

Alrov Real Estate and Hotels Ltd.
(the “Shareholder” and/or “Alrov”)

[Position statement No. 2 out of 4 position statements of Alrov]

December 15, 2022

To

Clal Insurance Enterprises Holdings Ltd. (“Clal Ltd.”, the “Company”, “Clal”)

Dear Sir or Madam,

Re: **Position statement, pursuant to Regulation 6(C) of the Voting and Position Regulations¹**

Subjects 5.1, 5.2, 5.3, 5.4, 5.7 for the annual general meeting: election and appointment of board candidates (who are not candidates nominated by Alrov)

According to the Voting and Position Regulations:

A. Details pursuant to the Voting and Position Regulations

1. According to Regulation 8(A) of the Regulations, the position statement is drafted in clear, summary, simple and understandable language and contains no more than 500 words for each subject on the agenda, and for the 5 subjects in question combined, not more than 2,500 words, for the subjects being discussed, and first and foremost electing the candidate Haim Samet who is serving as chairman of the board (“**Samet the Chairman**”).

Note: (A) Samet the Chairman was proposed to serve as a director in the Company by Alrov in October 2020. (B) However, in the general meeting that was held on December 27, 2021, Alrov voted **against** continuing the term of office of Samet as the chairman of the board. (C) Also, in reply to a “preliminary announcement” on the general meeting of 2022, which Clal published, Alrov announced that it objected to his appointment. (D) In addition, in October 2022, Alrov demanded in writing of Clal that Mr. Samet be suspended from his position.

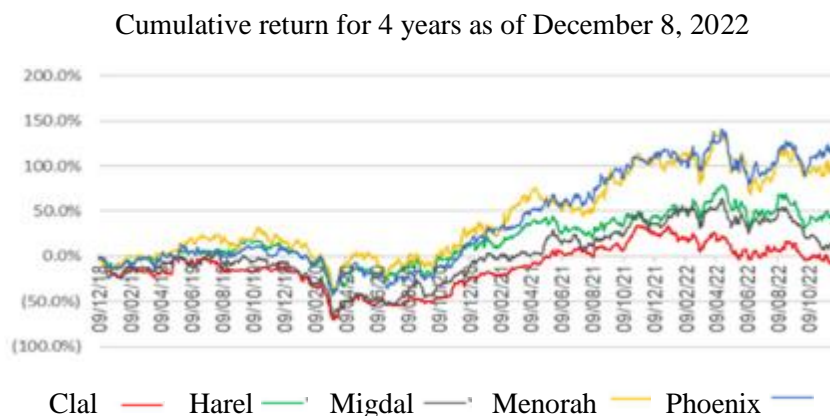
2. According to Regulation 8(B) of the Regulations, a position statement is of the Shareholders of Alrov, which, among other things, according to the report of Clal Ltd. dated 12.10.2022, holds 11,108,977 shares in Clal, and its holding rate of the capital and voting power in Clal is approximately 15%. The controlling shareholder of the shareholder Alrov is Mr. Alfred Akirov, as set forth in the reports of Clal Ltd., in the reports of the shareholder Alrov including see the breakdown in relation to Regulation 21A in the fourth chapter of the annual statement of Alrov published on March 29, 2022 [sic]. Mr. Akirov has no additional holdings in Clal, to the best of the knowledge of the shareholder Alrov.

B. Position statement – subjects 5.1, 5.2, 5.3, 5.4, 5.7 of the meeting: electing and appointing the candidate for the board (who are not Candidates nominated by Alrov)

¹ The Companies Regulations (Voting in Writing and Position Statements), 5765-2005 (the “**Voting and Position Regulations**” or the “**Regulations**”).

