



**Economic Solvency Ratio Report of The
Phoenix Insurance Company Ltd. as of
June 30, 2023**



Table of Contents

	<u>Page</u>
Special Auditor's Report.....	3
Overview and Disclosure Requirements.....	6
Definitions.....	8
Calculation Methodology.....	10
Comments and clarifications.....	12
Section 1 - Economic Solvency Ratio and Minimum Capital Requirement.....	15
Section 2 - Economic Balance Sheet.....	18
Section 2 A - Information about Economic Balance Sheet.....	20
Section 2 B - Composition of liabilities in respect to insurance contracts and investment contracts.....	26
Section 3 - Shareholders' Equity in respect of SCR.....	27
Section 4 - Solvency Capital Requirement (SCR).....	29
Section 5 - Minimum Capital Requirement (MCR).....	30
Section 6 - Effect of the Application of the Directives for the Transitional Period.....	31
Section 7 - Dividend Distribution Restrictions.....	33

Tel. +972-3-6232525

Kost Forer Gabbay & Kasierer

Fax +972-3-5622555

Menachem Begin Road 144A, Tel Aviv 6492102

ey.com



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

Re: **Independent auditor's report on the Solvency II-based Economic Solvency Ratio Report Of The Phoenix Insurance Ltd. (hereinafter - the "Company") as of June 30, 2023**

Introduction

We have performed the procedures set forth below in connection with the Solvency II-based Economic Solvency Ratio Report for the Company as of June 30, 2023 (hereinafter - the "**Report**" or the "**Solvency Ratio Report**"). Our report refers only to the calculations of the solvency ratio and the manner of presentation of the Solvency Ratio Report and does not refer to any other activity of the Company.

Responsibility

The Board of Directors and management are responsible for the preparation and presentation of the Report in accordance with the directives of the Commissioner of the Capital Market, Insurance and Savings (hereinafter - the "**Commissioner**") regarding the financial Solvency of a solvency II-Based insurance company as included in Chapter 2, Part 2, Section 5 of the consolidated circular and in accompanying guidelines (hereinafter collectively - the "**Commissioner's Directives**"). The calculations, projections and assumptions underlying the preparation of the Information are the responsibility of the Board of Directors and management. This responsibility includes the selection and application of appropriate methods for preparing the edited information and the use of assumptions and estimates for individual disclosures, which are reasonable in the given circumstances. Moreover, this responsibility includes the planning, implementation, and maintenance of systems and processes relevant to the preparation of the edited information in a manner that does not include material misstatement.

Our responsibility is to draw a conclusion on the editing and presentation of the calculation of the Solvency Ratio Report in accordance with the directives of the Commissioner based on the procedures set forth below.

Scope of the Review

We performed our communications in accordance with the principles of International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information published by the IAASB. The working procedures included the procedures set forth below, in order to assess whether the calculations for this subject, as of June 30, 2023, in all material respects, do not comply with the Commissioner's made by the Company on the aforementioned matter, as of June 30, 2023, in all substantive respects, are not in accordance with the Commissioner's Directives. However, we do not provide a separate conclusion for each disclosure.

The work procedures included the following:

- Review of the Solvency Ratio Report and the explanations included in it;
- Making inquiries, especially with the people responsible for producing the Solvency Ratio Report and for compiling calculations for the solvency ratio;
- including inquiries about the fundamental changes that occurred in the models, methodologies, in the computational processes, and systems;
- Review of material changes in studies that affected this Report, as relevant;
- Performing analytical review procedures, including examining the likelihood of significant changes in the key sections of the Report.

We have not examined the appropriateness of the deduction amount during the Transitional Period as of June 30, 2023, as shown in Section 2. Detail regarding the above working procedures regarding the amount of deduction that does not exceed the expected amount of the risk and capital margin required for solvency in respect of life and health insurance risks due to existing businesses during the Transitional Period in accordance with the future development of the required capital, that affects both the calculation of the expected capital release and the expected risk margin release as detailed in the instructions for calculating the risk margin.

Our work is considerably smaller in scope than an audit conducted in accordance with accepted audit standards, and therefore does not allow us to gain confidence that we are aware of all of the significant matters that could have been identified in an audit. Accordingly, we do not have an opinion of the audit.

