



# **Altshuler Shaham Finance Ltd.**

**Interim Report for the Period ended September 30, 2023**

# **ALTSHULER SHAHAM FINANCE LTD.**

## **Interim Report as of September 30, 2023**

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- **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 November 23, 2023 in "Magna" – ISA official website (reference no.: 2023-01-127224) ("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 Periods of Nine and Three Months ended  
September 30, 2023**

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

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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 Periods of Nine and Three Months ended September 30, 2023**

The Board of Directors of Altshuler Shaham Finance Ltd. ("**the Company**") is pleased to present the Report of the Board of Directors for the periods of nine and three months ended September 30, 2023 ("**the Reporting Period**" and "**Q3 2023**", respectively) 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 periods.

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**" – September 30, 2023.

"**Report Approval Date**" – November 22, 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**

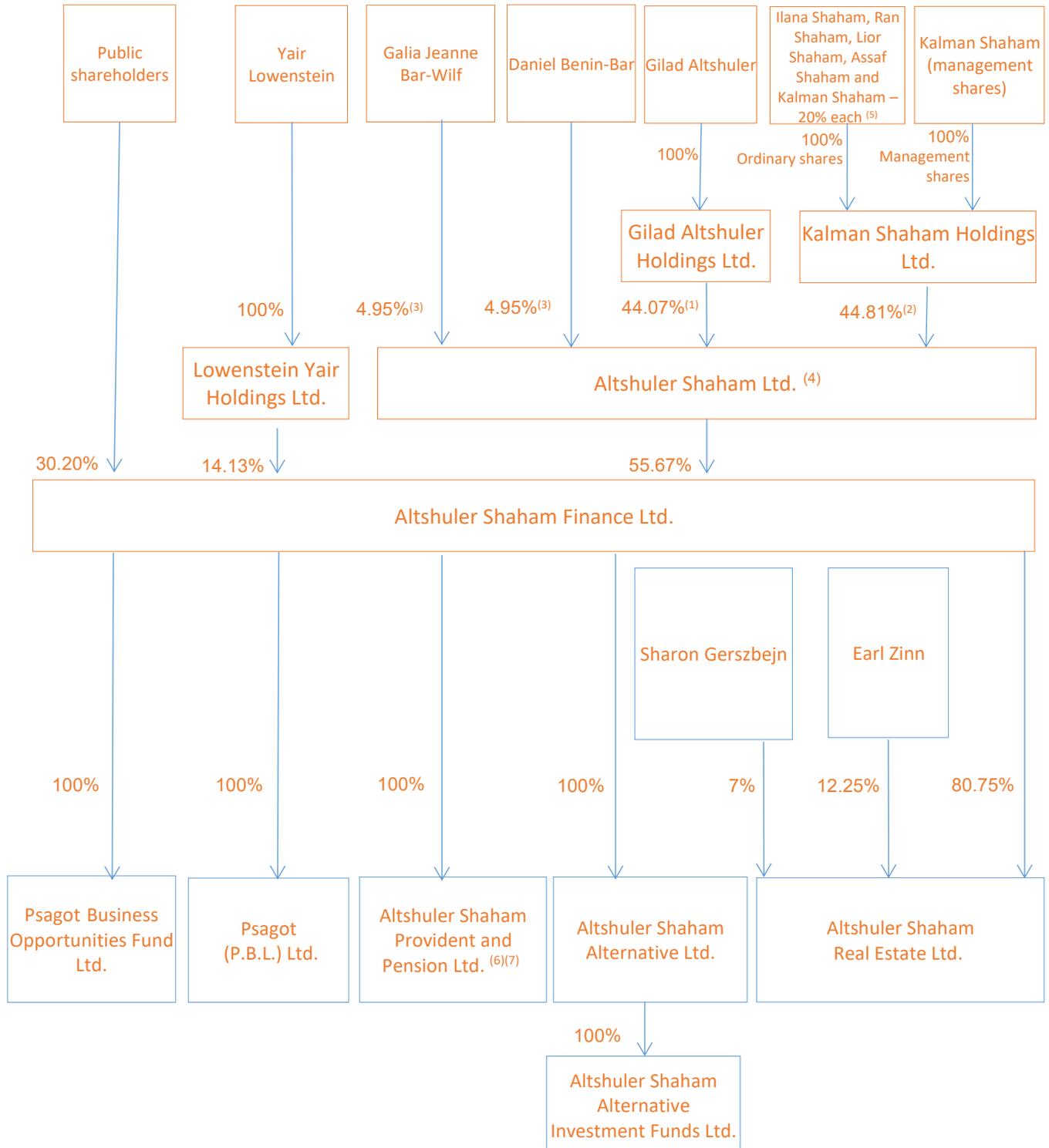
The Company was incorporated in Israel as a private company limited in shares on December 9, 2001. On April 4, 2022, the Company's shares began trading on the Tel-Aviv Stock Exchange Ltd. ("**the TASE**") and were allocated to the shareholders of Altshuler Provident Funds and Pension Ltd. ("**Altshuler 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. (14.13%) ("**Yair Holdings**") and Altshuler Shaham Ltd. (55.67%) ("**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**"), managing alternative investments ("**the Alternative Operation**") through Altshuler Shaham Alternative Ltd. ("**Altshuler Alternative**") and through Altshuler Shaham Alternative Investment Funds, which is a wholly owned subsidiary of Altshuler Alternative ("**Altshuler Investment Funds**")

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 12.2% 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

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### **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 the Reporting Period, central banks around the world - in the U.S., Europe and Israel – pursued their efforts to mitigate the high inflation rates which began soaring in 2022. In the backdrop of growing demands and the war in Ukraine, central banks around the world adopted a contractionary monetary policy headed by sharp benchmark interest rate hikes. The banks continued to raise the interest rates in Q3 2023 but in view of market indicators of a certain slowdown in inflation, in September 2023, the BOI and the Fed kept their interest rate unchanged. The ECB did raise the interest rate for the tenth time consecutively to 4.25% in September 2023. In contrast to global trends, the local commercial activity in Q3 2023 was characterized by increases in the leading indices against a devaluation of the NIS in relation to the currency basket, continued uncertainty in the markets and stalemate in investments.

In the Reporting Period, most of the channels in which Altshuler Provident operates in Israel and overseas showed positive yields.

#### Index overview

Owing to the recovery in the markets of risk assets, stocks and bonds in the Reporting Period, U.S. stock indices rose with the S&P 500 gaining about 11.7% and the NASDAQ growing by about 34.5%. The STOXX Europe 600 increased by about 6% and the German DAX rose by about 10.5%. The MSCI WORLD Index grew by about 9.6%. The global bond market benefited from increased returns throughout the Reporting Period. In the U.S., the United States 10Y Government Bond yields were 4.59% at the end of Q3 2023 compared with a yield of 3.87% at the beginning of the year.

The performances of the Israeli stock market in the Reporting Period were short compared to foreign markets with the TA 35 Index rising by about 2.7%, the TA 125 Index gaining about 3.4% and the TA 90 Index climbing by about 4.5%.

#### Israel

In keeping with the global trend, in the Reporting Period, the local economy and market trade were affected by continued interest rate hikes and growing inflation. These market conditions were aggravated by a profound social-political conflict amid the government's judicial reform bill promotions and continuing and growing protests against the reform across the country. In the Reporting Period, following the government's efforts, the Israeli Knesset (Parliament) passed legislation that would limit the High Court of Israel's ability to review the "reasonableness" of government decisions. In July 2023, the law to abolish the reasonableness standard passed the second and third reading despite widespread disputes and protests as well as international criticism regarding potential prejudice to democratic values and the Court's independence. In September 2023, 15 Supreme Court Justices gathered to hear the petitions against the bill. As of the Report Date, no additional legislation has been initiated and in view of the ongoing Swords of Iron War, as explained below, it is unclear if and when the legislation of the judicial reform bill will be renewed.

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In the Reporting Period, Israel's credit rating was jeopardized by the implications of the proposed judicial reform bill. However, in April and May 2023, the international rating agencies did not change Israel's rating other than Moody's which lowered the rating outlook from positive to stable. In August 2023, Fitch announced its affirmation of Israel's A+/Stable rating. Fitch credited the Israeli economy's robustness but at the same time continued to warn against the ramifications of the judicial reform bill and its potential damage to the local economy and to the credit rating.

