

**Economic Solvency Ratio Report of
The Phoenix Insurance Company Ltd.
As at December 31, 2022**



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To:
The Board of Directors of
The Phoenix Insurance Company Ltd.

Re: Examination of the Application of Certain Instructions of the Commissioner of the Capital Market, Insurance and Savings regarding the Solvency II-Based Economic Solvency Requirement of The Phoenix Insurance Company Ltd. (hereinafter - the "Company") as of December 31, 2022

We examined the capital required to maintain the solvency capital requirement (hereinafter - "**SCR**") and the economic capital of The Phoenix Insurance Company Ltd. of December 31, 2022 (hereinafter - the "**Information**"), included in the Company's Economic Solvency Ratio Report attached hereby and carries our office's seal for identification purposes (hereinafter - the "**Report**").

The Board of Directors and management bear the responsibility for the preparation and presentation of the Information drawn up in accordance with the directives of the Commissioner of the Capital Market, Insurance and Savings (hereinafter - the "**Commissioner**") regarding Solvency II-based economic SCR of an insurance company as included the Commissioner's circular No. 2020-1-15 of October 14 2020, and in accordance with the Commissioner's Directives regarding principles for calculation of Deduction during the Transitional Period in a Solvency II-based Economic Solvency Regime of October 15 2020 (hereinafter - the "**Directives**").

The calculations, forecasts and assumptions on which the preparation of the Information was based fall under the responsibility of the Board of Directors and management.

We conducted our examination in accordance with International Standard on Assurance Engagements No. 3400 - The Examination of Prospective Financial Information, and in accordance with the Commissioner's Directives, as included in Appendix B of the Insurance Circular 2017-1-20 of December 3 2017, which provides guidance as to audit of Economic Solvency Ratio Report.

We did not examine the appropriateness of the amount of Deduction during the Transitional Period as of December 31, 2022 as presented in Section 2 to the Report, except for verifying that the deduction amount does not exceed the expected discounted amount of the risk margin and the capital required for solvency in respect of life and health insurance risks arising from existing businesses during the Transitional Period in accordance with the pattern of future development of the required capital, which affects both the calculation of the expected capital release and the release of the expected risk margin as described in the provisions on calculation of risk margin.

Except for what is stated above in connection with the appropriateness of the Deduction during the Transitional Period, based on the examination of the evidence supporting the calculations, the forecasts and the assumptions, as referred to below, which were used by the Company's Board of Directors and management in the preparation of the information nothing came to our attention which caused us to believe that the forecasts and assumptions, as a whole, do not constitute a reasonable basis for the information in accordance with the Directives. Furthermore, in our opinion, the information, including the method employed to determine the assumptions and forecasts, was prepared and presented in all material respects in accordance with the Directives.

It should be emphasized that the projections and assumptions are based mainly on past experience, as arising from actuarial studies conducted from time to time. In view of the reforms in the capital market, insurance and savings, and the changes in the economic environment, past data do not necessarily reflect future results. The information is sometimes based on assumptions regarding future events, steps taken by management, and the pattern of the future development of the risk margin, that will not necessarily materialize or will materialize in a manner different than the assumptions used in the information. Furthermore, actual results may materially vary from the information, since the combined scenarios of events may materialize in a manner that is materially different than the assumptions made in the information.

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We draw attention to what is stated in Section C - comments and clarifications regarding the solvency ratio, the uncertainty derived from regulatory changes and exposure to contingent liabilities, the effect of which on the solvency ratio cannot be estimated.

Tel Aviv,
May 30, 2023

Respectfully,

**Kost Forer Gabbay &
Kasierer
Certified Public
Accountants**

Overview and Disclosure Requirements

Solvency II-based Economic Solvency Regime

The information provided below was calculated in accordance with the provisions of Circular 2020-1-15 of the Commissioner of the Capital Market, Insurance and Savings (hereinafter - the "**Commissioner**") - "Amendment to the Consolidated Circular concerning Implementation of a Solvency II-Based Economic Solvency Regime for Insurance Companies" (hereinafter - the "**Economic Solvency Regime Directives**"), was prepared and presented in accordance with Chapter 1, Part 4 Section 5 of the Consolidated Circular as revised in Circular 2022-1-8 (hereinafter - the "**Disclosure Provisions**").

The Economic Solvency Regime provisions set a standard model for calculating eligible capital and the regulatory solvency capital requirement (SCR), with the aim of bringing insurance companies to hold buffers to absorb losses arising from the materialization of unexpected risks to which they are exposed.

The solvency ratio is the ratio between the eligible equity and the regulatory solvency capital requirement.

The eligible equity is composed of Tier 1 capital and Tier 2 capital. Tier 1 capital includes equity calculated through assessing the economic value of an insurance company's assets and liabilities in accordance with the circular's provisions, and Additional Tier 1 capital. Additional Tier 1 capital and Tier 2 capital include equity instruments with loss absorption mechanisms, including Subordinated Tier 2 capital, Hybrid Tier 2 capital and Tier 3 capital, which were issued prior to the circular's effective date. The circular places restrictions on the composition of eligible equity for SCR and MCR purposes (see below), such that the rate of Additional Tier 1 capital shall not exceed 20% of the Tier 1 capital, and such that the rate of components included in Tier 2 capital shall not exceed 40% of the SCR without taking into account the Transitional Provisions and the equity scenario adjustment, and shall not exceed 50% of the SCR under the Transitional Provisions and taking into account the equity scenario adjustment.

The eligible capital is compared to the required capital when there are two levels of capital requirements:

- The capital required to maintain an insurance company's solvency (hereinafter - "**SCR**"). The SCR is risk-sensitive, and is based on forward-looking calculation of the impact of the materialization of different scenarios, while taking into account the correlation of the different risk factors, based on the guidance in the Economic Solvency Regime Directives.
- Minimum capital requirement (hereinafter "**MCR**" or "**minimum capital requirement**"). In accordance with the Economic Solvency Regime Directives, the minimum capital requirement shall be equal to the highest of the amount of the minimum Tier 1 capital required under the "Requirements of the Previous Capital Regime" and an amount derived from insurance reserves and premiums (as defined in the Solvency Circular), with a floor of 25% and a cap of 45% of the SCR.

The eligible capital and the required capital are calculated using data and models which are based, among other things, on forecasts and assumptions that rely mainly on past experience. These calculations are highly complex.

The Economic Solvency Regime Directives include, among other things, Transitional Provisions, which are based on increasing the eligible capital by deducting from the insurance reserves an amount that will be calculated in accordance with Section b below. The deduction amount will decrease gradually until 2032 (hereinafter: the "Deduction during the Transitional Period") and the stock scenario adjustment.

Publication of Economic Solvency Ratio Report

In accordance with the Consolidated Circular, the economic solvency ratio report in respect of the December 31 and June 30 data of each year shall be included in the first periodic report published subsequent to the calculation date.

Furthermore, in view of the listing of additional Tier 1 capital on the main list, and in accordance with The Phoenix Insurance's undertakings under the deed of trust, as from 2023 the Company will publish to the public an estimated quarterly solvency ratio as of March 31 and September 30, as part of the periodic report published following the calculation date. The calculation of the estimated quarterly solvency ratio is not audited or reviewed by the independent auditor, and the controls conducted by The Phoenix Insurance for the purpose of publishing the estimated ratio are less in scope compared to those executed for the purpose of publishing the solvency ratio report, which is published in accordance with the Commissioner's directives.

Forward-looking information

The data included in this Economic Solvency Ratio Report, including the eligible and the required capital for solvency purposes are based, among other things, on forecasts, assessments, and estimates of future events, the materialization of which is uncertain and is not under the Company's control, and which should be considered as "forward-looking information" as the term is defined in Section 32A to the Securities Law, 1968. Actual results may differ from the results reflected in this Economic Solvency Ratio Report, if such forecasts, assessments and estimates, either in whole or in part, fail to materialize or materialize in a manner different than anticipated, including, among other things, with respect to actuarial assumptions (including mortality rates, morbidity rates, recovery rates, cancellations, expenses, take up of pension benefits, rate of release of the risk margin and underwriting profits rate), assumptions regarding future management actions, risk-free interest rates, capital market returns, future revenue, and damage in catastrophe scenarios.