Conclusion

Except for the abovementioned regarding the appropriateness of the deduction amount during the Transitional Period, and based on the procedures performed, nothing has come to our attention that causes us to believe that the calculation of the solvency ratio and the manner of presentation of the Company's Solvency Ratio Report for June 30, 2023, are not prepared in accordance with the Commissioner's Directives, in all substantive respects.

It should be emphasized that the projections and assumptions are based mainly on past experience, as evidenced by actuarial studies conducted from time to time. Given the reforms in the capital market, insurance and savings, and changes in the economic environment, past data do not necessarily reflect future results. Information is sometimes based on assumptions about future events, management's actions, and the future pattern of the risk margin, which may not necessarily realize or realized differently from the assumptions used as the basis for the information. In addition, actual results may differ materially from the information since the combined scenarios of events may differ materially from the assumptions in the information.

We draw attention to Section D, comments, and clarifications regarding the solvency ratio, regarding the uncertainties arising from regulatory changes, and exposure to dependencies that cannot be assessed its impact on the solvency ratio, as well as the uncertainties inherent in the actuarial and financial assumptions and projections used in the preparation of the Report.

Respectfully,

Tel Aviv,

November 28, 2023

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 "**Provisions of the Economic Solvency Regime**"), 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 Provisions of the Economic Solvency Regime set a standard model for calculating eligible shareholders' equity 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 shareholders' equity and the regulatory solvency capital requirement.

The eligible shareholders' equity is composed of Tier 1 capital and Tier 2 capital. Tier 1 capital includes shareholders' 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 shareholders' 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 comprised of risks to which the Company is exposed, 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 Provisions of the Economic Solvency Regime.
- Minimum capital requirement (hereinafter "MCR" or "minimum capital requirement"). In accordance with the Provisions of the Economic Solvency Regime, 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 Provisions of the Economic Solvency Regime 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. If the Company's solvency ratio reaches 120%, the Company will publish a full quarterly Solvency Ratio Report in a half-year format, instead of the estimated ratio.

Forward-looking information

The data included in this Economic Solvency Ratio Report, including the eligible and the required shareholders' equity 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, uptake of pension benefits, rate of release of the risk margin and underwriting income rate), assumptions regarding future management actions, risk-free interest rates, capital market returns, future revenue, and damage in catastrophe scenarios.

A. Definitions

The Company	- The Phoenix Insurance Company Ltd.
Provisions of the Economic Solvency Regime	- 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 Provisions of the Provisions of 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 Provisions of the Economic Solvency Regime.
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-accrual 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-weighted 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 shareholders' 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 Provisions of the Economic Solvency Regime.
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 Provisions of the Economic Solvency Regime.
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 Provisions of the Economic Solvency Regime.
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 Provisions of the Economic Solvency Regime.
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".
Unaudited	- The term refers to a review conducted in accordance with the principles of the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical 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.

B. Calculation Methodology

The Economic Solvency Ratio Report as of December 31, 2022 and June 30, 2023 was calculated and prepared in accordance with the Provisions of the Economic Solvency Regime.

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 properties. The economic balance sheet attributes zero value to intangible assets and deferred acquisition costs other than investment in "Insurtech" as defined in the Provisions of the Economic Solvency Regime, 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.

The Company recently calculated the Deduction Amount as of June 30, 2022. Due to the material changes in the interest rate curve, in the period between June 30, 2022 and June 30, 2023, the Company recalculated the Deduction during the Transitional Period as of June 30, 2023. For further information about the Deduction Amount, see Section 2A(2) below.

Solvency capital requirement (SCR)

The calculation of the solvency capital requirement is based on an assessment of the economic shareholders' equity's exposure to the following risk-weighted 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-weighted components include sub-risk-weighted components with respect to specific risks to which the insurance company is exposed. The exposure assessment of the economic shareholders' 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-weighted components and the sub-risk-weighted 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 shareholders' equity 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 Provisions of the Economic Solvency Regime, 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.

C. 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 June 30, 2023. Any information or studies obtained or completed after the reporting date of the Company's annual report as of June 30, 2023 were not taken into account.