3. Alrov is of the position that it is necessary to vote **against** the reappointment of Samet the Chairman because in his function as the chairman of the board, he failed to stop the continuing deterioration of the Company's performance, and according to the affidavit of the outside director, he formed a control group of directors, ostensibly to serve personal interests and prevent supervision of the Company's conduct and management at the expense of the Company's benefit.
4. **Given the following**, Alrov believes that the shareholders must vote in ways that are anticipated to stop the continuing deterioration of the Company's performance and ensure the recovery of the Company's problematic corporate governance. This is in order to preserve and maximize the value of the money of the public and savers and manage "responsible investments" according to the regulation and regulatory entities.
5. Clal is a public company "without a controlling core". Alrov, which possesses a holding permit, and as reported, is in the process of getting a control permit.
6. Except for Director Granot, Alrov's candidate, the board members do not have sufficient expertise in the Company's core fields: insurance, investments and finances. In the absence of a core of directors with expertise in the core fields, the board of directors cannot adequately oversee the Company and its management. Therefore, the appointment of directors who are in the Company's core fields must be supported in order to promote its benefit.
7. The Company has the worst performance relative competitors in parameters that are important to shareholders:

A. **The share return (the CEO was appointed in June 2018, the chairman in February 2021):**



B. **Capital multiplier return:**

	Clal	Harel	Migdal	Menorah	Phoenix
	NIS billion				
Market value December 8, 2022	4.58	6.83	4.70	4.23	9.74
Capital multiplier based on statements for September 30, 2022	0.57	0.83	0.61	0.74	1.01
Cumulative return for December 8, 2022					
4 years	(0.6%)	37.6%	18.5%	89.1%	119.7%
From beginning of 2022	(22.5%)	(5.2%)	(13.1%)	(6.1%)	1.4%

C. Dividend distribution and own share acquisitions (substitute to distribution):

Dividends distributed*

	2018	2019	2020	2021	1-9/22	Cumulative
	NIS million					
Clal	-	-	-	-	-	-
Harel	214	236	-	357	300	1,107
Migdal	66	350	-	47	-	463
Menorah	50	100	-	100	-	250
Phoenix	120	480	-	580	581	1,761

* Not including own shares acquisition

Own shares acquisition

	2019	2020	2021	1-9/22	Cumulative
Clal	-	-	-	-	-
Harel	-	-	40	55	95
Migdal	-	-	-	-	-
Menorah	-	-	-	95	95
Phoenix	-	26	74	56	156

8. It has recently been revealed, including by an outside director of the Company, that there have been severe flaws in corporate governance and ‘directors’ rule’ attempting to fortify the status of the said directors at the expense of the shareholders and the share’s return, and a control group and “kitchen cabinet” including part of the board of directors, which is coordinating actions against opponents to the moves of the management.
9. **Alrov is of the position that in view of the underperformance in parameters that are important to the shareholders (return on share, dividends, etc.), headed by its management and in view of the situation described, the interest and purpose of the meeting is to strengthen the knowledge of the board members in the Company’s core fields (insurance, investments and finances), and demand the recovery of the corporate governance and unseat the ‘controlling group’ that has formed in the management in order to normalize the board of directors. Adoption of essential recovery steps requires acting to appoint a majority of independent third-party directors in the controlling group of directors, who will act to the benefit and performance of the Company without any additional interest.**

Note: (A) as reported in the summons to the meeting, Alrov has proposed **2 directors**, Granot and Fogel (Samet the Chairman **is not** a candidate proposed by it). The summons states: “In accordance with the instructions of the supervisor... the one who proposed the appointment a third of the directors ... and his proposal has been accepted, will be considered as a controlling shareholder therein...”. (B) Thus: (1) even given that 2 Alrov candidates will be chosen, no control will occur. (2) this position deals only with the benefit of the Company, its outcomes and all of its shareholders.

And as set forth:

10. On September 13, 2021, it was reported that the board of directors had chosen Chairman Samet to serve as a director of Clal Insurance too; in contravention of the recommendation of an outside committee (headed by Judge Alin) to appoint directors (which recommendations were not elaborated to the public), and which was founded at the decision of the Superintendent of the Capital Market in accordance with the Supervision Law (Insurer without a Control Caw).
11. Chairman Samet is serving as a (founding) partner at the Shnitzer, Gottlieb, Samet and Co. Law Office (the “Samet Office”), according to Samet’s reports in November 2022 to the Exchange, the law office’s website (including email address and details of his function as the chairman) and on the Duns-100 website. **However, it was discovered** that the Samet Office is providing / provided services to companies in which Clal is investing: Prashkovsky; Mivtach Shamir; Menif; MagorIT; ITGI, IES. Therefore, Clal Ltd. was contacted by an attorney who asked questions about conflicts of interests and lawful approvals, and about Chairman Samet not disclosing this information (including on the matter of the validity of his appointment).
- Clal Ltd. and Samet, jointly (on Clal Ltd.’s letterhead) replied to the request, and the main argument was that Samet had not been a partner in the office since 2020, but this contravenes the statements on the website of the Law Office, the Duns 100 website, including Samet’s own affidavit, which was reported in the summons to the current meeting in November 2022, see also: file 2 of the summons, p. 3 “**2002 – today Shnitzer, Gottlieb, Samet and Co. Law Office**”.
12. On September 29, 2022, outside director Mualem resigned from his position, expressing arguments of “*shady corporate governance*”², and owing to³:
- 12.1 “A kitchen cabinet: in the board of directors: “The Chairman is managing a kitchen cabinet – the kitchen cabinet consists only of members who support the Max acquisition transaction, while objectors are excluded..”
- Note: according to the outside director’s affidavit, the kitchen cabinet was appointed by Samet, the 2 outside directors and directors Alshich and Liquornik.
- 12.2 Minutes are not provided and material is provided only minutes before the meeting: “The minutes are brought up for approval very late”, sometimes material is uploaded to the iPad for the directors just approximately 10 minutes before opening the meeting”.
- 12.3 Failure to renew the term of the outside director owing to his objection to the Max transaction, and the hint: “The recommendation not to renew the office... is primarily owing to his strong objection to the Max Company acquisition. A hint on this was given... by the Company’s CEO at lunch...”.
13. On November 19, 2022, Alrov filed an action against the Company, Samet and the CEO (the kitchen cabinet members are formal respondents), to which the affidavit of outside director Mualem (a third party to Alrov and the stakeholders therein⁴) was attached (the “**Outside Director Affidavit**”), which uncovered additional incidents and issues. This includes Chairman Samet and the company’s CEO acting as a kind of ‘control group’ (a “kitchen cabinet” consisting only of ‘supporting directors’) performed actions (and transactions) in the Company while exploiting their

² Interview in Calcalist dated October 12, 2022.

³ Clal’s report dated October 11, 2022 (and the Outside Director Affidavit).

⁴ **From the Outside Director Affidavit:** “... I have not yet resigned... There has been no connection or familiarity with Alrov... or with its officers or controlling shareholders, except once, approximately twenty years ago, when I met Mr. Akirov.”

control (“barricading” effect), ostensibly to serve personal interests in contravention of the law and basic corporate governance rules.

Sections 14-21 below from the Outside Director Affidavit (except 16.1.4, from the expert opinion of Portnoy in the action):

14. Chairman Samet concealed from the board that he was not representing Alrov: “According to Alrov’s statement, Samet was informed that he was not representing it... Samet concealed this from the Company’s board of directors”.
15. Chairman Samet argued that are reduction of NIS 250 million in the Max transaction was not significant: “Samet wrote in reply to my notice... that 10% of the total of the transaction one way or 10% in the other, were not significant... 10% totals approximately NIS 250 million”.
16. Approval of the Max transaction and flaws in corporate governance:
 - 16.1 A dangerous transaction, at an excessive price, which does not benefit the Company and contravenes and exceeds the statement reported to the public:
 - 16.1.1 A transaction that “contravenes the statements in the “credit risks” description... and also significantly deviates from the vision, objectives and business strategy of Clal Group”.
 - 16.1.2 “An expensive (therefore dangerous) and large transaction considering the total payment made to the seller Max, a transaction of such a scale that exceeds half the value of Clal is a business value that poses a significant risk to Clal Ltd.”
 - 16.1.3 “After one meeting, I announced my resignation from the committee, stating that I could not promote a transaction to which I objected”.
 - 16.1.4 Completion from an economic expert opinion from Portnoy, CPA, which was attached to the action:
 - A. “The value of Max in the transaction reflected a premium of 90%-130% compared to its theoretical market value, a gap that is grossly unreasonable, as stated above...”.
 - B. “Signing the acquisition agreement on August 12, 2022 under identical conditions to those published on April 10, 2022 looks even more unreasonable. In the period from April to August, far-reaching changes in the economic environment continued: interest rates and capital prices soared, growth forecasts were dramatically reduced, the IsraCard share dropped by approximately 40%⁵, the Clal share decreased by approximately 14% whereas the acquisition conditions remained as they were”.
 - C. “On April 11, Clal’s share recorded a negative return of approximately 6.5% in comparison with an average return of approximately 0.1% in the shares of the other large veteran insurance companies.”
 - 16.2 Additional major flaws in relation to the Max transaction and flaws in corporate governance:

⁵ “Approximately 29% after neutralizing the decrease that the IsraCard share recorded on July 18, 2022, after reporting a new agreement with Bank Hapoalim Ltd....”.

16.2.1 The transaction approval process was conducted with enthusiasm, was managed by the CEO and a small team, without the board of directors being aware of the contacts, and was presented to the board a short time before signing:

- A. “The Max transaction was first brought to the board’s table at the end of March 2022. Only a short time before the signing of a nonbinding memorandum of understanding... they informed the board that negotiations had been held and the price had already been agreed to. On March 29, 2022, I forwarded a letter to the company’s board of directors in which I enumerated 11 reasons not to approve the Max transaction. The negotiations over the price and conditions for acquiring the Max transaction were managed exclusively by Mr. Yoram Naveh with a small management team.”;
- B. “The proceeding for approving the acquisition of Max was conducted enthusiastically... the company’s board learned that the negotiations over the price and purchase conditions had started at the end of January 2022, the negotiations had been held exclusively by the company’s CEO, with a limited team, without the board of directors having been aware of these contacts in advance until the last minute (i.e., the end of March 2022).”

16.2.2 The memorandum of understanding of April could have been withdrawn from, the markets fell and IsraCard was cut by 40%, and despite the demands, no attempt was made to improve or cheapen the deal: “From the time of signing the memorandum of understanding... until the time of signing the acquisition transaction (August 12, 2022), the transaction could have been withdrawn from at any time... and despite **repeat pleadings** by me in the company’s board meetings, whereby the transaction amount was significantly higher than the transaction value – an example of which I showed to the board of the company in the form of IsraCard Ltd., a significantly larger company than Max and traded at a significantly lower sum than the Max transaction amount, which between the said times had 40% of its value cut (!!!)

16.2.3 The acquisition price was negotiated before Clal received an appropriate economic opinion: “*At the time of appointment of the valuers, the board members already knew what the consideration of the transaction that Yoram Naveh had negotiated with Max was*”⁶.

16.2.4 Flaws in the valuation process and the conclusions: (A) “For retrospectively protecting the value of the transaction they appointed the BDO office... and Prof. Amir Barnea to perform a fairness opinion check... at the time of appointment of the valuers, the board members already knew what the consideration of the transaction that Yoram Naveh had negotiated with Max was. All of the opinions that were made thereafter did not examine the transaction data in depth but were only intended to justify the price of the transaction that Yoram Naveh had negotiated, and were based on the BDO opinion, none of them disputed that opinion. Barnea valued the company at approximately NIS 1.9 billion, justifying the difference between his valuation and that of BDO of NIS 2.4 billion by: (A) control premium; (B) the parties’ agreement to the price justified the transaction amount. **As an economist and as one with a healthy degree of common sense, I cannot accept these reasons to justify a gap of approximately half a billion shekels.** See in this regard “**the value of control of a public company in the wake of comprehensive reforms in Israeli corporate governance**”... in which it was stated... before 2020 the control premium stood at 5.5%...”. (B) The expert for the transaction Barnea was appointed despite Mar Samet knowing

⁶ Verification of the statements of the Chairman of Max, in an interview dated November 21, 2022 in The Marker: “... **when we shook hands in February** with Yoram Naveh (CEO of Clal) after we had concluded the price of the transaction...”.

him personally: “Initially Samet told me that he was personally acquainted with Barnea and recommended to me not to approve him, but in the end... they did appoint him... “.