In the backdrop of this political instability, the third quarter of 2023 was also affected by the trend of uncertainty in the markets and the considerable slowdown in investments and capital raising. As opposed to global stock markets which ended Q3 2023 in negative territory, the trade on the TASE in Q3 2023 achieved rate increases of about 5.5% in the leading TA 125 Index. The Tel Bond 60 Index rose by about 0.1% in Q3 2023. In the Reporting Period, local and international stock and bond indices showed positive territory. For example, in the Reporting Period, the TA 125 Index gained 3.4% compared with S&P 500 which grew by 11.7% during the same period.

The Bank of Israel's persistence in fighting the local inflation led to its decision to continue the interest rate hikes, causing the market interest rate to reach 4.75% at the end of H1 2023 following ten consecutive hikes. In early July 2023, owing to improved market data, the BOI finally decided to keep the market interest rate unchanged.

The Israeli CPI for September 2023 decreased by 0.1% against forecasts. The annual inflation rate dropped to 3.8%, which is indicative of the common slowdown in market activity during the Jewish Holiday season before the beginning of the Swords of Iron War (as described below).

The Swords of Iron War

On October 7, 2023, the Swords of Iron War broke out in Israel ("the war"). The ongoing war has led to a major slowdown in business activity throughout the Israeli economy, as a result, among others, of the evacuation of Israeli settlements located around the borders, the shutdown of enterprises in the south and north of Israel, the damage to local infrastructures, the nationwide military reserve draft for an indefinite period and the disruption of economic activity in the entire country. The prolongation of the war is likely to have extensive and diverse nationwide macroeconomic effects on numerous business and geographic segments and on Israel's credit rating.

The potential fluctuations in commodity prices, foreign currency exchange rates, availability of materials and manpower, local services and access to local resources are all liable to affect entities whose main operations are conducted in or with Israel.

The above conditions are likely to adversely affect the capital markets and the business environment in which Altshuler Provident operates, thereby causing impairment of the scope and value of assets managed by it. As of the Report Approval Date, the carrying amount of the assets managed by Altshuler Provident approximated NIS 154.6 billion compared with approximately NIS 156 billion as of September 30, 2023. This decrease of about 0.9% in the carrying amount of managed assets reflects a negative net accrual against increases in financial market rates. Notwithstanding the aforesaid, as of yet, the war has not had a material adverse effect on the scope or value of the assets managed by Altshuler Provident or on the Company's operations owing to the Group's investment policy and wide diversification of its investment portfolio according to which more than 60% of the assets are managed in global foreign markets.

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It should also be clarified that the war and its prolongation have not yet had any impact on the Company's financial stability or on Altshuler Provident's compliance with its financial covenants as per financing agreements. See details of financial covenants in paragraph 1.8 below. However, as of the Report Approval Date, the Company is unable to fully and reliably assess the extent of any future effect of the war on the Group's operations in view of the current market volatility, uncertainty regarding the continuation, intensity and impact of the war on the Group's operating segments and the adoption of other steps by the local government.

U.S.

In keeping with the increasing inflation rates in the U.S. and worldwide, in 2022, the Fed launched a process of raising the interest rate following years of zero interest rates. Within 18 months, amidst a wave of consecutive interest rate hikes, the U.S. interest rate rose by 0.25% to 5.5% at the end of July 2023 – a record of 22 years. Nevertheless, in view of certain indicators of improved inflation rates, in September 2023, the Fed kept the interest level unchanged at 5.5%.

The U.S. Administration was minutes away from total shutdown due to the impasse and failure to pass the Federal Government's budget law for fiscal 2024. On September 30, 2023, right before the deadline was about to expire, the U.S. Senate finally approved a temporary budget and stopped the shutdown at the very last minute. The temporary law is in effect for 45 days until November 17, 2023.

The U.S. national employment report for September 2023 showed an addition of 336 thousand new jobs to the American labor market, significantly more than the expected 170 thousand jobs. Unemployment rate remained unchanged at 3.8% and the data for July-August 2023 were scaled upwards. In Q3 2023, stock prices experienced mixed trends. The NASDAQ lost about 3.1% and the S&P 500 dropped by about 3.6%. In the Reporting Period, the NASDAQ rose by a cumulative 34.5% and the S&P 500 by an aggregate of 11.7%.

Europe

The European economy experienced deep turmoil in 2022 in view of rising inflation and the Russia-Ukraine war which persisted in the Reporting Period. The ECB raised its interest rate in Q3 2023 to 4.25%, the highest since 1999 when the Euro was first introduced. This is the tenth consecutive interest hike in the Eurozone. The ECB, however, did hint at reaching the end of the interest hiking spree.

Following a series of interest hikes, the inflation in the Eurozone is showing signs of mitigation. The CPI in September 2023 decreased to 4.3% in annual terms, as opposed to the forecasted 4.5%.

In the UK, the annual inflation rate in the Reporting Period remained high but did note certain stabilization in Q3 2023 only. In August 2023, the Bank of England raised the interest yet again from 5% to 5.25%. In September 2023, following 24 consecutive hikes, the Bank halted the raising of the interest rate. The annual inflation rate in September 2023 was 6.7%, slightly higher than the expected 6.6%.

At the end of the Reporting Period, the European stock exchanges showed positive results with the Euro Stoxx 50 increasing by 10% and the Euro Stoxx 600 gaining 6%.

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Asia

The tensions between the U.S. and China due to the trade war between the countries escalated in the Reporting Period and particularly in Q3 2023. In July 2023, China's Ministry of Commerce reported that from August 2023, limitations will be levied on the export of gallium and germanium, the metals used in chip and electronics manufacturing. In September 2023, different publications proved that China had completely halted the export of these metals.

In addition, the Bank of Japan (BOJ) announced in July 2023 that its new monetary policy will enable higher yields on its long-term government bonds. It is feared that Japanese investors will cease buying U.S. Treasury bonds and other foreign government bonds. As opposed to other central banks around the world, the BOJ did not aggressively raise the interest rate to battle inflation but rather pursued its expansive monetary policy. Concurrently, the BOJ maintains its yield curve control target of +/-0.5% which is 50 basis points up or down.