The Solvency Ratio Report was prepared on the basis of the terms and conditions and the best estimate as known to the Company as of the reporting date on June 30, 2023. Accordingly, the Report has not been revised for consequences of the Iron Swords War, if any. For further information about the consequences of the Iron Swords War, see Note 1 to the interim financial statements for the third quarter of 2023 and section 1.3.2 of the Company's Report of the Board of Directors for September 30, 2023.

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 shareholders' 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. 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's Business in the Periodic Report for 2022 and in the Periodic Report for the period ended September 30, 2023.

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 Provisions of the Economic Solvency Regime, 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 of December 31, 2022, see Note 39 to the financial statements of 2022. For an update as to developments in this exposure after reporting date, see Note 7 to the financial statements as of September 30, 2023.

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, where as 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). 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 the calculation of the solvency ratio as of June 30, 2023, the Company has not yet included the effect of the amendment, due to its assessment of immateriality from application of the amendment and due to the uncertainty as to the results of the calculations of the reserves in IFRS 17, including the risk adjustment component, and its allocation for the purpose of the calculation of Hetz bonds in the period applicable to IFRS 17.

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

A. Economic solvency ratio

	As of June 30, 2023	As of December 31, 2022
	Unaudited *)	Audited **)
	NIS thousand	
Shareholders' equity in respect of SCR - see Section 3	14,395,951	14,711,664
Solvency capital requirement (SCR) - see Section 4	7,175,004	6,968,263
Surplus	7,220,947	7,773,401
Economic solvency ratio (in %)	201%	211%

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

Raising (redemption) of equity instruments***	300,000	(410)
Shareholders' equity in respect of SCR	14,695,951	14,711,254
Surplus	7,520,947	7,742,991
Economic solvency ratio (in %)	205%	211%

* In this Report, the term "unaudited" refers to a review conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information

** 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.

*** On October 25, 2023, the Board of Directors of The Phoenix Capital Raising (2009) Ltd. approved a private placement of additional Tier 1 subordinated notes (Series PHONIX B12 Bonds) for a total consideration of NIS 300 million.

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.

On October 7, 2023, subsequent to the reporting date, the Iron Swords War broke out between the State of Israel and the terrorist organization Hamas in Gaza (hereinafter - the "**War**"), after the murderous attack by the terrorist organization on communities in southern Israel. As a result of the War, based on public information, as of the publication date of the report, more than 1,250 Israelis were murdered, 3,000 suffered various degrees of injuries, and some 177 civilians and soldiers are defined as kidnapped.

The War resulted in a series of consequences and restrictions in the beginning, including the temporary closure of many businesses, restrictions on gatherings at workplaces and events, and the suspension of studies at schools in the first two weeks of fighting. In addition, a large number of civilians were called up to the IDF reserves. These measures resulted in reduced activity in Israel and a decrease in economic activity. Additionally, as a result of the War, there were sharp declines in the financial markets in Israel.

By virtue of its activity, The Phoenix Group is exposed to declines in the financial markets, a slowdown in activity, and to other risks arising from the War. For information about sensitivity and exposure to risk factors, see also Note 41 to the financial statements for December 31, 2022, published on March 23, 2023 (Ref. No.: 2023-01-026428) (hereinafter - the "**Annual Report**") and developments in the Company's quarterly financial statements for 2023.

In the period from the outbreak of the War until the publication date of the report, the War affected the Group's activities and results, which was mainly reflected in the decline in the capital market.

At this stage, there is significant uncertainty regarding how the War will develop, its scope, and duration.

The Company believes, as of the publication date of the Report, that no material deterioration of the Company's solvency ratio is expected regarding publication of the Report.

As of the publication date of the Report, starting in June 30, 2023, there was a material increase in the linked risk-free interest rate, and there were also declines in the stock markets. For information about the effects of the changes in share prices and the linked risk-free interest rate, see Part 8, Sensitivity Tests in the Solvency Ratio Report for December 31, 2022. For further information about the consequences of the Iron Swords War, see Note 1 to the interim financial statements for the third quarter of 2023 and section 1.3.2 of the Company's Report of the Board of Directors for September 30, 2023.