Definitions

The Company	- The Phoenix Insurance Company Ltd.
The Economic Solvency Regime Directives	- The provisions of Circular 2020-1-15 of the Commissioner of the Capital Market, Insurance and Savings (hereinafter - the "Commissioner") - "Amendment to the Consolidated Circular concerning Implementation of a Solvency II-Based Economic Solvency Regime for Insurance Companies" (hereinafter - the "Solvency Circular"), including its explanations.
Best estimate	- Expected future cash flows from insurance contracts and investment contracts throughout their term, without conservatism margins and discounted by an adjusted risk-free interest.
(SLT health insurance)	- Health insurance that is conducted similarly to life insurance.
(NSLT health insurance)	- Health insurance that is deemed to be written on a similar technical basis as property and casualty insurance.
Basic solvency capital requirement (BSCR)	- The capital required from an insurance company to maintain its solvency, calculated in accordance with the Economic Solvency Regime Directives, without taking into account the capital required due to operational risk, loss absorption adjustment due to deferred tax and required capital due to management companies.
Solvency capital requirement (SCR)	- Total capital required from an insurance company to maintain its solvency, calculated in accordance with the Economic Solvency Regime Directives.
Recognized shareholders equity	- Total Tier 1 capital and Tier 2 capital of an insurance company, after deductions and amortization in accordance with the provisions of Part B of the Appendix to the Solvency Circular.
Basic Tier 1 capital	- Excess of assets over liabilities in the economic balance sheet, net of unrecognized assets and dividend declared subsequent to balance sheet date and until the report's initial publication date.
Additional Tier 1 capital	- Perpetual capital note, non-cumulative preferred shares, Restricted Tier 1 capital instrument, Additional Tier 1 Capital instrument - valued in accordance with the provisions of Part A of the Appendix to the Solvency Circular.
Tier 2 capital	- Tier 2 capital instruments, Subordinated Tier 2 Capital, Hybrid Tier 2, Additional Tier 1 Capital instrument that was not included in Tier 1 and Hybrid Tier 3 Capital - valued in accordance with the provisions of Part A of the Appendix to the Solvency Circular.

The Commissioner	- Commissioner of the Capital Market, Insurance and Savings Authority.
Effect of diversification of risk components	- Effect of the partial correlation between different risks in the model on their amounts; the greater the diversification between operating segments in the portfolio and the diversification between risks, the greater is the effect of the correlation, which reduces the overall risk.
Solvency ratio	- The ratio between the eligible equity of an insurance company and the solvency capital requirement.
Symmetric Adjustment (SA)	- Anti-cyclical component designed to adjust the capital required in respect of the shares risk to the changes in share prices, as set out in the provisions in Part C in the Economic Solvency Regime directives.
Stock scenario adjustment	- A reduced capital requirement for certain types of investments that will gradually increase until 2023, when the capital requirement in respect of these investments will reach its maximum rate.
Economic balance sheet	- The Company's balance sheet with the value of assets and liabilities adjusted in accordance with the provisions of Part A of the Solvency Circular.
Risk margin (RM)	- An amount that reflects the total cost of capital that is expected to be required from another insurance company or reinsurer in order to assume the Company's insurance liabilities.
Deduction during the Transitional Period (hereinafter - the "Deduction Amount")	- The amount deducted from insurance reserves during the Transitional Period, as described in Section 2a(2) above, and in accordance with the Economic Solvency Regime Directives.
Minimum capital requirement (MCR)	- The minimum capital required from an insurance company, calculated in accordance with Chapter C of the Solvency Circular.
Expected profits in future premiums (EPIFP)	- Expected Profit in Future Premiums; the future profit from liabilities in respect of existing life and health insurance contracts arises from future premiums.
Transitional Period	- Under the Transitional Provisions for the implementation of an Economic Solvency Regime - a period running until December 31, 2032.

UFR	- Ultimate Forward Rate - the latest forward interest rate derived from the expected long-term real interest rate and the long-term inflation expectations to which the adjusted interest-rate curve converges, in accordance with the Economic Solvency Regime Directives.
Volatility Adjustment (VA)	- A component reflecting the margin implicit in a representative debt assets portfolio of insurance companies and added to the adjusted interest-rate curve in accordance with Economic Solvency Regime Directives.
Audited	- The term refers to an audit held by an independent auditor in accordance International Standard on Assurance Engagement (ISAE) 3400 – “The Examination of Prospective Financial Information”.
Investment Rules Regulations	- Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012.
Adjusted risk-free interest	- The interest-rate curve set by the Commissioner which is based on the real yield to maturity of bonds of the Government of Israel, with convergence in the long-term to a fixed real rate of 2.6% (UFR) plus a margin (VA) that was set by the Commissioner.

Calculation Methodology

The Economic Solvency Ratio Report as of December 31, 2022 and December 31, 2021 was calculated and prepared in accordance with the Economic Solvency Regime Directives.

Economic balance sheet

The economic balance sheet is calculated in accordance with the detailed rules and directives published by the Commissioner, which are based on the European Solvency II rules, with adjustments to reflect the characteristics of the economic environment and products in Israel. The purpose of the rules is to reflect the economic value of the balance sheet items in accordance with the Commissioner’s approach. In accordance with the Directives, the insurance liabilities are calculated based on the best estimate of all expected future cash flows from existing businesses, without conservatism margins and plus a risk margin, which represents the addition to the insurance liabilities that is expected to be required from another insurance company to assume the insurance company's insurance liabilities. In accordance with the Directives, the risk margin is calculated using the cost of capital method, at a rate of 6% per year of the expected required capital in respect of insurance risks over the life of the existing businesses as described below. The economic balance sheet is prepared based on the Company’s standalone financial statements plus investees, whose main occupation is holding rights in real estate. The economic balance sheet attributes zero value to intangible assets and deferred acquisition costs other than investment in “Insurtech” as defined in the Economic Solvency Regime Directives, and the Commissioner’s approval in that respect was obtained, as required.

Increasing economic capital according to the Transitional Provisions

As aforesaid, the Company opted for the current alternative provided by the Transitional Provisions, whereby the economic capital may be increased by gradually deducting from the insurance reserves until 2032 (hereinafter - the "Deduction during the Transitional Period" or the "Deduction Amount"). With regard to the Deduction during the Transitional Period, a letter was addressed to insurance companies managers titled "Principles for calculating Deduction during the Transitional Period in the Solvency II-based Economic Solvency Regime" (hereinafter - the "Letter of Principles"). Pursuant to the Letter of Principles, the Deduction during the Transitional Period shall be calculated by dividing insurance policies issued through December 31, 2016 into homogeneous risk groups. The aforesaid deduction shall be calculated as the difference between insurance reserves (retention) as per the economic balance sheet including the risk margin attributed thereto (without adjusting the fair value of designated bonds) and the insurance reserves (retention) as per the Financial Statements. This difference shall be deducted on a linear basis until December 31, 2032.

The Company ensures that the deduction balance at each reporting date (hereinafter - the "Deduction Value During the Transitional Period") shall be proportionate to the expected increase in the solvency ratio calculated excluding expedients during the Transitional Period, and factors in at least the expected amortization of the SCR and risk margin of the current portfolio as of the calculation date.

The Deduction during the Transitional Period shall be recalculated in subsequent periods in the following instances:

- (a) Every two years, after obtaining the Commissioner's approval;
- (b) If a material change occurred in the risk profile or the business structure of the insurance company;
- (c) At the request of the Commissioner, if he/she believed that circumstances have changed since approval was given.

Additionally, Section 3(C) of the letter "Principles for Calculating the Deduction during the Transitional Period in the Solvency II-based Economic Solvency Regime" of October 15, 2020 (hereinafter – the "**Letter of Principles**") stipulates that an insurance company will determine qualitative and quantitative tests for cases in which the Deduction during the Transitional Period is recalculated and the Deduction during the Transitional Period will be recalculated, at least, in the following cases:

1. A material change in the risk-free interest rate curve;
2. A material change in the value of the Company's assets;
3. A material change in the demographic and operational assumptions underlying calculation of the insurance reserves;
4. A material change in the Company's business structure relevant to the Deduction during the Transitional Period;

5. A material change in the reinsurance agreements of businesses relevant to the Deduction during the Transitional Period.

In accordance with the provisions of Subsection (a) above, the Deduction during the Transitional Period as of December 31, 2021 was recalculated two years after it was calculated for the first time (after the approval of the Commissioner).

In view of material changes in the interest rate curve, the implementation of a research on retirement age and pension take up rates (hereinafter - the "Research"), and the revision of the set of demographic assumptions and of the mortality improvements model for insurance companies and pension funds (hereinafter - the "Circular"), which took place in the period from December 31, 2021 and June 30, 2022, the Company recalculated the Deduction during the Transitional Period as of June 30, 2022. For further information about the Deduction Amount, see Section 2A(2) below.

For further information about the changes in the interest rate curve, the Study, and the Circular, see Section 1A below.

Solvency capital requirement (SCR)

The calculation of the solvency capital requirement is based on an assessment of the economic equity's exposure to the following risk components set in the Economic Solvency Regime: life insurance risks, health insurance risks, property and casualty insurance risks, market risks and counter-party default risks. These risk components include sub-risk components with respect to specific risks to which the insurance company is exposed. The exposure assessment of the economic equity to each sub-risk component is carried out based on a defined scenario set out in the guidance. The determination of the solvency capital requirement is based on the sum of the capital requirements in respect of the risk components and the sub-risk components, as stated above, net of the effect of the diversification between the risks in the Company in accordance with the correlations assigned to them under the Directives, and net of an loss absorption adjustment due to deferred tax, as set out below. Furthermore, the calculation of the solvency capital requirement includes components of capital required in respect of operational risk and in respect of management companies (where relevant).

The capital requirement in respect of each of the risks is calculated in accordance with the Company's exposure to that risk, taking into account the parameters set in the Directives. In accordance with the Directives, the amount of the required capital represents the scope of equity that will allow the insurance company to absorb unexpected losses in the forthcoming year and meet its obligations to policyholders and beneficiaries on time, with a 99.5% certainty level.

