Ltd. ("**Altshuler Provident**"), whose shares had been traded on the Tel-Aviv Stock Exchange ("**the TASE**") until that date, became a wholly owned subsidiary of the Company ("**the Business Restructuring**"). The merger certificate was obtained on the eve of the merger transaction according to which Altshuler Provident became a wholly owned subsidiary of the Company and ceased being a reporting entity as this term is defined in the Securities Law, 1968 ("**the Securities Law**").

On April 4, 2022, the Company's shares began trading on the TASE and were allocated to the shareholders of Altshuler Provident in return for the shares the latter had granted to the Company prior to the Business Restructuring. As a result, the Company became a public company, as this term is defined in the Companies Law, 1999, and a reporting entity, as this term is defined in the Securities Law.

Although from a legal standpoint the Company acquired the shares of Altshuler Provident, since on the share purchase transaction closing date, Altshuler Provident's shareholders became holders of voting rights in the Company, the share purchase transaction was accounted for in the financial statements as a reverse acquisition. Accordingly, these financial statements have been issued in the name of the Company, but the accounting treatment herein serves as a continuation of the financial statements of Altshuler Provident, the buyer in the transaction for accounting purposes. These interim consolidated financial statements therefore reflect the continued financial position, operating results and cash flows of Altshuler Provident and the Group's other operations.

As of the date of publication of these interim consolidated financial statements, the Company manages provident and pension funds through holding the entire (100%) issued and outstanding share capital of Altshuler Provident, manages alternative real estate investments through Altshuler Shaham Real Estate Ltd. ("**Altshuler Real Estate**"), and manages other alternative investments through Altshuler Shaham Alternative Investment Funds Ltd., a wholly owned subsidiary of Altshuler Shaham Alternative Ltd. ("**Altshuler Investment Funds**" and "**Altshuler Alternative**", respectively). (The Company, Altshuler Provident, Altshuler Real Estate, Altshuler Alternative and Altshuler Investment Funds collectively – "**the Group**").

- b. These financial statements have been prepared in a condensed format as of March 31, 2023 and for the three months then ended ("**interim consolidated financial statements**"). These financial statements should be read in conjunction with the annual consolidated financial statements of Altshuler Provident as of December 31, 2022 and for the year then ended and accompanying notes ("**annual consolidated financial statements**").

The Company did not publish separate financial information as permitted by an amendment to the Securities Regulations (Periodic and Immediate Reports), 1970.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements, excluding as stated in paragraph b below.

- b. Initial adoption of amendments to existing financial reporting and accounting standards:

1. Amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors":

In February 2021, the IASB issued an amendment to IAS 8, "Accounting Policies, Changes to Accounting Estimates and Errors" ("**the Amendment**"), in which it introduces a new definition of "accounting estimates".

Accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The Amendment clarifies the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors.

The Amendment is applied prospectively for annual reporting periods beginning on or after January 1, 2023 and is applicable to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

The application of the Amendment did not have a material impact on the Company's interim consolidated financial statements.

2. Amendment to IAS 1 - Disclosure of Accounting Policies:

In February 2021, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("**the Amendment**"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. One of the main reasons for the Amendment is the absence of a definition of the term 'significant' in IFRS whereas the term 'material' is defined in several standards and particularly in IAS 1.

The Amendment is applicable for annual periods beginning on or after January 1, 2023.

The application of the Amendment did not have a material impact on the Company's interim consolidated financial statements but is expected to affect the accounting policy disclosures in the Company's annual consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS

a. General:

Operating segments were determined based on information reviewed by the Chief Operating Decision Maker (CODM) for the purpose of making decisions concerning resource allocation and performance evaluation. Therefore, for management purposes, the Company operates in the following operating segments:

1. Provident fund and pension fund management

Provident funds - management of provident funds, including study funds. Provident fund products include provident and severance pay funds, study funds, central severance pay funds, central sick pay provident fund, central provident fund for budgetary pension participation, investment provident funds and investment provident funds – Savings for Every Child.

Pension funds - management of pension funds. Pension fund products include New Comprehensive Pension Fund and New General Pension Fund.

In the provident fund and pension fund segments, revenues from management fees, commissions, marketing expenses and other acquisition expenses, as well as operating expenses were directly attributed to the operating segment. All other revenues and expenses were not attributed to operating segments, since the Company's CODM does not attribute these expenses to a specific segment during decision making at the Company.