## 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 September 30, 2023 and for the period of nine 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**	368,937	20,818	910,812	763,153	174,096	981,680	6,287	<b>3,225,783</b>
Managed assets, net	25,564,916	702,276	56,752,215	54,777,430	10,049,134	7,285,387	895,587	<b>156,026,945</b>
Receipts from fees	3,047,458	135,850	588,613	3,599,828	840,751	776,725	5,120	<b>8,994,345</b>
Of which, nonrecurring fees	-	-	88,462	27,105	346,359	34,701	-	<b>496,627</b>
Annualized fees for newly enrolled members	410,940	9,354	31,304	373,329	69,376	28,258	-	<b>922,561</b>
Annualized fees for all members	3,889,781	167,668	740,735	4,665,509	650,440	982,826	6,337	<b>11,103,296</b>
Accruals transferred to the fund	744,724	21,382	453,050	138,170	32,681	1,311	1,955	<b>1,393,273</b>
Accruals transferred from the fund	(5,622,361)	(151,779)	(8,202,729)	(11,041,113)	(1,446,377)	(71,209)	(48,497)	<b>(26,584,065)</b>
Payments	(255,763)	(2,831)	(2,523,927)	(3,490,168)	(1,135,735)	(101,481)	(52,759)	<b>(7,562,664)</b>
Surplus revenues (losses) over expenses in the period	2,162,460	44,205	2,879,945	3,161,657	728,807	567,058	38,044	<b>9,582,176</b>
Revenues from accrual management fees	25,673	1,012	292,898	315,348	51,842	11,750	4,157	<b>702,680</b>
Revenues from deposit management fees	42,067	1,999	2,644	-	-	-	-	<b>46,710</b>
Average annual rate of management fees from active assets (%)	0.12	0.18	0.67	0.74	0.66	0.23	0.21	
Average annual rate of management fees from inactive assets (%)	0.13	0.23	0.64	0.69	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 (%)	1.38	1.44	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 September 30, 2022 and for the period of nine 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**	357,819	25,625	1,058,041	970,026	211,030	979,658	6,541	<b>3,608,740</b>
Managed assets, net	25,906,043	624,984	67,834,822	66,046,285	11,537,674	5,745,454	981,889	<b>178,677,151</b>
Receipts from fees	3,503,338	209,333	937,936	5,301,142	1,987,991	732,332	5,672	<b>12,677,744</b>
Of which, nonrecurring fees	-	-	296,968	219,027	1,217,651	30,823	15	<b>1,764,484</b>
Annualized fees for newly enrolled members	453,583	86,226	42,228	545,568	117,576	32,666	15	<b>1,277,862</b>
Annualized fees for all members	4,463,079	351,498	899,464	6,747,549	934,253	935,764	7,621	<b>14,339,228</b>
Accruals transferred to the fund	1,556,786	31,534	516,864	224,770	23,891	4,330	2,406	<b>2,360,581</b>
Accruals transferred from the fund	(5,410,328)	(119,935)	(17,646,295)	(18,475,380)	(2,836,597)	(49,722)	(78,646)	<b>(44,616,903)</b>
Payments	(188,500)	(90)	(2,214,067)	(2,695,449)	(1,255,414)	(61,359)	(45,479)	<b>(6,460,358)</b>
Surplus revenues (losses) over expenses in the period	(3,702,568)	(116,168)	(10,543,114)	(11,123,567)	(2,455,208)	(1,189,595)	(109,616)	<b>(29,239,836)</b>
Revenues from accrual management fees	26,374	1,009	404,685	431,945	70,359	10,344	4,886	<b>949,602</b>
Revenues from deposit management fees	51,907	3,113	3,457	-	-	-	-	<b>58,477</b>
Average annual rate of management fees from active assets (%)	0.11	0.18	0.68	0.75	0.68	0.23	0.24	
Average annual rate of management fees from inactive assets (%)	0.12	0.29	0.65	0.71	0.66	0.23	0.63	
Average annual rate of management fees from assets – annuities (%)	0.35	0.33	-	-	-	-	-	
Average annual rate of management fees from deposits (%)	1.46	1.47	0.35	-	-	-	-	

\* 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	<b>3,485,371</b>
Managed assets, net	25,657,541	662,068	63,577,265	62,409,112	11,029,007	6,112,983	951,724	<b>170,379,700</b>
Receipts from fees	4,613,290	272,914	1,172,043	6,931,138	2,367,630	977,946	7,317	<b>16,342,278</b>
Of which, nonrecurring fees	-	-	332,721	218,692	1,394,299	41,739	20	<b>1,987,471</b>
Annualized fees for newly enrolled members	702,483	98,947	38,052	566,791	112,755	43,088	14	<b>1,562,130</b>
Annualized fees for all members	4,229,116	363,437	778,977	6,050,310	804,841	934,933	6,635	<b>13,168,249</b>
Accruals transferred to the fund	1,810,817	40,390	614,515	257,500	31,267	4,906	2,402	<b>2,761,797</b>
Accruals transferred from the fund	(7,648,040)	(165,376)	(22,237,971)	(23,673,116)	(3,585,997)	(71,386)	(103,239)	<b>(57,485,125)</b>
Payments	(188,677)	6,815	(2,971,441)	(3,665,567)	(1,646,676)	(83,912)	(60,890)	<b>(8,610,348)</b>
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)	<b>(26,471,580)</b>
Revenues from accrual management fees	34,798	1,343	514,046	549,872	89,390	13,835	6,350	<b>1,209,634</b>
Revenues from deposit management fees	67,273	4,061	4,450	-	-	-	-	<b>75,784</b>
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**

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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 retention, 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.

In the Reporting Period, there was a decrease in the balance of members' assets due to the switching of members to competitors and surplus withdrawals over deposits.

See more information of the global capital market trend in paragraph 1.3 above.

Provident fund assets

As of September 30, 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 695.53 billion compared with approximately NIS 648.11 billion at the end of 2022, representing an increase of about 7.32%.

In the Reporting Period, the scope of provident fund assets managed by Altshuler Provident decreased from NIS 144.06 billion at the end of 2022 to NIS 129.76 billion as of September 30, 2023, representing a decrease of about 9.33% in total provident fund assets managed by Altshuler Provident.

Pension fund assets

As of September 30, 2023, total local pension fund assets (new, comprehensive and general) totaled NIS 716.02 billion compared with NIS 621.45 billion at the end of 2022, representing an increase of about 15.22%.

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 26.27 billion as of September 30, 2023, representing a decrease of about 0.20%.

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Investments in provident fund and pension fund assets

In the Reporting Period, the exposure of Altshuler Provident's managed assets to the stock component in the quoted and unquoted investment channels remained at about 50% in the general tracks. 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. In the Reporting Period, Altshuler Provident increased its exposure to U.S. government bonds.

1.4.2.2 The real estate investment management operation

In the Reporting Period, Altshuler Real Estate completed three investment rounds in the U.S. in a total of approximately US\$ 36 million and one investment round in Europe in a total of approximately € 8 million.

1.4.2.3 The alternative operation

In the Reporting Period, Altshuler Shaham Investment Funds completed an investment round of approximately US\$ 21 million. See also 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 periods of nine and three months ended September 30, 2023.

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

	September 30,		December 31, 2022	Company's explanations
	2023	2022		
Assets	972,030	1,078,859	1,059,329	The decrease in assets in the Reporting Period stems from a decrease in intangible assets, right-of-use assets, net lease investment, DAC, property, plant and equipment and receivables against an increase in current tax assets. The change in DAC in the Reporting Period arises from the payment of agent commissions totaling approx. NIS 11,886 thousand less amortizations of approx. NIS 61,915 thousand.
Financial investments	164,173	179,510	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 against an increase in other financial investments.
Cash and cash equivalents	60,689	83,025	96,521	The decrease in cash and cash equivalents in the Reporting Period arises from net cash used in financing activities of approx. NIS 216.1 million, offset by an increase in net cash provided by operating and investing activities of approx. NIS 177.2 million and NIS 3 million, respectively.
<b>Total assets</b>	<b>1,196,892</b>	<b>1,341,394</b>	<b>1,328,079</b>	---
Equity	515,869	487,413	493,133	The increase in equity in the Reporting Period derives from comprehensive income of approx. NIS 105.7 million in the Reporting Period and approx. NIS 1.1 million in capital reserve for share-based payment transactions, offset by a decrease of approx. NIS 84 million in equity due to dividend declared and paid.
Liabilities	681,023	853,981	834,946	The decrease in liabilities in the Reporting Period mainly arises from a decrease in financial liabilities, lease liabilities, employee benefit liabilities, net and payables, against an increase in current and deferred tax liabilities.
<b>Total liabilities and equity</b>	<b>1,196,892</b>	<b>1,341,394</b>	<b>1,328,079</b>	---