Loss absorption adjustment due to deferred tax asset

In accordance with the Economic Solvency Regime Directives, an insurance company may recognize a loss absorption adjustment with respect to deferred tax assets up to the amount of the balance of the deferred tax reserve included in the economic balance sheet plus a tax asset against future profits up to 5% of the basic solvency capital requirement (BSCR), provided that the following conditions are met:

- The insurance company is able to demonstrate to the Commissioner that it is probable that it will have future taxable income against which the tax assets may be utilized.
- The future profits shall arise only from property and casualty insurance or from Not Similar to Life Techniques (NSLT) (short term health insurance) only.

Comments and clarifications

1. General

The economic solvency ratio report includes, among other things, forecasts based on assumptions and parameters based on past experience, as they arise from actuarial studies conducted from time to time, and on Company's assessments regarding the future, to the extent that it has relevant and concrete information which can be relied upon. The information and studies are similar to those used as the basis for the Company's financial statements as of as of December 31, 2022. Any information or studies obtained or completed after the reporting date of the Company's annual report as of December 31, 2022 were not taken into account.

In the reporting period, the Company applied a study on retirement age and take up of pension benefits (hereinafter – the "**Study**"), and the Company also applied the circular regarding amendment of the provisions of the consolidated circular on the adjustment of demographic assumptions and the mortality improvement model for insurance companies and pension funds (hereinafter – the "**Circular**"). For further information about the Study and the Circular, see Section 1A below.

It should be emphasized that in view of the reforms in the capital, insurance and savings market and the changes in the economic environment, past data are not necessarily indicative of future results, and the Company is unable to reliably assess the effect of the reform and the changes. The calculation is sometimes based on assumptions regarding future events and steps taken by management, that will not necessarily materialize or will materialize in a manner different than the assumptions used in the calculation. Furthermore, actual results may materially vary from the calculation, since the combined scenarios of events may materialize in a manner that is materially different than the assumptions made in the calculation.

It should be emphasized that the results of the models used in the calculation of the eligible equity and the solvency required capital are highly sensitive to the forecasts and assumptions included therein, as well as to the manner by which the Directives are implemented. The economic solvency ratio is highly sensitive to market variables and other variables, and accordingly may be volatile.

2. Practical effects of legislation and regulation in the reporting period

Revised Demographic Assumptions in Life Insurance and for Pension Funds – In June 2022, the Commissioner published a circular on "Amendment to the Provisions of the Consolidated Circular on Measurement of Liabilities – Revised Demographic Assumptions in Life Insurance and for Pension Funds" (hereinafter - the **Demographic Assumptions Circular**). The Demographic Assumptions Circular lists updated default assumptions on the basis of which insurance companies will calculate the liabilities in respect of life insurance policies, which allow them to receive an annuity according to guaranteed conversion rates based on up-to-date demographic assumptions. The Circular refers, among other things, to a change in life expectancy, including future improvements, and the resulting consequences for the level of reserves and how they are created. In addition, the Circular includes a new life table for retirees of insurance companies, which is based, among other things, on past experience regarding mortality of retirees of insurance companies. The Company has updated its estimates of pension liabilities based on the new life table and future life expectancy improvements included in the Circular.

For more information, see Section 1A below.

Updating tariffs in renewable health insurance policies - on September 20, 2022, the Commissioner published Insurance Circular 2022-1-13 - "Amendment to the Provisions of the Consolidated Circular - Title 6, Part 3, Chapter 1 - Updating Tariffs in Renewable Health Insurance Policies". The Circular sets out, among other things, terms and conditions according to which the insurance companies may update the premium in renewable medical expenses policies (medical expenses policies sold as from February 2016), without obtaining the Commissioner's approval. These terms were designed to balance out the need to update the terms and tariffs of medical expenses insurance policies, against the need to protect policyholders' interests. The Company included the effects of the Tariff Updating Circular for the first time in the calculation of the economic solvency ratio as of December 31, 2022; the circular has a positive effect on the Company's solvency ratio and capital surpluses. For further details as to the extent of the effect of this update, see Section 1a below.

Commissioner Position - Principles for Recognition of Complex and Material Transactions Aimed at Improving the Economic Solvency Ratio - in November 2022, the Commissioner published his position regarding the principles for recognition of complex and material transactions aimed at improving the economic solvency ratio (hereinafter - the "Transactions"). In his position, the Commissioner clarifies that the Transaction must transfer risk effectively, and that the aim of the

Transactions should be adequately reflected in the model employed to calculate the economic solvency ratio. The Commissioner clarifies that an insurance company should assess, among other things, whether the exposure characteristics covered by the transaction are essentially similar to the exposure characteristics of the insurance company and the policies it sells. This assessment shall include an analysis of a range of risk scenarios, which differ in essence than the scenarios for calculation of the capital requirement, in terms of intensity, timing, gradualness and effect on various products.

Furthermore, as a supplementary move, the Commissioner published a circular regarding an "Amendment to the Provisions of the Consolidated Circular - Chapter 3 Part 4 of Title 5 "Reporting to the Commissioner of Capital Market" - Reporting Complex and Material Transactions Aimed at Improving the Economic Solvency Ratio", which regulates the duty to report to the Commissioner about complex and material transactions aimed at improving the economic solvency ratio, before those transactions are signed. The Commissioner's position does not affect the Company's economic solvency ratio.

3. Future effects of legislation and regulatory measures known as of the report's publication date and exposure to contingent liabilities

- a) The field of insurance has been subject to frequent changes in relevant legislation and regulatory directives. For more information, see Sections 2.1.2 and 2.3.1. in Part B and Section 4.1 in Part D of the Description of the Corporation Business chapter in the 2021 Periodic Report and the 2022 Periodic Report.

The legislation and regulatory measures may impact the Company's economic solvency ratio. The calculation of the solvency ratio does not reflect the entire potential effect of the aforesaid legislation and regulatory measures and of other developments that are not yet reflected in practice in the data; this is since to date the Company is unable to assess their entire effect on its business results and solvency ratio. With regard to this matter, it should be noted that there is significant uncertainty in the context of the effect of the application of IFRS 17 and its various components; the standard is due to come into effect in Israel starting in the financial statements as of January 1, 2025. The manner by which this standard will be applied in the financial statements may affect the results of the calculation of the solvency ratio, and at this stage the Company is unable to assess this effect.

- b) In accordance with the Economic Solvency Regime Directives, the value of contingent liabilities in the economic balance sheet is determined based on their value in the accounting balance sheet in accordance with the provisions of IAS 37; this measurement does not reflect their economic value. It is not possible to assess the effect of the uncertainty arising from the exposure to contingent liabilities, including such exposure's effect on the Company's future profits and

economic solvency ratio. For further information regarding the exposure to contingent liabilities as at December 31, 2022, please see Note 39 to the financial statements of 2022.

- c) **Amendment of the Consolidated Circular - Chapter 3 Part 4 Title 5 "Reporting to the Commissioner of the Capital Market, Insurance and Savings" - Hetz Bonds** - allocations of Hetz bonds are based on the amount of the insurance liability recognized in the financial statements in respect of the insurance contracts, whereas from January 1, 2025 (the date of first-time application of IFRS 17), the manner of calculating the insurance liability will change significantly (transition from measurement based on traditional actuarial methods to measurement based on future cash flows discounted using a risk-free interest). In view of the above, in March 2023 the Commissioner published a circular regarding the "Amendment of the Consolidated Circular - Chapter 3 Part 4 Title 5 - Reporting to the Commissioner of the Capital Market, Insurance and Savings - Hetz Bonds"; the circular sets out provisions as to the manner of allocation of designated government Hetz bonds as from January 1, 2025 (the date of first-time application of IFRS 17). Furthermore, the change in the manner of allocation that will apply as from the first-time application date of the standard impacts the calculation of the asset relating to designated bonds as per the economic balance sheet. In its calculation of the solvency ratio as of December 31, 2022, the Company has not yet included the effect of the aforesaid amendment, due to the uncertainty as to the results of the calculations of reserves in IFRS 17, including the Risk Adjustment component, and its allocation for the purpose of the calculation of Hetz bonds in the period during which IFRS 17 becomes applicable, and in view of the Company's estimate as to the immaterial effect of the application of the amendment as stated above.

Section 1 - Economic solvency ratio and minimum capital requirement (MCR)

A. Economic solvency ratio

	As of December 31	
	2022	2021
	Audited*	
	In NIS thousand	
Recognized own funds in respect of SCR - please see Section 3	14,711,664	14,212,110
Solvency capital requirement (SCR) - please see Section 4	6,968,263	7,666,458
Surplus	7,773,401	6,545,652
Economic solvency ratio (in %)	211%	185%
<u>Effect of material capital-related measures taken in the period between the calculation date and the publication date of the solvency ratio report:</u>		
Raising (redemption) of equity instruments**	(410)	346,133
Recognized own funds in respect of SCR	14,711,254	14,558,243
Surplus	7,742,991	6,891,784
Economic solvency ratio (in %)	211%	190%

* Any reference made in this report to the term "audited", shall be construed as an audit held by an independent auditor in accordance with International Standard on Assurance Engagements No. 3400 - The Examination of Prospective Financial Information.