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:

- The Company recalculated the value of the Deduction during the Transitional Period as of June 30, 2023 (in accordance with Section B above and due to material increases in the interest rate curve, application of the Study and in accordance with the Commissioner's Directives). Following the recalculation, there was a material decrease in the Deduction Amount 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 results of the economic solvency ratio as of June 30, 2023 include a distribution of a cash dividend in the amount of NIS 350 million, which was paid in the third quarter of 2023.
- In the reporting period, there was a moderate increase in the risk-free interest rate curve and an increase in inflation rates in the economy. The increase in the interest rate increased the capital surpluses as well as the solvency ratio of the Company; this increase was offset against the increase in inflation rate in Israel.
- In the reporting period, there was a decrease in capital requirements due to a decrease in the stock scenario (due to a decrease in the symmetrical adjustment component ("SA") in the scenario arising from changes in the Tel Aviv 125 Index).
- In the reporting period, there was an increase in the capital surplus and solvency ratio of the Company due to the amortization in the capital requirement for existing life and health insurance products, which reduces the solvency capital requirement and the risk margin (RM).
- For details regarding other capital-related measures subsequent to the balance sheet date, see footnote in the above table.

B. Minimum capital requirement (MCR)

	As of June 30, 2023	As of December 31, 2022
	Unaudited	Audited
	NIS thousand	
Minimum capital requirement (MCR) - see Section 5A	1,926,915	1,843,583
Shareholders' equity for MCR - see Section 5B	11,290,628	11,596,249

Section 2 - Economic Balance Sheet

		As of June 30, 2022		As of December 31, 2022		
		Information about economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
		Unaudited	Audited			
NIS thousand						
Assets						
Intangible assets	3	832,169	140,647	805,156	159,510	
Deferred tax assets, net		6,448	6,448	-	-	
Deferred acquisition costs	4	1,744,776	-	1,657,544	-	
Property, plant & equipment		1,032,363	1,032,363	913,636	913,636	
Investments in investees that are not insurance companies						
Other investees	5	1,572,135	1,159,915	1,434,476	1,155,587	
Total investments in investees that are not insurance companies		1,572,135	1,159,915	1,434,476	1,155,587	
Investment property in respect of yield-dependent contracts		2,206,935	2,206,935	2,142,074	2,142,074	
Investment property - other		1,231,386	1,231,386	1,193,932	1,193,932	
Reinsurance assets - see Section 2B	1	3,604,340	3,014,961	3,172,249	2,889,895	
Receivables and debit balances	10	1,955,819	1,899,215	1,807,914	1,745,624	
Financial investments in respect of yield-dependent contracts		80,603,591	80,603,591	77,394,271	77,394,271	
Other financial investments						
Liquid debt assets		5,646,108	5,646,108	5,526,350	5,526,350	
Illiquid debt assets, excluding designated bonds	6	7,378,733	7,321,624	7,000,949	6,871,856	
Designated bonds	7	7,898,197	9,946,772	7,695,966	9,880,196	
Shares		1,909,806	1,909,806	1,869,608	1,869,608	
Other		5,512,779	5,512,779	4,890,182	4,890,182	
Total other financial investments		28,345,623	30,337,089	26,983,055	29,038,192	
Cash and cash equivalents in respect of yield-dependent contracts		18,728,467	18,728,467	16,358,509	16,358,509	
Other cash and cash equivalents		2,065,744	2,065,744	2,752,806	2,752,806	
Total assets		143,929,796	142,426,761	136,615,622	135,744,036	
Total assets in respect of yield-dependent contracts		101,743,507	101,890,265	96,055,588	96,261,754	