## 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):

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2023	2022	2023	2022	2022
<b>Revenues:</b>					
From management fees, net	756,272	1,006,736	242,509	300,894	1,282,992
From commissions	4,234	2,481	735	2,481	2,507
Net investment gains (losses) and finance income	6,389	(5,910)	2,797	(1,390)	(5,361)
Other income	15,129	1,235	13,196	373	1,862
<b>Total revenues</b>	<b>782,024</b>	<b>1,004,542</b>	<b>259,237</b>	<b>302,358</b>	<b>1,282,000</b>
<b>Expenses:</b>					
Commissions, marketing expenses and other acquisition costs	272,220	355,896	87,423	106,670	454,246
General and administrative expenses	317,218	349,514	105,907	106,224	456,564
Other expenses	19,624	20,111	6,541	7,075	27,512
Finance expenses	9,787	12,574	2,871	4,692	15,513
<b>Total expenses</b>	<b>618,849</b>	<b>738,095</b>	<b>202,742</b>	<b>224,661</b>	<b>953,835</b>
<b>Income before taxes on income</b>	<b>163,175</b>	<b>266,447</b>	<b>56,495</b>	<b>77,697</b>	<b>328,165</b>
Taxes on income	55,651	96,185	18,681	27,501	115,306
<b>Net income</b>	<b>107,524</b>	<b>170,262</b>	<b>37,814</b>	<b>50,196</b>	<b>212,859</b>
Other comprehensive income (loss) (net of tax)	(1,893)	2,194	(64)	314	2,718
<b>Total comprehensive income</b>	<b>105,631</b>	<b>172,456</b>	<b>37,750</b>	<b>50,510</b>	<b>215,577</b>
<b>Net income for the period attributable to:</b>					
Equity holders of the Company	107,577	170,234	37,900	50,168	213,121
Non-controlling interests	(53)	28	(86)	28	(262)
	<b>107,524</b>	<b>170,262</b>	<b>37,814</b>	<b>50,196</b>	<b>212,859</b>
<b>Comprehensive income attributable to:</b>					
Equity holders of the Company	105,684	172,428	37,836	50,482	215,839
Non-controlling interests	(53)	28	(86)	28	(262)
	<b>105,631</b>	<b>172,456</b>	<b>37,750</b>	<b>50,510</b>	<b>215,577</b>

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

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**Revenues**

Revenues from management fees, net – the decrease in revenues from management fees in the Reporting Period compared with the corresponding reporting period of 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 – the increase in revenues from commissions in the Reporting Period derives from increased initiation commissions owing to the increase in investments raised in the real estate alternative investment management and development operation in the Reporting Period compared with the corresponding period of last year.

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

Other income – the increase in other income in the Reporting Period compared to the corresponding reporting period of 2022 is mainly a result of income of approximately NIS 12.9 million recognized following the signing of a settlement agreement between Altshuler Provident and Himalaya AP.PS Ltd. ("the seller") in connection with disputes that had arisen between the parties regarding the transaction price adjustment mechanisms in the purchase of the entire share capital of Psagot Investment House Ltd. by Altshuler Provident from the seller (see also Note 6n to the Company's interim consolidated financial statements as of September 30, 2023 hereby attached. Other income also includes income from a settlement agreement reached in a mediation proceeding to which the Company was a party (see more information in Note 27d to the Company's annual consolidated financial statements for 2022).

**Expenses**

Commissions, marketing expenses and other acquisition costs – the decrease in commissions, marketing expenses and other acquisition costs in the Reporting Period compared with the corresponding period of 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 the Reporting Period compared with the corresponding period of 2022 is mainly due to the decrease in salary expenses, net related party expenses, advertising and marketing expenses, professional services and other general and administrative expenses.

Other expenses – the increase in other expenses in the Reporting Period compared with the corresponding period of 2022 mainly stems from an increase in amortization of intangible assets against a decrease in payment settlement fees and a capital loss on lease recognized in H1 2022.

Finance expenses – the decrease in finance expenses in the Reporting Period compared with the corresponding period of 2022 mainly stems from other finance expenses recognized in the corresponding period of 2022 and a decrease in bank interest expenses following the decrease in outstanding financial liabilities.

## 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):

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31, 2022
	2023	2022	2023	2022	
<b>Cash flows from operating activities:</b>					
Net income in the period	107,524	170,262	37,814	50,196	212,859
Adjustments to income	69,741	(20,346)	24,821	18,503	16,891
<b>Net cash provided by operating activities</b>	<b>177,265</b>	<b>149,916</b>	<b>62,635</b>	<b>68,699</b>	<b>229,750</b>
<b>Net cash provided by (used in) investing activities</b>	<b>3,014</b>	<b>(13,192)</b>	<b>7,936</b>	<b>(24,454)</b>	<b>(23,207)</b>
<b>Net cash used in financing activities</b>	<b>(216,111)</b>	<b>(350,269)</b>	<b>(94,786)</b>	<b>(40,763)</b>	<b>(406,592)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(35,832)</b>	<b>(213,545)</b>	<b>(24,215)</b>	<b>3,482</b>	<b>(200,049)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>96,521</b>	<b>296,570</b>	<b>84,904</b>	<b>79,543</b>	<b>296,570</b>
<b>Cash and cash equivalents at end of period</b>	<b>60,689</b>	<b>83,025</b>	<b>60,689</b>	<b>83,025</b>	<b>96,521</b>

Cash flows provided by operating activities – the increase in cash flows provided by operating activities in the Reporting Period compared with the corresponding period of 2022 is mainly a result of an increase in other balance sheet items and cash paid and received in the period against a decrease in the Company's net income and items not involving cash flows.

Cash flows provided by (used in) investing activities – the increase in cash flows provided by investing activities in the Reporting Period compared with the corresponding period of 2022 is a result of a decrease in against a decrease in investment in intangible assets and in the purchase of property, plant and equipment, an increase in lease receipts and the payment of contingent consideration for acquisition of investees in the corresponding period of last year against a decrease in net sales of financial investments.

Cash flows used in financing activities – the decrease in cash flows used in financing activities in the Reporting Period compared with the corresponding period of 2022 is mainly a result of a decrease in a dividend paid to the Company's shareholders against an increase in repayment of loans from banks.

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

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**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 the Report Date, the average scope of long-term and short-term loans (including current maturities) from banks approximates NIS 400.4 million and NIS 87.5 million, respectively.

Moreover, 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 Q3 2023, Altshuler Provident's revenues from management fees totaled NIS 242 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 464 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 2.
- 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 2.9.

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 consolidated financial statements as of September 30, 2023 hereby attached and Note 18 to the Company's annual consolidated financial statements as of December 31, 2022.

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

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**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 periods of nine and three months ended September 30, 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 annual consolidated 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. See more information in Note 6c to the Company's interim consolidated financial statements as of June 30, 2023 hereby attached.
- 2.1.2 On May 23, 2023, the Company's Board approved the distribution of a dividend of NIS 29 million based on the Company's interim consolidated financial statements as of March 31, 2023. See more information in the Company's immediate reports of May 24, 2023 and June 7, 2023 (TASE references: 2023-01-055539 and 2023-01-062625, respectively), whose information is hereby included by reference. See also Note 6e to the Company's interim consolidated financial statements hereby attached.
- 2.1.3 On August 21, 2023, the Company's Board approved the distribution of a dividend of NIS 23 million based on the Company's interim consolidated financial statements as of June 30, 2023. See more information in the Company's immediate reports of August 22, 2023 and August 5, 2023 (TASE references: 2023-01-096588 and 2023-01-103371, respectively), whose information is hereby included by reference. See also Note 6h to the Company's interim consolidated financial statements hereby attached.
- 2.1.4 On November 22, 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 28 million based on the Company's interim consolidated financial statements attached to this report. See also Note 7a to the Company's interim consolidated financial statements hereby attached.

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

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### 2.2 Effects of inflation and market interest rises

As described in paragraph 1.3 above, in Q3 2023, inflation rates in the local and global markets began showing restraint. In Israel, the CPI for September 2023 decreased, and the annual inflation rate was 3.8%. 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.*

### 2.3 The alternative investment management operation

On January 26, 2023, the Company's Board approved the foundation of the alternative investment management 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 Investment Funds, which is a wholly owned subsidiary of Altshuler Alternative.

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).

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

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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 serve as the fund's manager and general partner. Pantheon provides the fund investment management services in return for management fees and carried interest as agreed between the parties. See more information of the collaboration between the parties in the Company's immediate report of May 17, 2023 (TASE references: 2023-01-052749), whose information is hereby included by reference.

In the Reporting Period, an initial investment of approximately US\$ 21 million was raised. The investments are made by introducing investors that serve as limited partners in a limited partnership whose general partner is Altshuler Investment Funds or a subsidiary owned by it or a special purpose subsidiary founded by Altshuler Alternative. It should also be noted that the Company is also promoting other activities in the alternative investment management operation by reviewing investment performance indicators and founding other special purpose funds.