** Subsequent to the balance sheet date (December 31, 2022), NIS 411 million in Series F bonds were redeemed (immediate report dated January 15, 2023, Ref. No.: 2023-01-006268). The redemption referred to above does not have a material effect on the solvency ratio as of December 31, 2022 in view of the surplus Tier 2 capital that the Company holds in excess of the quantitative limit.

For details regarding the economic solvency ratio without applying the Transitional Provisions for the Transitional Period, and without adjusting the stock scenario, and regarding the target economic solvency ratio and restrictions applicable to the Company in connection with dividend distribution, see Section 9 below.

Explanations to main changes in capital surplus and in the economic solvency ratio compared to last year:

- In the reporting period, there was a material increase in the risk-free interest rate curve and an increase in inflation rates in the economy. The increase in the interest rate significantly increased the capital surpluses as well as the solvency ratio of the Company; this increase was partially offset against the increase in inflation rate in Israel.
- The Company's capital surplus and its economic solvency ratio decreased as a result of negative returns in planholders and nostro portfolios, which led to a decrease in the Company's Tier 1 capital. This effect was partially offset by a decrease in capital requirements, both due a decrease in exposure to risk-weighted assets and due to a decrease in the stock scenario (stemming from a decrease in the symmetric adjustment component ("SA") in the scenario derived from changes in the Tel Aviv 125 Index).
- During the reporting period, the Company implemented a study on retirement age and pension take up rates (hereinafter - the "Study"). The study affects the assumptions used to assess the liabilities in life insurance policies; it has a 19% positive effect on the solvency ratio under the Transitional Provisions in the Transitional Periods (including the effect on the recalculation of the amount of Deduction during the Transitional Period).
- On June 30, 2022, the Capital Market, Insurance and Savings Authority issued a circular amending the provisions of the consolidated circular regarding updating the demographic assumption system and a mortality improvement model for insurance companies and pension funds. The study affects the assumptions used to calculate the liabilities and coefficients in life insurance policies; it has a 6% negative effect on the solvency ratio under the Transitional Provisions in the Transitional Periods (including the effect on the recalculation of the amount of Deduction during the Transitional Period).
- The Company recalculated the value of the Deduction during the Transitional Period as of June 30, 2022 (in accordance with Section B above and due to material changes in the interest rate curve, application of the Study, and application of the Circular and in accordance with the Commissioner's Directives). Following the recalculation, there was a material decrease in the Deduction Amount as of June 30, 2022, and accordingly, a decrease in the capital surplus and solvency ratio of the Company. For more information about the recalculation of the Deduction Amount in respect of the Transitional Period, see Section 2A(2) below.
- The first-time implementation of the effects of the Circular regarding "Tariff Updating in Renewable Health Insurance Policies" in the calculation of the economic solvency ratio as of December 31, 2022 had an 11% positive effect on the Company's solvency ratio under the

Transitional Provisions in the Transitional Periods and on the Company's capital surpluses. For further details, please see Section C2 above.

- The expiry of the capital requirement in respect of existing life and health insurance products reduces the solvency capital requirement and the risk margin (RM), and accordingly has a positive effect on capital surplus and on the Company's solvency ratio.
- The results of the economic solvency ratio as of December 31, 2022 include a distribution of a cash dividend of NIS 115 million, which was paid during the third quarter of 2022, and a distribution of a NIS 205 million cash dividend that was paid in the second quarter of 2023.
- For details regarding other capital-related measures subsequent to balance sheet date, see footnote in the above table.

B. Minimum capital requirement (MCR)

	As of December 31	
	2022	2021
	Audited	
	In NIS thousand	
Minimum capital requirement (MCR) - see Section 5.A	1,843,583	1,916,615
Recognized own funds for MCR - please see Section 5B	11,596,249	11,024,131

Section 2 - Economic Balance Sheet

		As of December 31				
		2022		2021		
		Information about economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
Audited						
In NIS thousand						
Assets						
Intangible assets	3	805,156	159,510	737,837	182,549	
Deferred acquisition costs	4	1,657,544	-	1,546,640	-	
Property & equipment		913,636	913,636	664,260	664,260	
Investments in investees that are not insurance companies						
Other investees	5	1,434,476	1,155,587	1,218,919	1,050,901	
Total investments in investees that are not insurance companies		1,434,476	1,155,587	1,218,919	1,050,901	
Investment property in respect of yield-dependent contracts		2,142,074	2,142,074	2,062,862	2,062,862	
Investment property - other		1,193,932	1,193,932	1,163,326	1,163,326	
Reinsurance assets - see Section 2B	1	3,172,249	2,889,895	2,806,547	2,854,776	
Receivables and debit balances	10	1,807,914	1,745,624	1,296,998	1,208,197	
Financial investments in respect of yield-dependent contracts		77,394,271	77,394,271	81,098,659	81,098,659	
Other financial investments						
Tradable debt assets		5,526,350	5,526,350	7,373,137	7,373,137	
Non-tradable debt assets, excluding designated bonds	6	7,000,949	6,871,856	5,063,042	5,381,798	
Designated bonds	7	7,695,966	9,880,196	7,283,101	10,508,179	
Stocks		1,869,608	1,869,608	2,602,173	2,602,173	
Other		4,890,182	4,890,182	4,401,363	4,401,363	
Total other financial investments		26,983,055	29,038,192	26,722,816	30,266,650	
Cash and cash equivalents in respect of yield-dependent contracts		16,358,509	16,358,509	13,785,593	13,785,593	
Other cash and cash equivalents		2,752,806	2,752,806	1,701,538	1,701,538	
Other assets		-	-	68,796	68,796	
Total assets		136,615,622	135,744,036	134,874,791	136,108,107	
Total assets in respect of yield-dependent contracts		96,055,588	96,261,754	97,116,663	97,359,035	

		As of December 31			
		2022		2021	
Information about economic balance sheet		Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
		Audited			
		In NIS thousand			
<u>EQUITY</u>					
Basic Tier 1 capital		6,627,651	10,317,309	6,591,521	9,912,145
Total equity		6,627,651	10,317,309	6,591,521	9,912,145
<u>Liabilities</u>					
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts - see Section 2B	1, 8	24,516,307	17,508,068	24,244,035	19,160,551
Liabilities in respect of insurance contracts and yield-dependent investment contracts - see Section 2B	1, 8	94,112,888	91,638,483	95,691,151	93,633,187
Risk margin (RM)	1	-	6,618,426	-	7,741,372
Deduction during the Transitional Period	2	-	(3,385,061)	-	(4,710,468)
Liabilities in respect of deferred taxes, net	9	460,160	2,522,344	740,115	2,553,079
Payables and credit balances	4,10	3,037,358	2,902,704	2,544,900	2,414,757
Financial liabilities	11	7,861,258	7,621,763	5,063,068	5,403,484
Total liabilities		129,987,971	125,426,727	128,283,269	126,195,962
Total equity and liabilities		136,615,622	135,774,036	134,874,790	136,108,107

Key changes compared with December 31, 2021

- For explanations about key changes in Tier 1 capital, see Section 3 above.
- For further information about the changes in the Deduction during the Transitional Period, see Section 2A(2) below.

Section 2.A Information about economic balance sheet

The fair value of assets and liabilities in the economic balance sheet was calculated in accordance with the provisions included in the chapter dealing with measurement of assets and liabilities for financial statements purposes in the Consolidated Circular (Code of Regulations), except for items for which other provisions apply as per the Solvency Circular, as follows:

(1) Liabilities in respect to insurance contracts, risk margin (RM) and investment contracts and reinsurance assets

Liabilities in respect of insurance contracts and investment contracts are calculated in accordance with Part A Chapter 4 of the Solvency Circular based on a best estimate (hereafter - "BE" or "Best Estimate") on the basis of assumptions that are mainly a result of projecting to the future existing experience relating to past events, within the environment in which the Company operates, and without conservatism factors. As a rule, with respect to life and Health SLT liabilities, the Company applied the embedded value (EV) calculation methodology in Israel, and with respect to property and casualty insurance - on the basis of the section in the Commissioner Position entitled "Best Practice for Calculation of Insurance Reserves in Property and Casualty Insurance for Financial Reporting Purposes".

The calculation of the liabilities in respect of life insurance contracts and long-term health insurance (SLT) contracts was carried out by discounting the Company's projected cash flows using a model applied to information available in the Company's operational systems as to insurance coverages, and to many demographic, economic and behavioral assumptions. The projected cash flows include, for example, projected premiums in view of the expected cancellation rates, net of the expenses that the Company will incur in respect of the coverages, including fees and commissions to agents, expected claims, etc.

This cash flow is discounted based on an interest-rate curve set by the Commissioner which is based on the real yield to maturity of bonds of the Government of Israel ("risk-free interest"), with convergence in the long-term to a fixed real rate of 2.6% (UFR) plus a margin (VA) that was set by the Commissioner.