2. Other – management and initiation of alternative real estate investments and other alternative investments.

Segment performance is evaluated based on earnings before taxes on income excluding expenses and income not attributed to segments, as presented on the financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Operating segment reporting:

	Three months ended March 31, 2023				
	Pension	Provident	Other	Unallocated	Total
				to operating	
	Unaudited				
NIS in thousands					
Revenues from management fees, net	23,562	241,407	240	-	*)265,209
Revenues from commissions	-	-	1,811	-	1,811
Net gains from investments and finance income	-	-	80	1,036	1,116
Other income	-	-	-	1,600	1,600
Total revenues	23,562	241,407	2,131	2,636	269,736
Commissions, marketing expenses and other acquisition expenses	4,643	88,430	365	-	93,438
Operating fees	1,676	5,907	-	-	7,583
Total joint expenses	6,319	94,337	365	-	101,021
Segment income	17,243	147,070	1,766	2,636	168,715
G&A, finance and other expenses allocated to the segment	101,852	-	2,310	5,222	109,384
Income (loss) before taxes on income	62,461	(544)	(2,586)	(2,586)	59,331

*) Includes receipts of approximately NIS 8.5 million obtained by Altshuler Provident in the reporting period from refunds to fund members in 2020.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Three months ended March 31, 2022			
	Pension	Provident	Unallocated	Total
			to operating	
	Unaudited			
NIS in thousands				
Revenues from management fees, net	28,272	343,552	-	371,824
Net losses from investments and finance income	-	-	(2,678)	(2,678)
Other income	-	-	450	450
Total revenues	28,272	343,552	(2,228)	369,596
Commissions, marketing expenses and other acquisition expenses	4,356	125,895	-	130,251
Operating fees	1,167	6,103	-	7,270
Total joint expenses	5,523	131,998	-	137,521
Segment income (loss)	22,749	211,554	(2,228)	232,075
G&A, finance and other expenses allocated to the segment	125,673		3,083	128,756
Income (loss) before taxes on income	108,630		(5,311)	103,319

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2022				
	Pension	Provident	Other	Unallocated	Total
				to operating segment	
Audited					
NIS in thousands					
Revenues from management fees, net	106,793	1,176,199	-	-	1,282,992
Revenues from commissions	-	-	2,507	-	2,507
Net gains (losses) from investments and finance income	-	-	78	(5,439)	(5,361)
Other income	-	-	105	1,757	1,862
Total revenues	106,793	1,176,199	2,690	(3,682)	1,282,000
Commissions, marketing expenses and other acquisition expenses	18,284	435,523	439	-	454,246
Operating fees	4,820	25,007	-	-	29,827
Total joint expenses	23,104	460,530	439	-	484,073
Segment income (loss)	83,689	715,669	2,251	(3,682)	797,927
G&A, finance and other expenses allocated to the segment	449,332		3,736	16,694	469,762
Income (loss) before taxes on income	350,026		(1,485)	(20,376)	328,165

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- FINANCIAL INSTRUMENTS

- a. Fair value:

Financial liabilities

	March 31, 2023		March 31, 2022		December 31, 2022	
	Carrying amount *)	Fair value **)	Carrying amount *)	Fair value **)	Carrying amount *)	Fair value **)
			Unaudited		Audited	
	NIS in thousands					
Bank loans	507,691	432,486	595,912	553,109	547,728	470,684
Total financial liabilities	507,691	432,486	595,912	553,109	547,728	470,684

*) Including accrued interest.

**) The fair value relies on future discounted cash flows (principal and interest) of each loan at the relevant market interest based on the Company's credit rating and the relevant loan term.

- b. Bank loans:

As of March 31, 2023, Altshuler Provident is in compliance with all the financial covenants determined with banks.

- c. Classification of financial instruments by fair value hierarchy:

	March 31, 2023			Total
	Level 1	Level 2	Level 3	
	Unaudited			
	NIS in thousands			
Quoted debt assets presented at fair value through profit or loss	146,221	-	-	146,221
Unquoted debt asset presented at fair value through other comprehensive income	-	54	-	54
Unquoted debt asset presented at fair value through profit or loss	-	-	*)6,089	6,089
Total	146,221	54	6,089	152,364

*) See also paragraph d below.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- FINANCIAL INSTRUMENTS (Cont.)

	March 31, 2022			
	Level 1	Level 2	Level 3	Total
	Unaudited			
	NIS in thousands			
Quoted debt assets presented at fair value through profit or loss	212,599	-	-	212,599
Unquoted debt asset presented at fair value through other comprehensive income	-	2,900	-	2,900
Unquoted debt asset presented at fair value through profit or loss	-	-	*)7,174	7,174
Total	212,599	2,900	7,174	222,673

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
	Audited			
	NIS in thousands			
Quoted debt assets presented at fair value through profit or loss	162,383	-	-	162,383
Unquoted debt asset presented at fair value through other comprehensive income	-	3,541	-	3,541
Unquoted debt asset presented at fair value through profit or loss	-	-	*)6,305	6,305
Total	162,383	3,541	6,305	172,229

*) See also paragraph d below.

d. Valuation techniques (Level 3 of the fair value hierarchy):

The fair value of expected future gains plus income receivable as of March 31, 2023, March 31, 2022 and December 31, 2022 was estimated at approximately NIS 6.1 million, NIS 7.2 million and NIS 6.3 million, respectively. The expected future gains plus income receivable were discounted using a 7% discount rate.