***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.***

### 2.4 Litigation

- 2.4.1 See details of a settlement agreement signed in the Reporting Period between Altshuler Provident and Himalaya AP.PS Ltd. ("the seller") in connection with disputes that had arisen between the parties regarding the transaction price adjustment mechanisms in the purchase of the entire share capital of Psagot Investment House Ltd. by Altshuler Provident from the seller in Note 6n to the Company's interim consolidated financial statements as of September 30, 2023 hereby attached.
- 2.4.2 See details of the Jerusalem Regional Labor Court's judgment that approves a mutual motion for withdrawal of two class action certification motions filed against Altshuler Provident in Note 5a(1) to the Company's interim consolidated financial statements as of September 30, 2023 hereby attached and in the Company's immediate report of September 20, 2023 (TASE references: 2023-01-108537), whose information is hereby included by reference.
- 2.4.3 See details of a class action certification motion filed against Altshuler Provident as of the Report Date in Note 5a(2) to the Company's interim consolidated financial statements as of September 30, 2023 hereby attached.

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

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2.5 Swords of Iron War

See details of the Swords of Iron War and its effects on the Company in paragraph 1.3 above and in Note 1c to the Company's interim consolidated financial statements as of September 30, 2023 hereby attached.

2.6 Officers' and directors' liability insurance

After the Reporting Period, on November 22, 2023, the Company's Remuneration Committee approved the Company's purchase of a collective D&O liability insurance policy for the Altshuler Shaham Group as per Regulation 1B(1) to the Israeli Companies Regulations (Relief in Interested Party Transactions), 2000 ("the Relief Regulations"). The insurance policy is in accordance with the Company's remuneration policy as approved by the general meeting of the Company's shareholders on October 27, 2022 and in keeping with the recharge agreement signed between the Company, Altshuler Provident and Altshuler Ltd. The policy is in effect for one year from December 1, 2023. The policy covers the entire directors and officers in the Company, including the CEO and controlling shareholders, as per the Relief Regulations, under the same terms and without favoring the CEO and controlling shareholders. According to the policy, the collective liability limit is US\$ 40 million per event and for the entire insurance period in respect of claims filed against the policyholders in connection with their capacity as directors and officers in the Company. The annual insurance fees and deductible are at arm's length and are in an amount that is immaterial to the Company and is paid on a pro rata basis as determined in the above recharge agreement.

See more information of material events during and after the Reporting Period in Notes 6 and 7 to the Company's interim consolidated financial statements as of September 30, 2023 hereby attached.

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.

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 its qualified functions.

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

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According to this policy, the changes in the nostro portfolio have little effect on Altshuler Provident'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 paragraph 4 to the Report of the Board of Directors attached to the Periodic Report for 2022.

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.

VaR compliance as of the Report Date

As of the Report Date, the fair value of the Group's short-term investments is NIS 158,510 thousand whereas the VaR of these assets is NIS 27 thousand, accounting for 0.02% 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.

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**Ran Shaham**  
**Chairman of the Board of Directors**

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**Yair Lowenstein**  
**CEO**

Report Approval Date: November 22, 2023

**ALTSHULER SHAHAM FINANCE LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF SEPTEMBER 30, 2023**

**UNAUDITED**

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## **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 September 30, 2023 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the periods of nine and three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods 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  
November 22, 2023

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<u>September 30,</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>		
<b>Assets:</b>			
Intangible assets	539,378	565,242	562,797
Right-of-use assets	47,712	49,035	48,229
Investment in lease, net	49,876	57,476	56,481
Deferred acquisition costs	239,729	306,591	289,758
Deferred tax assets	5,482	3,973	4,287
Property, plant and equipment	28,967	31,050	33,357
Accounts receivable	47,909	54,942	51,081
Current tax assets	12,977	10,550	13,339
<b>Financial investments:</b>			
Quoted debt assets	149,486	168,874	162,383
Unquoted debt assets	61	3,307	3,541
Other	14,626	7,329	6,305
<b>Total financial investments</b>	<b>164,173</b>	<b>179,510</b>	<b>172,229</b>
Cash and cash equivalents	60,689	83,025	96,521
<b>Total assets</b>	<b>1,196,892</b>	<b>1,341,394</b>	<b>1,328,079</b>
<b>Equity:</b>			
Share capital	2,020	2,017	2,018
Share premium	239,888	237,964	238,622
Capital reserve from transaction with controlling shareholder	(4,131)	(3,412)	(3,668)
Capital reserve from share-based payment transactions	33,107	32,611	32,807
Capital reserve from financial assets measured at fair value through other comprehensive income	2	1,660	1,895
Retained earnings	245,298	216,545	221,721
<b>Equity attributable to equity holders of the Company</b>	<b>516,184</b>	<b>487,385</b>	<b>493,395</b>
<b>Non-controlling interests</b>	<b>(315)</b>	<b>28</b>	<b>(262)</b>
<b>Total equity</b>	<b>515,869</b>	<b>487,413</b>	<b>493,133</b>
<b>Liabilities:</b>			
Deferred tax liabilities	29,459	27,506	26,762
Employee benefit liabilities, net	4,028	4,159	3,870
Current tax liabilities	4,126	-	819
Accounts payable	109,079	150,342	147,157
Lease liability	102,883	109,061	109,123
Financial liabilities	431,448	562,913	547,215
<b>Total liabilities</b>	<b>681,023</b>	<b>853,981</b>	<b>834,946</b>
<b>Total equity and liabilities</b>	<b>1,196,892</b>	<b>1,341,394</b>	<b>1,328,079</b>

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

November 22, 2023

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**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	NIS in thousands (except per share data)				
Revenues from management fees, net	756,272	1,006,736	242,509	300,894	1,282,992
Revenues from commissions	4,234	2,481	735	2,481	2,507
Net investment gains (losses) and finance income	6,389	(5,910)	2,797	(1,390)	(5,361)
Other income	15,129	1,235	13,196	373	1,862
<b>Total revenues</b>	<b>782,024</b>	<b>1,004,542</b>	<b>259,237</b>	<b>302,358</b>	<b>1,282,000</b>
Commissions, marketing expenses and other acquisition costs	272,220	355,896	87,423	106,670	454,246
General and administrative expenses	317,218	349,514	105,907	106,224	456,564
Other expenses	19,624	20,111	6,541	7,075	27,512
Finance expenses	9,787	12,574	2,871	4,692	15,513
<b>Total expenses</b>	<b>618,849</b>	<b>738,095</b>	<b>202,742</b>	<b>224,661</b>	<b>953,835</b>
<b>Income before taxes on income</b>	<b>163,175</b>	<b>266,447</b>	<b>56,495</b>	<b>77,697</b>	<b>328,165</b>
Taxes on income	55,651	96,185	18,681	27,501	115,306
<b>Net income</b>	<b>107,524</b>	<b>170,262</b>	<b>37,814</b>	<b>50,196</b>	<b>212,859</b>
Other comprehensive income (loss) (net of taxes):					
Amounts that will be or have been reclassified to profit or loss when specific conditions are met:					
Gain (loss) from investments in financial instruments measured at fair value through other comprehensive income	(53)	1,110	(64)	314	1,345
Amounts carried to profit or loss from sale of investments in debt instruments at fair value through profit or loss	(1,840)	-	-	-	-
Total components of other comprehensive income (loss), net that will be subsequently reclassified to profit or loss	(1,893)	1,110	(64)	314	1,345
Amounts that will not be subsequently reclassified to profit or loss:					
Gain from remeasurement of defined benefit plan	-	1,084	-	-	1,373
Total components of other comprehensive income, net that will not be subsequently reclassified to profit or loss	-	1,084	-	-	1,373
<b>Total other comprehensive income (loss) (net of taxes)</b>	<b>(1,893)</b>	<b>2,194</b>	<b>(64)</b>	<b>314</b>	<b>2,718</b>
<b>Total comprehensive income</b>	<b>105,631</b>	<b>172,456</b>	<b>37,750</b>	<b>50,510</b>	<b>215,577</b>
<b>Net income attributable to:</b>					
Equity holders of the Company	107,577	170,234	37,900	50,168	213,121
Non-controlling interests	(53)	28	(86)	28	(262)
	<b>107,524</b>	<b>170,262</b>	<b>37,814</b>	<b>50,196</b>	<b>212,859</b>
<b>Comprehensive income attributable to:</b>					
Equity holders of the Company	105,684	172,428	37,836	50,482	215,839
Non-controlling interests	(53)	28	(86)	28	(262)
	<b>105,631</b>	<b>172,456</b>	<b>37,750</b>	<b>50,510</b>	<b>215,577</b>
<b>Basic net earnings per share attributable to equity holders of the Company (in NIS)</b>	<b>0.54</b>	<b>0.86</b>	<b>0.19</b>	<b>0.25</b>	<b>1.08</b>
<b>Diluted net earnings per share attributable to equity holders of the Company (in NIS)</b>	<b>0.54</b>	<b>0.85</b>	<b>0.19</b>	<b>0.25</b>	<b>1.07</b>