The calculation of the liabilities does not include cash flows in respect of future sales; however, it does include an assumption that the Company will continue receiving premiums from existing businesses (excluding in respect of policies without an insurance risk, including investment contracts). Furthermore, the calculation assumes that the Company shall continue as a going concern, i.e., that the Company's activity will not change, and therefore, some of the fixed expenses in the future shall not be allocated to the current portfolio, but rather to a new business which is expected to be sold in the future.

It is likely that the actual cash flows will vary to some degree on another from the estimates made on a best estimate basis, even if the underlying parameters of the calculation will not change in any way. See also Section C1 above - comments and clarifications.

As stated above, the measurement of the insurance liabilities in the economic balance sheet is carried out by discounting the projected cash flows, including future profit, by a risk-free interest plus VA and taking the UFR into consideration, on the basis of a best estimate that does not include conservatism margins, where the risk is reflected in the RM component, which is a separate liability. This measurement differs from the measurement applied in the financial statements, where insurance liabilities are estimated with conservatism margins using the discounting methods and rates described in the risk management note of the annual financial statements.

Risk margin - In addition to the insurance liabilities based on an best estimate, a component of the risk margin is calculated which reflects the total cost of capital that another insurance company would be expected to require in order to receive the insurance company's total insurance liabilities, calculated on the basis of an best estimate. The risk margin is calculated in accordance with the Commissioner's Directives, based on a capital cost rate of 6%, and is discounted at an adjusted risk-free interest rate, but excluding the VA component and based on current and future capital requirements. The future capital requirement is calculated in accordance with the "risk factor method", by changing the capital requirement components calculated as of the reporting date in accordance with the projected development of the risk factors attributed thereto. These factors are designed to reflect the development of the standard model risks over time. The calculation does not take into account the capital requirement in respect of market risks.

Limitations and qualifications with regard to calculation of the best estimate

- Generally, the underlying assumptions of the models were formulated mainly on the basis of studies and analyses which are based on Company's experience over the past few years, which did not include extreme events. Although there is low probability that extreme events will occur, the Company is unable to estimate this probability or the extent of the effect of those events. Accordingly, such events were not taken into account in the determination of the models' underlying assumptions.
- The determination of the BE is supposed to be based on an estimation of the distribution of the potential BEs. With no available significant statistical data that can be used to evaluate the distribution of BE for all demographic and operational factors in life and health SLT, the Company used real assumptions of each and every parameter, according to the expected value of each relevant factor, without taking into account any correlation or dependency between the different assumptions, or between the assumptions and external economic parameters such as taxation, interest or employment levels in Israel. Since the Company did not have sufficient data, when calculating the BE it did not check the level of correlation between demographic and operational assumptions (such as the rate of cancellations) and assumptions pertaining to market conditions (such as the interest rate), which may materially affect the BE.

- In many cases, the future cash flows refer to periods of tens of years into the future. The studies on which the underlying cash flow assumptions rely are based on management's best knowledge, mainly recent years' experience. It is highly uncertain whether the underlying cash flow assumptions will, indeed, materialize, including as a result of future regulatory changes which may have a material effect.

Limitations and qualifications with regard to calculation of the risk margin (RM)

The risk margin is calculated using the cost of capital method, at a rate of 6% in accordance with the guidance of the Economic Solvency Regime, and this rate does not necessarily reflect the cost of capital that is expected to be required from another insurance company or reinsurer in order to assume the Company's insurance liabilities. In this context, it should be emphasized that the capital requirements are based on the model used to calculate the best estimate, despite its limitations as described above.

Assumptions underlying the insurance liabilities calculation

Demographic and operating assumptions

The calculation's underlying assumptions were set in accordance with the Company's best estimates of relevant demographic and operational factors, and reflect the Company's expectations as to the future in respect of these factors. The demographic assumptions included in the calculation were taken from Company's internal studies, if any, and conclusions reached as a result of exercising professional judgment, based on relevant experience and the integration of information received from external sources, such as information from reinsurers and mortality and morbidity tables published by the Commissioner.

The operational assumptions (general and administrative expenses) were calculated in accordance with the results of the Company's internal pricing model applied to expenses relating to the relevant insurance liabilities, including: allocation of expenses to the different segments and activities (issuance, current management, investments, claims management, etc.) and assumptions regarding their future development (in accordance with the CPI, scope of premiums and assets, etc.).

Set forth below are the key assumptions on which the Company relied in the calculations:

a) Economic assumptions

- Discount rate - risk-free interest curve based on the yield to maturity of bonds of the Government of Israel (hereinafter - "risk-free interest") plus a margin (VA), with convergence in the long-term to a fixed real rate of 2.6% (UFR) as set by the Commissioner (hereinafter - the "Discount Rate").
- The yield on the assets backing the life and long-term health insurance products is identical to the Discount Rate (except for the assumed yield in respect of designated bonds).

The yield on designated bonds takes into account their interest rate and the best estimate as to the Company's future entitlement to purchase them. In that context, it should be noted that in March 2023 the Commissioner published a circular regarding the "Amendment of the Consolidated Circular - Chapter 3 Part 4 Title 5 - Reporting to the Commissioner of the Capital Market, Insurance and Savings - Hetz Bonds". For more information regarding this circular, see Section C(1) above.

b) Operational assumptions (for life and health insurance)

General and administrative expenses - the Company analyzed the expenses allocated in the financial statements to the relevant insurance segments, and allocated them to various products and coverage types and to various activities such as current operating of the coverages, investment management, handling claims, payment of pensions and more. The expenses study is revised periodically, and the different types of expenses are carried to the future cash flow in relation to the relevant factors, such as the number of coverages, premiums, reserves or claims. The determination of the future expense and their allocation to future cash flows include many assessments and judgments by the Company, which affect the amount of the liabilities.

c) Demographic assumptions

- Cancellations (discontinuation of premium payment, settlement of policies, payment of redemption value) - in accordance with Company's experience with the different products as observed in periodic cancellation studies, while making adjustments in accordance with the Company's estimates in cases where past experience does not faithfully represent the Company's expectations as to future changes.
- Mortality of pensioners - in accordance with the appendixes and the life expectancy increase assumption as published by the Commissioner in the Consolidated Circular Section 5, Part 2, Chapter 1 - Measurement Appendix C - Measurement of Liabilities, including the amendment of the provisions of the Circular Provisions on Measuring Liabilities - Updating the Demographic Assumptions in Life Insurance and Updating the Mortality Improvements Model for Insurance Companies and Pension Funds of June 30, 2022. It was also assumed, in accordance with the default assumption in that circular, that the effect of the selection of pensioners that do not have to take out an annuity shall be equal to a 3% increase in the value of the paid pension.
- Mortality of planholders - based on the Company's experience in accordance with periodic mortality studies conducted in connection with the relevant products, while making adjustments in accordance with the Company's estimates in cases where past experience does not faithfully represent the Company's expectations as to future changes.
- Morbidity (claims' rate and period) in relation to long-term care, income protection, disability and health insurance products - based on the Company's claims history to the relevant products, in accordance with periodic claims studies, and/or in accordance with reinsurance tariffs applicable to the relevant products.

- Pension take up rates, annuity take up age, and pension tracks - in accordance with the Company's experience as observed in periodic studies, the different policy types and funds.

d) Insurance liabilities in property and casualty insurance

The estimate of the insurance liabilities in the different subsegments in respect of policies earned is based on the provision for the balance sheet. The estimate includes Unallocated Loss Adjustment Expenses (ULAE) and does not include RM and other non-specific margins that were taken into account for reserve adequacy testing for the said balance sheet.

In respect of the unearned portion, the cost is based on the balance sheet calculation, taking into account the unearned portion of the outstanding claims; (risk margins and other non-specific margins are deducted from these calculations as well).

(2) Deduction Value during the Transitional Period

The Deduction during the Transitional Period (hereinafter - the "Deduction") is calculated in accordance with the provisions included in the Economic Solvency Regime and in the letter to insurance companies managers: "Principles for Calculating Deduction during the Transitional Period in the Solvency II-based Economic Solvency Regime" of October 15 2020 (hereinafter - the "**Letter of Principles**").

According to the provisions of the economic solvency regime, as outlined in Section B above and due to the material changes in the interest rate curve, application of the study on retirement age and take up of pension benefits (hereinafter – the "Study"), and adjustment to demographic assumptions and a mortality improvement model for insurance companies and pension funds, in the period between December 31, 2021 and June 30, 2022, the Company recalculated the Deduction during the Transitional Period as of June 30, 2022. Accordingly, the Deduction during the Transitional Period as of December 31, 2022, which was recalculated, amounts to NIS 3,385 million after its linear amortization as at this date (compared with NIS 4,710 million as of December 31, 2021).