In the reporting period, the Company recognized a gain from revaluation of another debt asset, amounting to NIS 102 thousand, which was charged to finance income.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- CONTINGENT LIABILITIES AND COMMITMENTS**

- a. Legal and other proceedings filed against Altshuler Provident:

The table below shows a summary of amounts claimed in pending motions for class action certification filed against Altshuler Provident, as noted by plaintiffs in their statements of claim. Note that the amount claimed may not necessarily be a quantification of the exposure as estimated by Altshuler Provident, since these are assessments by the plaintiffs which will be elaborated in the legal proceeding. Note, also, that the table below does not show concluded proceedings, including proceedings concluded after a settlement agreement has been approved.

Motions for approval of class actions filed against Altshuler Provident:

	<u>Number of claims</u>	<u>Claimed amount</u> <u>NIS in millions</u>
<u>Pending class action certification motions:</u>		
Claims whose amount is specified	2	117
Claims whose amount is not specified	3	-

- b. Legal and other proceedings filed against Psagot Provident and Pension Funds Ltd. ("**Psagot Provident**"), which was merged into Altshuler Provident:

Motions for approval of class actions filed against Psagot Provident:

	<u>Number of claims</u>	<u>Claimed amount</u> <u>NIS in millions</u>
<u>Pending class action certification motions:</u>		
Claims whose amount is specified	2	431
Claims whose amount is not specified	3	-

In the reporting period, no material developments occurred compared to the information disclosed in Note 27 to the Company's annual consolidated financial statements for 2022.

The overall provision recorded as of March 31, 2023 in respect of claims filed against Psagot Investment House Ltd. and Psagot Provident approximates NIS 3,030 thousand.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

- a. On January 26, 2023, the Company's Board approved the Company's go-to-market strategy for launching the alternative investment management operation. For that purpose, in the reporting period, the Company founded Altshuler Alternative, a private company which is wholly owned by the Company, and Altshuler Investment Funds, which is wholly owned by Altshuler Alternative. See also Note 7a below.
- b. In keeping with the matter discussed in Note 18c(2)(c)(3) to the annual consolidated financial statements, on March 21, 2023, Altshuler Provident's board approved extending the credit facility from Bank HaPoalim by NIS 70 million for a period of three months in effect until March 28, 2023. The credit facility bears variable NIS interest of Prime less 0.5%.

Moreover, on March 28, 2023, Altshuler Provident repaid the entire utilized credit facility of NIS 26 million. See details of Altshuler Provident's board approval of another extension of the credit facility in Note 7c below.

- c. On March 21, 2023, the Company declared a dividend of NIS 32,000 thousand to be distributed to its shareholders, representing NIS 0.16 per share.

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTING DATE

- a. On May 16, 2023, the Company, through Altshuler Alternative and Altshuler Investment Funds and the fund managers (as defined below) signed a term sheet for partnering with Pantheon Ventures (US) LP ("**the term sheet**" and "**Pantheon**", respectively) to cofound private alternative investment funds that will be managed by entities held by Altshuler Investment Funds ("**the fund managers**"). The fund managers also signed an agreement with Pantheon according to which the latter will provide investment management services to the first private alternative investment fund that will be founded by them ("**the service agreement**" and "**the fund**", respectively).

The term sheet consists of various commercial terms regarding the parties' business partnership, the foundation and management of the fund and future funds, the services provided by Pantheon, the marketing of the funds and mutual exclusivity conditions which may be eliminated as per the agreement between the parties.

According to the service agreement, the fund managers will serve as the fund's manager and general partner. Pantheon will provide the fund investment management services in return for management fees and carried interest as agreed between the parties.

- b. On May 23, 2023, in keeping with the Company's dividend distribution policy, the Company's Board declared the distribution of a dividend of NIS 29,000 thousand to the Company's shareholders, representing NIS 0.15 per share.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTING DATE (Cont.)

- c. In keeping with the matter discussed in Note 6b above, on May 23, 2023, Altshuler Provident's board approved extending the credit facility from Bank HaPoalim by NIS 70 million for a period of one year in effect until June 29, 2023 under the same terms as the current credit facility.

- d. In keeping with the matter discussed in Note 18c(2)(c)(2) to the annual consolidated financial statements, on May 23, 2023, Altshuler Provident's board approved receiving a new credit facility from Bank HaPoalim in the amount of NIS 50 million to replace the credit facility in effect until September 14, 2023 under the same terms as the credit facility described in paragraph c above.

F:\W2000\W2000\5783\M\23\EC3-AS FINANCE-IFRS.DOCX