- 16.2.5 **The Max transaction in the “kitchen cabinet”**: “The Chairman is managing a kitchen cabinet – the kitchen cabinet consists only of members who support the Max acquisition transaction, while objectors are excluded... July 28, 2022 had a board meeting scheduled on 10:00 a.m., on that day from 9:00 a.m. to 10:10 a.m. a meeting was held in the chairman’s office... only the participants supporting the transaction were summoned to the meeting... I learned that only directors supporting the transaction and aligned with the chairman convened in the closed forum”.
- 16.2.6 **Pressure and threats to approve the Max transaction**: (A) “The recommendation not to renew the office ... is primarily owing to his decisive objection to the Max Company acquisition transaction. A hint on this was given ... by the company’s CEO at lunch...”; (B) “... Another director said to me “resign if you’re against the transaction””.
- 16.2.7 **The transaction was performed in conflict of interests and unlawfully**: as argued in the action, the transaction was carried out while exploiting the management control and creating a “barricading” effect that ostensibly served their personal interests, in a manner that was ostensibly intended to make it difficult for Alrov to reach control.

In these circumstances, it was argued that the chairman and CEO should be considered as having a conflict of interests, as having direct personal interest to deny Alrov control and promote (through the Company, at its expense and in contravention of its benefit) inter alia the Max transaction. Therefore, the Max transaction should be considered as a conflicting transaction and the directors have personal interest, and accordingly the actions must be considered as stakeholder transactions (according to Sections 254-255 of the Companies Law in relation to a “material action” and application of the fifth chapter of the sixth part of the law).

17. The outside director Bar-Tov, for approving the max transaction before appointment of Akirov’s representatives: “...At the time of the board meeting... the subject of approving the Max transaction, outside director Bar-Tov stated that a decision should be reached and the Max acquisition transaction approved before appointing Akirov’s representatives to the board of directors”.
18. It was not reported that the outside director had said in May that an acquirer permit was required for the stakeholders and this could not be forced: “In May 2022, at the time of the company’s board meeting, the subject of stakeholders in the company having to get an acquirer permit for the Max transaction was raised... I explicitly said that they could not be forced to get a clearer permit.”
19. Bonuses for the Max transaction that had not been completed were approved, including by an outside director who argued that the request was bizarre: “This approval was received... by the two outside directors (Shmuel Schwartz and...) although Schwartz had sent me a message stating that it was a bizarre request that should not be approved.”
20. Inappropriate reporting in the January issuing goals: In “January 2022, the company raised a sum of approximately NIS 506.1 million... in the prospectus... it stated with vague wording that the aim of raising the sum was independent to redirect part of the money to down (to Clal Insurance)... it was learned in retrospect that the money raised was intended to finance the acquisition of Max.”
21. Threats of criminal action and an estoppel action against the outside director, alongside an open statement to the authorities: “... I received a warning letter pending filing of a slander lawsuit,

which I understood was an attempt to silence me”. This is attributed to a letter from Adv. Navot Tel-Tzur, representing the Company and the kitchen cabinet (only), accusing the outside director of “committing a criminal offense of slander”, the outside director was required to withdraw his statements in writing, apologize and “Should you choose not to apologize as set forth” a slander action would be filed “to a sum of not less than NIS 2,500,000”, alongside an affidavit of the outside director stating “that all of the foregoing was given as an open statement to the Securities Authority and the Capital Market Authority”.

22. **To conclude Alrov’s position:**

22.1 Alrov is of the position that voting **against** the continued office of Chairman Samet is necessary, given the foregoing.

22.2 Also, Alrov is of the position, without expressing a concrete position on the manner of voting in relation to other individual candidates, that the shareholders should consider their voting in the meeting on the matter stated above, and particularly they should give weight to: (A) the background and experience of the candidates in the core of the Company’s activity and their being independent directors in the controlling group of directors who are to act to the benefit of the Company and its performance without any personal or foreign interest, to the benefit of the shareholders.

(B) That the candidate Ms. Margalio is not a party to the controlling group of directors and exercised independent discretion.