Other assets and liabilities:

- (3) **Intangible assets** - in accordance with Part A Chapter 2 Appendix A to the provision of the Economic Solvency Regime, an insurance company shall assess the value of intangible assets at zero, except for investment in Insurtech as defined in the solvency circular, for which it obtained the Commissioner's approval, as required.
- (4) **Deferred acquisition costs** - in accordance with Part A Chapter 2 Appendix A to the provisions of the Economic Solvency Regime, an insurance company shall assess the value of acquisition expenses at zero. It should be noted that the value of the future profits implicit in the insurance contracts was taken into account in the liability in respect of insurance contracts item.
- (5) **Investment in investees which are not insurance companies** - in accordance with Part A Chapter 2 Appendix B to the provisions of the Economic Solvency Regime, the calculation was carried

out using the adjusted equity method, in accordance with the circular on investees which are not insurance companies. In accordance with this method, the Company's stake in investees was included based on its proportionate share in the excess of their assets over their liabilities, calculated in accordance with the economic value of the assets and liabilities in accordance with the circular's provisions, which is calculated based on their financial statements after writing-off intangible assets. In investees where the economic balance sheet reflects an excess of liabilities over assets, the value of the investment will be zero rather than a negative amount, when its value in the accounting balance sheet is a positive amount.

The economic value of the investees does not include the profits implicit in those companies.

In the management company, 35% of the balance of the original difference relating to this company is added to the economic value.

- (6) **Non-marketable debt assets** - in accordance with Part A, Chapter 1 to the provisions of the Economic Solvency Regime, the fair value of non-marketable debt assets is calculated on the basis of a discounted cash flow model; the discount rates are determined by a company providing price and interest rate quotes for institutional entities.
- (7) **Designated bonds** - in accordance with Part A Chapter 2 Appendix E to the provisions of the Economic Solvency Regime, the insurance company adjusts the value of designated bonds to their value as per the economic balance sheet in accordance with their economic value that takes into account their interest rate and the best estimate as to the Company's future entitlement to purchase them. See also Section 2a(1)(a) above.
- (8) **Contingent liabilities** - as to the value of contingent liabilities in the economic balance sheet, see Section d(2)(b) above.
- (9) **Liabilities in respect of deferred taxes, net** - in accordance with Part A Chapter 2 Appendix C to the provisions of the Economic Solvency Regime, the calculation is based on the difference between the value attributed to assets and liabilities in the economic balance sheet (taking into account the Deduction Amount) and the value attributed to those assets and liabilities for tax purposes, in accordance with the recognition, measurement and presentation provisions of IAS 12. Deferred tax assets may be recognized only if the Company shall meet the criteria included in the Economic Solvency Regime, in addition to the criteria included in the above-mentioned accounting standard.
- (10) **Accounts payable and accruals, receivables and debit balances** - in accordance with Part A Chapter 1 of the provisions of the Economic Solvency Regime, some of the balances in this item were calculated in accordance with the general principles regarding the economic balance sheet.
- (11) **Financial liabilities** - were calculated in accordance with the general principles set in the provisions of the Economic Solvency Regime and subject to the guidance in Part A Chapter 3, whereby changes in the Company's credit risk may only taken into account in respect of changes in risk-free interest. That is to say, the discount rate is a risk-free interest plus the margin on issuance date.

Section 2.B - Composition of liabilities in respect to insurance contracts and investment contracts

	As of December 31, 2022		
	Best estimate (BE) of liabilities		
	Gross	Reinsurance	Retention
	Audited		
	In NIS thousand		
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts			
Life insurance contracts and long-term health insurance (SLT)	11,415,228	693,659	10,721,569
Property & casualty and NSLT health insurance contracts	6,092,839	1,862,025	4,230,814
Total liabilities for insurance contracts and non-yield-dependent investment contracts	17,508,067	2,555,684	14,952,383
Liabilities in respect of insurance contracts and yield-dependent investment contracts - life insurance contracts and long-term health insurance (SLT)	91,638,483	334,211	91,304,272
Total liabilities in respect of insurance contracts and investment contracts	109,146,550	2,889,895	106,256,655
	As of December 31, 2021		
	Best estimate (BE) of liabilities		
	Gross	Reinsurance	Retention
	Audited		
	In NIS thousand		
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts			
Life insurance contracts and long-term health insurance (SLT)	13,138,785	610,284	12,528,501
Property & casualty and NSLT health insurance contracts	6,021,766	1,869,275	4,152,491
Total liabilities for insurance contracts and non-yield-dependent investment contracts	19,160,551	2,479,559	16,680,992
Liabilities in respect of insurance contracts and yield-dependent investment contracts - life insurance contracts and long-term health insurance (SLT)	93,633,187	375,217	93,257,970
Total liabilities in respect of insurance contracts and investment contracts	112,793,738	2,854,776	109,938,962

Key changes compared with December 31, 2021:

- The decrease in liabilities for insurance contracts and non-yield dependent investment contracts is mainly due to an increase in the risk-free interest rate, that was partially offset by the implementation of the study on retirement age and pension take up rates, and the Demographic Assumptions Circular, as set out in Section 1A above.
- The decrease in liabilities for insurance contracts and non-yield dependent investment contracts is mainly due to an increase in the risk-free interest rate, negative returns in planholders portfolios, and the implementation of the study on retirement age and pension take up rates that was partially offset by the Demographic Assumptions Circular, as set out in Section 1A above.

Section 3 - Recognized own funds equity in respect of SCR

	As of December 31, 2022			
	Tier 1 capital		Tier 2 capital	Total
	Basic	Additional		
	Audited			
	In NIS thousand			
Equity capital	10,317,309	1,146,514	3,894,393	15,358,216
Deductions from Tier 1 capital (a)	(236,290)	-	-	(236,290)
Deductions (b)	-	-	-	-
Deviation from quantitative limitations (c)	-	-	(410,262)	(410,262)
Recognized own funds in respect of SCR (d)	10,081,019	1,146,514	3,484,131	14,711,664
Out of which - amount of expected profit in future premiums				
Post-tax EPIFP	6,635,675			6,635,675

	As of December 31, 2021			
	Tier 1 capital		Tier 2 capital	Total
	Basic	Additional		
	Audited			
	In NIS thousand			
Equity capital	9,912,145	1,296,569	3,571,301	14,780,015
Deductions from Tier 1 capital (a)	(567,905)	-	-	(567,905)
Deductions (b)	-	-	-	-
Deviation from quantitative limitations (c)	-	-	-	-
Recognized own funds in respect of SCR (d)	9,344,240	1,296,569	3,571,301	14,212,110
Out of which - amount of expected profit in future premiums				
Post-tax EPIFP	6,787,011			6,787,011

Key changes compared with December 31, 2021:

- Basic Tier 1 capital was positively affected by the increase in risk-free interest rates, implementation of the study on retirement age and pension take up rates, and implementation of the "Circular regarding Updating of Tariff in Renewable Health Insurance Policies". On the other hand, the application of the "Demographic Assumptions Circular", as set out in Section A1, and negative returns in the nostro and planholders portfolios in the reporting period had a negative effect on Basic Tier 1 capital.
- In addition, Basic Tier 1 capital was positively affected by new business sales and the expiry of the underwriting capital requirement for an existing business (which reduces the RM component).
- In the period from the publication date of the report as of December 31, 2021 through the publication date of the report as of December 31, 2022 cash dividends totaling NIS 320 million were distributed, which reduced Basic Tier 1 capital. NIS 205 million of the total dividend amount distributed from December 31, 2022 through the publication date of this report are included in the "deductions from Tier 1 capital" line item in the above table.

- Additional Tier 1 capital was adversely affected from the increase in risk-free interest in the reporting period.
- The balance of Tier 2 capital for purposes of solvency capital requirement increased as a result of the NIS 650 million capital raising carried out during the reporting period, which was offset following the increase in the interest rate in the reporting period and following a deviation from quantitative limits as a result of a decrease in capital requirements. Subsequent to the balance sheet date (December 31, 2022), NIS 411 million in Series F bonds were redeemed (immediate report dated January 15, 2023, Ref. No.: 2023-01-006268). The redemption referred to above does not have a material effect on the solvency ratio as of December 31, 2022 in view of the surplus Tier 2 capital that the Company holds in excess of the quantitative limit.
- For further details regarding these changes, see Section 1a above and Section 4 below.
 - (a) Amounts deducted from Tier 1 capital - in accordance with the definitions of "Basic Tier 1 capital" in Appendix B, Chapter 2, Part 2 of Section 5 in the Consolidated Circular - "Economic Solvency Regime" (hereinafter - "the Economic Solvency Regime Appendix"), these deductions include the amount of assets held against liabilities in respect of non-yield dependent insurance and investment contracts in breach of the investment rules regulations, amount invested by the Company in purchasing Company ordinary shares, and the amount of dividend declared subsequent to the report date and through the publication of the report for the first time.
 - (b) Deductions - in accordance with the provisions of Chapter 6 in Part B - "Directives regarding Insurance Companies' Equity" to the Economic Solvency Regime Appendix.
 - (c) Exceeding quantitative restrictions - in accordance with the provisions of Chapter 2 in Part B - "Directives regarding Insurance Companies' Equity" to the Economic Solvency Regime Appendix.
 - (d) Composition of Recognized own funds in respect of SCR

	As of December 31	
	2022	2021
	Audited	
	In NIS thousand	
Tier 1 capital		
Basic Tier 1 capital	10,081,019	9,344,240
Additional Tier 1 capital		
Additional Tier 1 capital instruments	1,146,514	1,296,569
Additional Tier 1 capital	1,146,514	1,296,569
Total Tier 1 capital	11,227,533	10,640,809
Tier 2 capital		
Tier 2 capital instruments	1,887,068	1,444,620
Hybrid Tier 2 capital instruments	1,607,989	1,704,914
Hybrid Tier 3 capital instruments	399,336	421,767
Less deduction due to deviation from quantitative limit	(410,262)	-
Total Tier 2 capital	3,484,131	3,571,301
Total recognized own funds in respect of SCR	14,711,664	14,212,110

- For an explanation about key changes compared with December 31, 2021, see Section 3 above.
- For information about equity for purposes of solvency capital requirement without applying the Transitional Provisions to the Transitional Period and without applying a stock scenario adjustment, see Section 6 "Effect of application of Directives for the Transitional Period", below.