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 controlling shareholder	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
<b>Net income (loss)</b>	-	-	-	-	-	107,577	(53)	107,524
<b>Other comprehensive loss, net of taxes:</b>								
Loss from investments in financial instruments measured at FVOCI	-	-	-	-	(53)	-	-	(53)
Amount reclassified to profit or loss for sale of investments in debts assets at FVOCI	-	-	-	-	(1,840)	-	-	(1,840)
<b>Total comprehensive income (loss)</b>	-	-	-	-	(1,893)	107,577	(53)	105,631
<b>Transactions with owners carried directly to equity:</b>								
Cost of share-based payment	-	-	(463)	1,568	-	-	-	1,105
Exercise of employee options	2	1,266	-	(1,268)	-	-	-	-
Dividend to equity holders of the Company	-	-	-	-	-	(84,000)	-	(84,000)
Balance at September 30, 2023	<u>2,020</u>	<u>239,888</u>	<u>(4,131)</u>	<u>33,107</u>	<u>2</u>	<u>245,298</u>	<u>(315)</u>	<u>515,869</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 controlling shareholder	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, 2022 (audited)	2,013	235,669	(1,805)	29,867	550	285,227	-	551,521
<b>Net income</b>	-	-	-	-	-	170,234	28	170,262
<b>Other comprehensive income, net of taxes:</b>								
Actuarial gains from employee defined benefit plan	-	-	-	-	-	1,084	-	1,084
Gain from investments in financial instruments measured at FVOCI	-	-	-	-	1,110	-	-	1,110
<b>Total comprehensive income</b>	-	-	-	-	1,110	171,318	28	172,456
<b>Transactions with owners carried directly to equity:</b>								
Cost of share-based payment	-	-	(1,607)	5,043	-	-	-	3,436
Exercise of employee options	4	2,295	-	(2,299)	-	-	-	-
Dividend to equity holders of the Company	-	-	-	-	-	(240,000)	-	(240,000)
Balance at September 30, 2022	2,017	237,964	(3,412)	32,611	1,660	216,545	28	487,413

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 controlling shareholder	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 July 1, 2023	2,020	239,623	(4,046)	33,065	66	230,398	(229)	500,897
<b>Net income (loss)</b>	-	-	-	-	-	37,900	(86)	37,814
<b>Other comprehensive loss, net of taxes:</b>								
Loss from investments in financial instruments measured at FVOCI	-	-	-	-	(64)	-	-	(64)
<b>Total comprehensive income (loss)</b>	-	-	-	-	(64)	37,900	(86)	37,750
<b>Transactions with owners carried directly to equity:</b>								
Cost of share-based payment	-	-	(85)	307	-	-	-	222
Exercise of employee options	*)-	265	-	(265)	-	-	-	-
Dividend to equity holders of the Company	-	-	-	-	-	(23,000)	-	(23,000)
Balance at September 30, 2023	<u>2,020</u>	<u>239,888</u>	<u>(4,131)</u>	<u>33,107</u>	<u>2</u>	<u>245,298</u>	<u>(315)</u>	<u>515,869</u>

\*) Represents n amount lower than NIS 1 thousand.

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 controlling shareholder	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 July 1, 2022	2,016	237,568	(2,970)	31,865	1,346	206,377	-	476,202
<b>Net income</b>	-	-	-	-	-	50,168	28	50,196
<b>Other comprehensive income, net of taxes:</b>								
Gain from investments in financial instruments measured at FVOCI	-	-	-	-	314	-	-	314
<b>Total comprehensive income</b>	-	-	-	-	314	50,168	28	50,510
<b>Transactions with owners carried directly to equity:</b>								
Cost of share-based payment	-	-	(442)	1,143	-	-	-	701
Exercise of employee options	1	396	-	(397)	-	-	-	-
Dividend to equity holders of the Company	-	-	-	-	-	(40,000)	-	(40,000)
Balance at September 30, 2022	2,017	237,964	(3,412)	32,611	1,660	216,545	28	487,413

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 controlling shareholder	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
<b>Net income (loss)</b>	-	-	-	-	-	213,121	(262)	212,859
<b>Other comprehensive income, net of taxes:</b>								
Actuarial gains from employee defined benefit plan	-	-	-	-	-	1,373	-	1,373
Gain from investments in financial instruments measured at FVOCI	-	-	-	-	1,345	-	-	1,345
<b>Total comprehensive income (loss)</b>	-	-	-	-	1,345	214,494	(262)	215,577
<b>Transactions with owners carried directly to equity:</b>								
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	2,018	238,622	(3,668)	32,807	1,895	221,721	(262)	493,133

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	NIS in thousands				
<b>Cash flows from operating activities:</b>					
<b>Net income for the period</b>	107,524	170,262	37,814	50,196	212,859
<b>Items not involving cash flows:</b>					
Net losses (gains) from financial investments:					
Quoted debt assets	(2,137)	6,694	(1,877)	1,679	5,971
Unquoted debt assets	(1,382)	-	-	-	-
Other	(810)	(378)	(601)	(128)	646
Other finance expenses, net	7,455	11,724	2,693	4,487	15,575
Impairment and loss from disposal of property, plant and equipment and right-of-use asset	56	248	48	1	749
Cost of share-based payment	1,105	3,436	222	701	4,035
Change in deferred acquisition costs	50,029	46,980	16,580	19,221	63,813
Depreciation and amortization:					
Right-of-use assets	6,265	7,598	2,159	2,243	9,797
Property, plant and equipment	6,301	5,476	2,088	1,952	7,872
Intangible assets	39,372	38,732	13,328	13,306	52,696
Taxes on income	55,651	96,185	18,681	27,501	115,306
	161,905	216,695	53,321	70,963	276,460
<b>Changes in other balance sheet items:</b>					
Change in accounts receivable	3,214	16,560	1,402	6,471	20,095
Change in accounts payable	(55,060)	(113,367)	(15,579)	(27,256)	(122,698)
Change in employee benefit liabilities, net	159	(399)	20	56	(301)
	(51,687)	(97,206)	(14,157)	(20,729)	(102,904)
<b>Cash paid and received during the period for:</b>					
Interest paid	(8,442)	(10,581)	(2,648)	(4,096)	(12,823)
Interest received	1,990	1,048	314	142	213
Taxes paid	(34,025)	(130,302)	(12,009)	(27,777)	(144,055)
	(40,477)	(139,835)	(14,343)	(31,731)	(156,665)
<b>Net cash provided by operating activities</b>	177,265	149,916	62,635	68,699	229,750