Section 4 - Solvency capital requirement (SCR)

	As of December 31	
	2022	2021
	Capital requirements	
	Audited	
	In NIS thousand	
Basic solvency capital requirement (BSCR)		
Capital required in respect of market risk component*	5,307,614	5,339,168
Capital required in respect of counterparty risk component	497,977	461,803
Capital required in respect of underwriting risk component in life insurance	2,967,172	3,305,793
Required capital in respect of underwriting risk component in health insurance (SLT+NSLT)	4,299,031	5,076,207
Capital required in respect of underwriting risk component in P&C insurance	1,300,622	1,163,279
Effect of diversification of risk components	(4,870,456)	(5,131,205)
Capital required in respect of the intangible assets risk component	79,755	91,275
Total basic solvency capital requirement (BSCR)	9,581,715	10,306,320
Capital required in respect of operational risk	387,978	352,399
Loss absorption adjustment due to deferred tax asset	(3,001,430)	(2,992,261)
Total solvency capital requirement (SCR)	6,968,263	7,666,458

* Equity scenario adjustment.

For information about solvency capital requirement without applying the Transitional Provisions to the Transitional Period and without applying a stock scenario adjustment, see Section 6 "Effect of application of Directives for the Transitional Period", below.

Key changes in solvency capital requirement compared to December 31, 2021:

- The required capital for the market risk remains essentially unchanged in light of the opposing effects of a decrease in the intensity of the stock scenario arising both from a decrease in the symmetrical adjustment component (SA) and from negative returns on the investment portfolios, and was offset, on the other hand, by the expiry of the stock scenario in the Transitional Periods.
- The decrease in the required capital for the underwriting risk in life insurance component is mainly due to the effect of the increase in interest rates and completion of the Retirement Age and Pension take up Rates Study, which reduced the capital requirement, and on the other hand, the effect of publication of the Circular on mortality improvements, which increased the capital requirements and offset some of these effects (for further information about the effect of the interest, the Study, and the Circular, see Section 1A above).
- The decrease in the required capital for the underwriting risk in health insurance component is mainly due to the effect of the increase in interest rates, and the implementation of the Circular regarding Tariff Updating in Renewable Health Insurance Policies. For further details, please see Section 1A above.
- In addition, changes in solvency capital requirement are affected from the expiry of capital requirement in respect of existing insurance products, which reduce the solvency capital requirements, and, on the other hand, by marketing of new products that increase the solvency capital requirement.

Section 5 - Minimum capital requirement (MCR)

(a) Minimum capital requirement (MCR)

	As of December 31	
	2022	2021
	Audited	
	In NIS thousand	
Minimum capital requirement according to MCR formula	1,843,583	1,797,312
Lower boundary (25% of solvency capital requirement in the Transitional Period)	1,742,066	1,916,615
Upper boundary (45% of solvency capital requirement in the Transitional Period)	3,135,718	3,449,906
Minimum capital requirement (MCR)	1,843,583	1,916,615

(b) Recognized own funds for MCR

	As of December 31, 2022		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	In NIS thousand		
Shareholders equity in respect of SCR according to Section 3	11,227,533	3,484,131	14,711,664
Deviation from quantitative limitations due to minimum capital requirement*	-	(3,115,415)	(3,115,415)
Shareholders equity for MCR	11,227,533	368,716	11,596,249

	As of December 31, 2021		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	In NIS thousand		
Shareholders equity in respect of SCR according to Section 3	10,640,809	3,571,301	14,212,110
Deviation from quantitative limitations due to minimum capital requirement*	-	(3,187,979)	(3,187,979)
Recognized own funds for MCR	10,640,809	383,322	11,024,131

(*) In accordance with the provisions of Chapter 3 in Part B to the Economic Solvency Regime Appendix, Tier 2 capital shall not exceed 20% of MCR.

Section 6 - Effect of the application of the directives for the Transitional Period

As of December 31, 2022					
	Including applying the Transitional Provisions for the Transitional Period and adjusting the stock scenario	Effect of Deduction during the Transitional Period	Effect of stock scenario adjustment	Effect of a 50% rate Tier 2 capital during the Transitional Period	Total excluding applying the Transitional Provisions for the Transitional Period and adjusting the stock scenario
	Audited				
	In NIS thousand				
Total insurance liabilities, including risk margin (RM)	112,379,916	(3,385,061)	-	-	115,764,977
Basic Tier 1 capital	10,081,019	2,227,708	-	-	7,853,311
Recognized own funds in respect of SCR	14,711,664	1,817,447	-	592,526	12,301,691
Solvency capital requirement (SCR)	6,968,263	(1,157,352)	(129,052)	-	8,254,667

As of December 31, 2021					
	Including applying the Transitional Provisions for the Transitional Period and adjusting the stock scenario	Effect of Deduction during the Transitional Period	Effect of stock scenario adjustment	Effect of a 50% rate Tier 2 capital during the Transitional Period	Total excluding applying the Transitional Provisions for the Transitional Period and adjusting the stock scenario
	Audited				
	In NIS thousand				
Total insurance liabilities, including risk margin (RM)	115,824,642	(4,710,468)	-	-	120,535,110
Basic Tier 1 capital	9,344,240	3,099,959	-	-	6,244,281
Recognized own funds in respect of SCR	14,212,110	3,099,959	-	-	11,112,151
Solvency capital requirement (SCR)	7,666,458	(1,610,509)	(541,921)	-	9,818,889

See description of the Transitional Provisions applicable to the Company during the Transitional Period in Section 2a - information about economic balance sheet, Subsection 2 - the value of the Deduction during the Transitional Period.

Key changes compared with December 31, 2021 regarding the effect of the implementation of the provisions for the Transitional Period:

- A recalculation of the amount of Deduction during the Transitional Period led to a decrease of the effect of the inclusion of the amount of Deduction during the Transitional Period, in addition to the linear amortization of the deduction amount. For further details, please see Section 1 and Section 2a(2) above.
- The effect of the stock scenario adjustment is small in view of the expiry and due to the decrease in exposure to shares and the decrease in the intensity of the scenario due to the decrease in the symmetrical adjustment (SA) component.
- As of December 31, 2022, the Company has Tier 2 capital, which is not recognized in accordance with a calculation of the solvency ratio without applying the Transitional Provisions for the Transitional Periods, and without adjusting the shares scenario at the total amount of NIS 592 million. Subsequent to the balance sheet date, the Company redeemed NIS 411 million in Series F bonds (immediate report dated January 15, 2023, Ref. No.: 2023-01-006268) due to the amount of the Tier 2 capital which is not recognized; the said redemption does not have a material effect on the solvency ratio as of December 31, 2022.
- For an explanation about other key changes compared with December 31, 2021, see Section 1a above.

Section 7 - Changes in Capital Surplus

Set forth below is a table that describes the changes during the reporting period in the capital required for purpose of the solvency capital requirement, the capital required for the purpose of solvency, and finally in the capital surplus (deficit) by main effect items. The data included in this section were calculated and reported in accordance with the Commissioner's guidance. The Commissioner determined the order of the presentation of the items in the above table; the Commissioner also determined that the order of the items in the table does not necessarily represent the order by which the various items will be calculated. It should be noted that the order by which the items are calculated may impact the results of the calculation.