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2023	2022	2023	2022	2022
	Unaudited				Audited
	NIS in thousands				
<b><u>Cash flows from investing activities:</u></b>					
Receipts from lease	9,715	7,192	4,437	3,304	9,164
Payment of contingent consideration for acquisition of investees	-	(37,348)	-	(24,532)	(37,348)
Purchase of property, plant and equipment	(1,739)	(16,488)	(304)	(11,519)	(21,619)
Investment in intangible assets	(15,454)	(25,919)	(4,945)	(7,696)	(39,762)
Sales of financial investments, net	10,492	59,371	8,748	15,989	66,358
<b>Net cash provided by (used in) investing activities</b>	<b>3,014</b>	<b>(13,192)</b>	<b>7,936</b>	<b>(24,454)</b>	<b>(23,207)</b>
<b><u>Cash flows from financing activities:</u></b>					
Receipt of bank loans	205	17,000	205	17,000	75,650
Repayment of lease liability	(16,320)	(15,529)	(6,690)	(5,415)	(18,155)
Repayment of bank loans	(115,996)	(111,740)	(65,301)	(12,348)	(186,087)
Dividend paid to equity holders of the Company	(84,000)	(240,000)	(23,000)	(40,000)	(278,000)
<b>Net cash used in financing activities</b>	<b>(216,111)</b>	<b>(350,269)</b>	<b>(94,786)</b>	<b>(40,763)</b>	<b>(406,592)</b>
<b><u>Increase (decrease) in cash and cash equivalents</u></b>	<b>(35,832)</b>	<b>(213,545)</b>	<b>(24,215)</b>	<b>3,482</b>	<b>(200,049)</b>
<b><u>Cash and cash equivalents at the beginning of the period</u></b>	<b>96,521</b>	<b>296,570</b>	<b>84,904</b>	<b>79,543</b>	<b>296,570</b>
<b><u>Cash and cash equivalents at the end of the period</u></b>	<b>60,689</b>	<b>83,025</b>	<b>60,689</b>	<b>83,025</b>	<b>96,521</b>
<b><u>Material non-cash transactions:</u></b>					
Right-of-use asset recognized against lease liability	6,748	41,508	3,423	1,171	43,871
Purchase of intangible assets	500	2,330	500	2,330	5,538

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**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 is mainly engaged in managing provident and pension funds through holding the entire (100%) issued and outstanding share capital of Altshuler Provident. The Company also has other operations, but these operations do not aggregate into reportable segments, such as managing alternative real estate investments through Altshuler Shaham Real Estate Ltd. ("**Altshuler Real Estate**") and managing 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 September 30, 2023 and for the periods of nine and three months then ended ("**interim consolidated financial statements**"). These financial statements should be read in conjunction with the Company's annual consolidated financial statements of 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 Amendment 2 to the Securities Regulations (Periodic and Immediate Reports), 2022.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1:- GENERAL (Cont.)**

- c. The effects of the Swords of Iron war:

On October 7, 2023, the Swords of Iron war broke out in Israel ("the war"). The ongoing war has led to a slowdown in business activity throughout the Israeli economy, as a result, among others, of the shutdown of enterprises in the south and north of Israel, the damage to local infrastructures, the nationwide military reserve draft for an indefinite period and the disruption of economic activity in the entire country. The prolongation of the war is likely to have extensive nationwide effects on numerous business and geographic segments.

The potential fluctuations in commodity prices, foreign currency exchange rates, availability of materials and manpower, local services and access to local resources are all liable to affect entities whose main operations are conducted in or with Israel.

The above conditions might adversely affect the capital markets and the business environment in which Altshuler Provident operates, thereby causing impairment of the scope and value of assets managed by it.

However, as of the date of approval of the interim consolidated financial statements, the Company is unable to reliably assess the extent of any future effect of the war on the Company's operations in view of the current market volatility, uncertainty regarding the continuation, intensity and impact of the war on the Company's operating segments and the adoption of other steps by the local government.

**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.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- 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. The Company is examining the potential effect of the Amendment on the accounting policy disclosures in the Company's annual consolidated financial statements.

- c. Reclassification:

The Company reclassified certain items in immaterial amounts in the comparative data for previous periods to conform them to the current period's presentation.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

In the provident fund and pension fund management 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. This operation was initiated in July 2022.

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:

	Nine months ended September 30, 2023				
	Pension	Provident	Other	Unallocated	Total
				to operating	
	Unaudited				
NIS in thousands					
Revenues from management fees, net	70,285	684,918	1,069	-	*)756,272
Revenues from commissions	-	-	4,234	-	4,234
Net gains from investments and finance income	-	-	-	6,389	6,389
Other income	-	-	-	15,129	**)15,129
<b>Total revenues</b>	<b>70,285</b>	<b>684,918</b>	<b>5,303</b>	<b>21,518</b>	<b>782,024</b>
Commissions, marketing expenses and other acquisition expenses	13,249	257,961	1,010	-	272,220
Operating fees	5,002	16,989	-	-	21,991
<b>Total joint expenses</b>	<b>18,251</b>	<b>274,950</b>	<b>1,010</b>	<b>-</b>	<b>294,211</b>
<b>Segment income</b>	<b>52,034</b>	<b>409,968</b>	<b>4,293</b>	<b>21,518</b>	<b>487,813</b>
G&A, finance and other expenses allocated to the segment	302,957	8,085	13,596	-	324,638
<b>Income (loss) before taxes on income</b>	<b>159,045</b>	<b>(3,792)</b>	<b>7,922</b>	<b>-</b>	<b>163,175</b>

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

\*\*) Includes income of approximately NIS 12.9 million in connection with a settlement agreement reached in the reporting period. See also Note 6n below.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3:- OPERATING SEGMENTS (Cont.)

	Nine months ended September 30, 2022				
	Pension	Provident	Other	Unallocated	Total
				to operating segment	
Unaudited					
NIS in thousands					
Revenues from management fees, net	82,221	924,515	-	-	1,006,736
Revenues from commissions	-	-	2,481	-	2,481
Net gains from investments and finance income	-	-	-	(5,910)	(5,910)
Other income	-	-	-	1,235	1,235
Total revenues (losses)	82,221	924,515	2,481	(4,675)	1,004,542
Commissions, marketing expenses and other acquisition expenses	13,610	341,776	510	-	355,896
Operating fees	3,582	18,189	-	-	21,771
Total joint expenses	17,192	359,965	510	-	377,667
Segment income	65,029	564,550	1,971	(4,675)	626,875
G&A, finance and other expenses allocated to the segment		346,936	1,773	11,719	360,428
<b>Income (loss) before taxes on income</b>		282,643	198	(16,394)	266,447

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3:- OPERATING SEGMENTS (Cont.)

	Three months ended September 30, 2023				
	Pension	Provident	Other	Unallocated	Total
				to operating	
	Unaudited				
NIS in thousands					
Revenues from management fees, net	23,209	218,755	545	-	242,509
Revenues from commissions	-	-	735	-	735
Net gains from investments and finance income	-	-	-	2,797	2,797
Other income	-	-	-	13,196	*)13,196
<b>Total revenues</b>	<b>23,209</b>	<b>218,755</b>	<b>1,280</b>	<b>15,993</b>	<b>259,237</b>
Commissions, marketing expenses and other acquisition expenses	4,319	82,838	266	-	87,423
Operating fees	1,692	5,686	-	-	7,378
<b>Total joint expenses</b>	<b>6,011</b>	<b>88,524</b>	<b>266</b>	<b>-</b>	<b>94,801</b>
<b>Segment income</b>	<b>17,198</b>	<b>130,231</b>	<b>1,014</b>	<b>15,993</b>	<b>164,436</b>
G&A, finance and other expenses allocated to the segment	102,132	-	2,837	2,972	107,941
<b>Income (loss) before taxes on income</b>	<b>45,297</b>	<b>(1,823)</b>	<b>13,021</b>	<b>56,495</b>	<b>56,495</b>

\*) Includes income of approximately NIS 12.9 million in connection with a settlement agreement reached in the reporting period. See also Note 6n below.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3:- OPERATING SEGMENTS (Cont.)

	Three months ended September 30, 2022				
	Pension	Provident	Other	Unallocated to operating segment	Total
	Unaudited				
NIS in thousands					
Revenues from management fees, net	27,215	273,679	-	-	300,894
Revenues from commissions	-	-	2,481	-	2,481
Net losses from investments and finance income	-	-	-	(1,390)	(1,390)
Other income	-	-	-	373	373
Total revenues (losses)	<u>27,215</u>	<u>273,679</u>	<u>2,481</u>	<u>(1,017)</u>	<u>302,358</u>
Commissions, marketing expenses and other acquisition expenses	4,132	102,028	510	-	106,670
Operating fees	1,234	5,905	-	-	7,139
Total joint expenses	<u>5,366</u>	<u>107,933</u>	<u>510</u>	<u>-</u>	<u>113,809</u>
Segment income	<u>21,849</u>	<u>165,746</u>	<u>1,971</u>	<u>(1,017)</u>	<u>188,549</u>
G&A, finance and other expenses allocated to the segment	105,164		1,773	3,915	110,852
<b>Income (loss) before taxes on income</b>	<u>82,431</u>		<u>198</u>	<u>(4,932)</u>	<u>77,697</u>

## 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
<b>Total revenues (losses)</b>	<b>106,793</b>	<b>1,176,199</b>	<b>2,690</b>	<b>(3,682)</b>	<b>1,282,000</b>
Commissions, marketing expenses and other acquisition expenses	18,284	435,523	439	-	454,246
Operating fees	4,820	25,007	-	-	29,827
<b>Total joint expenses</b>	<b>23,104</b>	<b>460,530</b>	<b>439</b>	<b>-</b>	<b>484,073</b>
<b>Segment income (loss)</b>	<b>83,689</b>	<b>715,669</b>	<b>2,251</b>	<b>(3,682)</b>	<b>797,927</b>
G&A, finance and other expenses allocated to the segment	449,332		3,736	16,694	469,762
<b>Income (loss) before taxes on income</b>	<b>350,026</b>		<b>(1,485)</b>	<b>(20,376)</b>	<b>328,165</b>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- FINANCIAL INSTRUMENTS

a. Fair value:

Financial liabilities

	September 30, 2023		September 30, 2022		December 31, 2022	
	Carrying amount *)	Fair value **)	Carrying amount *)	Fair value **)	Carrying amount *)	Fair value **)
			Unaudited		Audited	
	NIS in thousands					
Bank loans	431,534	362,407	563,223	496,054	547,728	470,684
Total financial liabilities	431,534	362,407	563,223	496,054	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 September 30, 2023, Altshuler Provident is in compliance with all the financial covenants determined with banks. See information of changes in credit facilities in Notes 6b and 6g below.

c. Classification of financial instruments by fair value hierarchy:

	September 30, 2023			Total
	Level 1	Level 2	Level 3	
	Unaudited			
	NIS in thousands			
Quoted debt assets	149,486	-	-	149,486
Unquoted debt assets	-	61	-	61
Other	**)8,964	-	*)5,662	14,626
Total	158,450	61	5,662	164,173

	September 30, 2022			Total
	Level 1	Level 2	Level 3	
	Unaudited			
	NIS in thousands			
Quoted debt assets	168,874	-	-	168,874
Unquoted debt assets	-	3,307	-	3,307
Other	-	-	*)7,329	7,329
Total	168,874	3,307	7,329	179,510

\*) See also paragraph d below.

\*\*) The balance represents participation certificates in mutual funds in which Altshuler Provident invested in the reporting period.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4:- FINANCIAL INSTRUMENTS (Cont.)

	December 31, 2022			Total
	Level 1	Level 2	Level 3	
	Audited			
NIS in thousands				
Quoted debt assets	162,383	-	-	162,383
Unquoted debt assets	-	3,541	-	3,541
Other	-	-	*)6,305	6,305
Total	<u>162,383</u>	<u>3,541</u>	<u>6,305</u>	<u>172,229</u>

\*) 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 September 30, 2023, September 30, 2022 and December 31, 2022 was estimated at approximately NIS 5.7 million, NIS 7.3 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 312 thousand, which was charged to finance income.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**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 tables below do 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 NIS in millions</u>
<u>Pending class action certification motions:</u>		
Claims whose amount is specified	-	-
Claims whose amount is not specified	4	-

- In keeping with the matters discussed in Notes 27a(1), 27a(2), 27b(1), 27b(2) and 27b(3) to the Company's annual consolidated financial statements, on June 22, 2023, the Supreme Court rendered a decision in the corresponding proceeding held in connection with the direct expenses in personal insurance. Following the Court's decision, the Court ordered the parties to submit their position on the future management of the proceedings in question. On September 20, 2023, the Court rendered a verdict that approved the mutual motion for the withdrawal of the petitioners' class action certification motions stated in Notes 27a(1) and 27a(2) to the Company's annual consolidated financial statements without issuing an order for expenses, thereby concluding these litigations.

In keeping with the matters discussed in Notes 27b(1) and 27b(2) to the Company's annual consolidated financial statements, the parties have to submit their supplemental summations addressing the implications of the Supreme Court's decision. As per Altshuler Provident's legal counsel, given the Supreme Court's judgment in the appeal, Altshuler Provident has good defense arguments against the motion and therefore it is more likely than not that the Court will not grant the motions specified in said Notes.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**NOTE 5:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)**

2. On August 1, 2023, Altshuler Provident was notified of a class action certification motion filed against it according to which it opens new provident funds for former members who had mobilized their provident funds from Altshuler Provident to other companies and continues to use the authorization granted to it in the past by those members to charge their bank accounts for management fees without their knowledge or consent. The petitioner argues the collective damage cannot be quantified but is in excess of NIS 2.5 million. The personal claim amounts to NIS 134.91 per petitioner. Based on Altshuler Provident's legal counsel and due to the early stage of the proceeding, Altshuler Provident is presently unable to assess the chances of the claim or motion.
  3. In keeping with the matters discussed in Note 27a(5) to the Company's annual consolidated financial statements, the Court approved a procedural arrangement reached by the parties regarding the date of submitting their respective summations. Based on Altshuler Provident's legal counsel, under the current circumstances, it is more likely than not (namely, it is more than 50% probable) that the Court will deny the class action certification motion.
- 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	-

Other than as specified above, 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 September 30, 2023 in respect of claims filed against Psagot Investment House Ltd. and Psagot Provident which had been merged into Altshuler Provident approximates NIS 2,878 thousand.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**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 paragraph d 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%. On March 28, 2023, Altshuler Provident repaid the entire utilized credit facility of NIS 26 million.

On June 22, 2023, Altshuler Provident signed a credit extension agreement for a period of one year under similar terms as described above. As of the date of the interim consolidated financial statements, the credit facility has not been utilized.

- 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.
- d. 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 in the service agreement. An initial investment of approximately \$ 21 million was raised in the reporting period.

- e. On May 23, 2023, the Company 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**

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**NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

- f. On May 23, 2023, the service agreement signed between the Company and Altshuler Provident was revised whereby Altshuler Provident will be able to provide the Company various services, as defined in the revised agreement, for cost only.
- g. 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 b above. Moreover, on September 14, 2023, Altshuler Provident repaid the outstanding loan of NIS 50 million. As of the date of the interim consolidated financial statements, the credit facility has not been utilized.
- h. On August 21, 2023, the Company's Board declared the distribution of a dividend of NIS 23,000 thousand to the Company's shareholders, representing NIS 0.12 per share.
- i. On August 21, 2023, the Company's Board approved entering into an agreement with Altshuler Real Estate for providing it a credit facility of NIS 8 million bearing annual interest of Prime+0.8% until the end of 2025.
- j. On August 21, 2023, the Company's Board approved entering into an agreement with Altshuler Investment Funds for providing it a credit facility of NIS 9 million bearing annual interest of Prime+0.8% until the end of 2025.
- k. In keeping with the matter discussed in Note 18c(4) to the annual consolidated financial statements, on September 21, 2023, Altshuler Provident repaid the entire outstanding credit from Bank HaPoalim.
- l. In the reporting period, Altshuler Real Estate completed raising three investments in the United States in an aggregate of approximately \$ 36 million and completed an investment transaction in Europe totaling approximately € 8 million.
- m. See details of a class action certification motion filed on August 1, 2023 in Note 5a(2) above.
- n. In keeping with the matters discussed in Note 13c to the annual consolidated financial statements, in the reporting period, Altshuler Provident and Himalaya AP.PS Ltd. ("the seller") reached a settlement agreement which resolves the entire disputes that had arisen between the parties regarding the transaction price adjustment mechanisms in the purchase of the entire issued and outstanding share capital of Psagot Investment House Ltd. by Altshuler Provident from the seller. As a result, in the reporting period, the Company recognized other income of approximately NIS 12.9 million.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 7:- SIGNIFICANT EVENTS AFTER THE REPORTING DATE**

On November 22, 2023, in keeping with the Company's dividend distribution policy, the Company's Board declared the distribution of a dividend of NIS 28,000 thousand to the Company's shareholders, representing NIS 0.14 per share.

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