	Recognized own funds in respect of SCR	Solvency capital requirement (SCR)	Capital surplus (deficit)
	Audited		
	In NIS thousand		
As at January 1, 2022	14,212,110	7,666,458	6,545,652
adjusting the Transitional Provisions for the Transitional Period and adjusting the stock scenario	(3,099,959)	2,152,430	(5,252,389)
As of January 1, 2022, excluding applying the Transitional Provisions for the Transitional Period and adjusting the stock scenario	11,112,151	9,818,889	1,293,262
The effect of operating activities (a)	1,038,453	(523,211)	1,561,664
Effect of economic activity (b)	864,492	(977,657)	1,842,149
New businesses (c)	448,507	359,067	89,439
Effect of the issuance of capital instruments (net of redemptions) and a declared dividend (d)	(320,000)	-	(320,000)
Effect of changes in deferred tax, additional Tier 1 capital and Tier 2 capital	(841,913)	(422,421)	(419,491)
As of December 31, 2022, total without applying the Transitional Provisions for the Transitional Period and adjusting the stock scenario	12,301,691	8,254,667	4,047,024
Effect of the Transitional Provisions for the Transitional Period and adjusting the stock scenario	2,409,973	(1,286,404)	3,696,377
As of December 31, 2022	14,711,664	6,968,263	7,773,401

(a) This section includes the effect of:

1. The projected cash flow that was embedded in the opening balance and which was expected to be released in the reporting year;
2. Deviations from demographic and operating assumptions in the reporting year;
3. Changes in regulatory rules;
4. Changes in demographic and operating assumptions compared with those used on the date of the previous report;
5. Model updates;
6. New insurance contracts (P&C Insurance and NSLT health insurance) signed in the reporting year, and insurance portfolios in those subsegments, purchased or sold in the reporting year;
7. Investment in intangible assets;
8. Other changes not included in the other items, including reinsurance transaction regarding the permanent health insurance businesses. For further details, see Section 1a above.

(b) This section includes the effect of the current operating activity, including:

1. Changes in the value of investment assets;
2. Changes in capital required in respect of market risk component, including change in the symmetric adjustment component (SA);
3. Effect of inflation;
4. Effect of changes in the risk-free interest rate curve on solvency.

(c) This item includes new insurance contracts (P&C Insurance and NSLT health insurance) signed in the reporting year, and insurance portfolios in those subsegments, purchased or sold in the reporting year, excluding their effect on market risks, counterparty risk and operational risk.

(d) This item includes capital-related measures, including issuance and redemption of Tier 1 capital and Tier 2 capital instruments that were carried out through the report date, and a dividend declared subsequent to the publication date of the solvency ratio report.

Key explanations for changes in capital surplus for the reporting period:

- The effect of operating activities led to an increase in capital surplus during the reporting period, mainly as a result of the implementation of a study regarding the annuity take up rate, and the implementation of the "Circular Regarding Tariff Updating in Renewable Health Insurance Policies", which were partially offset by the "Demographic Assumptions Circular".
- The effect of economic activity led to an increase in capital surplus in the reporting period mainly due to an increase in the risk-free interest rate, which increased the recognized own funds in respect of SCR and decreased the solvency capital requirement (SCR). This effect was partially offset as a result of negative returns on investment portfolios.
- For further details about significant effects on the economic solvency ratio's components, see Section 1a above.

Section 8 - Sensitivity Tests

Set forth below is a sensitivity analysis of the economic solvency ratio to various risk factors as of the report date. This analysis reflects the effects of various risk factors both on equity, including the effect of the quantitative restrictions that apply to equity, and on the capital required for solvency purposes. The sensitivity tests only reflect direct effects, holding all other risk factors constant, and do not include secondary effects or derived changes on other risk factors or effects on the Deduction Amount.

It should be noted that the sensitivities are not necessarily linear; i.e., sensitivities at other rates are not necessarily a simple extrapolation of the sensitivity tests presented.

	As of December 31, 2022	As of December 31, 2021
	Audited	
	Effect on the economic solvency ratio (in percentage points)	
A 50-base-point decrease in risk-free interest (a)	(18%)	(18%)
A 25% decrease in the value of equity assets (b)	(18%)	(15%)
A 5% increase in morbidity rate (c)	(11%)	(12%)
A 5% decrease in mortality rates (c)	(13%)	(14%)

- (a) The sensitivity to a 50-base-point decrease in interest was calculated by creating a risk-free interest curve for a new solvency that includes a corresponding 50-base-point decrease compared with the basic curve up to the 10th year, and subsequent to that year an extrapolation according to the Smith Wilson model with convergence to a UFR of 2.6% as required in the Solvency Circular. The sensitivity test was implemented to all debt assets and insurance liabilities which are exposed to changes in the risk-free interest for solvency, including recalculation of indirect effects on variable management fees.
- (b) Sensitivity to a 25% decrease in the value of equity assets applies to all equity accounted for in the equity sub-risk component, including all Israeli shares and foreign shares, investment funds and illiquid capital expenditures. For the purpose of the sensitivity test, the SA was recalculated in line with a 25% slump in the TA 125 Index, that is used to calculate the SA.
- (c) Sensitivities to an increase in morbidity rates and a decrease in mortality rates were calculated for all insurance products which are sensitive to those changes, where relevant.

Section 9 - Dividend Distribution Restrictions

The Company's policy is to have a solid capital base to ensure its solvency and ability to meet its liabilities to policyholders, to preserve the Company's ability to continue its business activity such that it is able to provide returns to its shareholders. The Company is subject to capital requirements set by the Commissioner.

The Company's Board of Directors has set a minimum economic solvency ratio target and target range based on Solvency II. The economic solvency ratio target range, within which the Company seeks to be during and at the end of the Transitional Period, taking into account the Deduction during the Transitional Period and its gradual reduction is 150%-170%.

The minimum economic solvency ratio target, taking into account the Transitional Provisions, was set at 135%, and the minimum solvency ratio target without taking into account the provisions during the Transitional Period is set to reach 135% at the end of the Transitional Period according to the Company's capital plan. On August 24, 2022, the Company's Board of Directors increased the minimum economic solvency ratio target without taking into account the provisions during the Transitional Period by 3 percentage points - from the 108% rate a 111% rate as of June 30, 2022.

As of December 31, 2022, the date of the calculation, the Company has capital surplus in relation to the targets that were set, as described in the table set forth below.

It is hereby clarified that the aforesaid does not guarantee that the Company will meet the set targets at all times.

Dividend

According to the letter published by the Commissioner, in October 2017, (hereinafter - the "**Letter**") an insurance company shall be entitled to distribute a dividend only if, following the distribution, the company has a solvency ratio - according to the Economic Solvency Regime - of at least 100%, calculated without taking into account the Transitional Provisions and subject to the solvency ratio target set by the Company's Board of Directors. The aforesaid ratio shall be calculated without the relief granted in respect of the original difference attributed to the acquisition of the provident funds and management companies. In addition, the letter set out provisions for reporting to the Commissioner.

Dividend distribution

In the third quarter of 2022, The Phoenix Insurance distributed a dividend in the amount of NIS 115 million; for further information about the said dividend distribution, see the immediate report of August 25, 2022.

In the first quarter of 2023, The Phoenix Insurance distributed a dividend in the amount of NIS 205 million; for further information about the said dividend distribution, see the immediate report of March 23, 2023.

Subsequent to the dividend distributions, as set out above, the economic solvency ratio of The Phoenix Insurance and the economic solvency ratio without applying the Transitional Provisions for the Transitional Period and without adjusting the share scenario, meet the minimum economic solvency ratio target without taking into account the provisions in the Transitional Period as set by the Board of Directors at a rate of 111%

and meet the 150%-170% target range, in which the Company seeks to be during and after the Transitional Period, taking into account the Deduction during the Transitional Period and its gradual reduction, thus, the Company meets the requirements of the letter published by the Commissioner in October 2017 regarding restrictions on dividend distribution, as set out above.

The following are data on the Company's economic solvency ratio, calculated without taking into account the Transitional Provisions and the solvency ratio target set by the Company's Board of Directors with respect to the solvency ratio calculated without taking into account the provisions during the Transitional Period and adjusting the stock scenario, as required by the letter. As stated, the ratio is higher than the solvency ratio required by the letter.

Solvency ratio without applying the Transitional Provisions for the deployment period, and without adjusting the shares scenario:

	As of December 31	
	2022	2021
	Audited	
	In NIS thousand	
Recognized own funds in respect of SCR - please see Section 6	12,301,691	11,112,151
Solvency capital requirement (SCR) - please see Section 6	8,254,667	9,818,889
Surplus	4,047,024	1,293,262
Economic solvency ratio (in %)	149%	113%

Effect of material capital-related measures taken in the period between the calculation date and the publication date of the solvency ratio report:

Raising of capital instruments*	-	354,205
Recognized own funds in respect of SCR	12,301,691	11,466,356
Surplus	4,047,024	1,647,467
Economic solvency ratio (in %)	149%	117%

Capital surplus after capital-related actions in relation to the Board of Directors' target:

Minimum solvency ratio target without applying the Transitional Provisions	111%	108%
Capital surplus over target	3,139,011	861,956

* Subsequent to the balance sheet date, the Company redeemed NIS 411 million in Series F bonds (immediate report dated January 15, 2023, Ref. No.: 2023-01-006268); the said redemption does not affect the solvency ratio without applying the Transitional Provisions for the Transitional Periods, and without adjusting the stock scenario as of December 31, 2022, in view of the unrecognized Tier 2 capital balance due to the quantitative limit on the recognition of Tier 2 capital.

- For an explanation about key changes compared with last year see Section 1A above.

May 30, 2023

Date

Benjamin Gabbay
Chairman of the
Board

Eyal Ben Simon
Chief Executive
Officer

Eli Schwartz
Deputy CEO, Chief
Financial Officer

Amit Netanel
Executive VP,
Chief Risk Officer