	Information about economic balance sheet	As of June 30, 2023		As of December 31, 2022	
		Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
		Unaudited		Audited	
		NIS thousand			
<u>EQUITY</u>					
Basic Tier 1 capital		6,475,991	10,116,551	6,627,651	10,317,309
Total equity		<u>6,475,991</u>	<u>10,116,551</u>	<u>6,627,651</u>	<u>10,317,309</u>
<u>Liabilities</u>					
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts - see Section 2B	1, 8	26,276,156	17,886,858	24,516,307	17,508,068
Liabilities in respect of insurance contracts and yield-dependent investment contracts - see Section 2B	1, 8	98,420,846	95,707,898	94,112,888	91,638,483
Risk margin (RM)	1	-	7,012,387	-	6,618,426
Deduction during the Transitional Period	2	-	(2,753,936)	-	(3,385,061)
Liabilities in respect of deferred taxes, net	9	395,248	2,501,422	460,160	2,522,344
Payables and credit balances	4,10	3,674,661	3,530,865	3,037,358	2,902,704
Financial liabilities	11	8,686,894	8,424,716	7,861,258	7,621,763
Total liabilities		<u>137,453,805</u>	<u>132,310,210</u>	<u>129,987,971</u>	<u>125,426,727</u>
Total equity and liabilities		<u>143,929,796</u>	<u>142,426,761</u>	<u>136,615,622</u>	<u>135,774,036</u>

Key changes compared with December 31, 2022

- 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 2A 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 a 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 VAT 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 optimal assessment, 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 optimal assessment. 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 expenses 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 uptake rates, annuity uptake 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 contingent 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, in the period between June 30, 2022 and June 30, 2023, the Company recalculated the Deduction during the Transitional Period as of June 30, 2023. Accordingly, the Deduction during the Transitional Period as of June 30, 2023, which was recalculated, amounts to NIS 2,754 million after its linear amortization as of this date (compared with NIS 3,385 million as of December 31, 2022).

Other assets and liabilities:

- (3) **Intangible assets** - 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 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 2B - Composition of liabilities in respect to insurance contracts and investment contracts

	As of June 30, 2023		
	Best estimate (BE) of liabilities		
	Gross	Reinsurance	Retention
	Unaudited		
	NIS thousand		
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts			
SLT life insurance and long term health insurance contracts	11,245,573	621,428	10,624,145
NSLT property & casualty insurance and health insurance contracts	6,641,285	2,062,823	4,578,462
Total liabilities for insurance contracts and non-yield-dependent investment contracts	17,886,858	2,684,251	15,202,607
Liabilities in respect of insurance contracts and yield-dependent investment contracts - life insurance contracts and long-term health insurance (SLT)	95,707,898	330,710	95,377,188
Total liabilities in respect of insurance contracts and investment contracts	113,594,756	3,014,961	110,579,795

	As of December 31, 2022		
	Best estimate (BE) of liabilities		
	Gross	Reinsurance	Retention
	Audited		
	NIS thousand		
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts			
SLT life insurance and long term health insurance contracts	11,415,228	693,659	10,721,569
NSLT property & casualty insurance and 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

Key changes compared with December 31, 2022:

- The increase in liabilities for insurance contracts and yield-dependent investment contracts is mainly due to an increase in yield-dependent investment track activity.

Section 3 - Shareholders' equity in respect of SCR

	As of June 30, 2023			
	Tier 1 capital		Tier 2 capital	Total
	Basic	Additional		
	Unaudited			
	NIS thousand			
Shareholders' equity	10,116,551	1,165,514	3,490,707	14,772,772
Deductions from Tier 1 capital (a)	(376,821)	-	-	(376,821)
Deductions (b)	-	-	-	-
Deviation from quantitative limitations (c)	-	-	-	-
Shareholders' equity in respect of SCR (d)	9,739,730	1,165,514	3,490,707	14,395,951
Of which - expected profits in future premiums (EPIFP) after tax	6,960,479			6,960,479

	As of December 31, 2022			
	Tier 1 capital		Tier 2 capital	Total
	Basic	Additional		
	Audited			
	NIS thousand			
Shareholders' equity	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)
Shareholders' equity in respect of SCR (d)	10,081,019	1,146,514	3,484,131	14,711,664
Of which - expected profits in future premiums (EPIFP) after tax	6,635,675			6,635,675

Key changes compared with December 31, 2022:

- Basic Tier 1 capital was negatively affected by recalculation of the amount of the Deduction during the Transitional Period as set out in Section 2A(2) above; the effect was offset by positive effects from sales of a new business and amortization of the underwritten capital requirement for an existing business (which decreases the RM component).
- Between the publication date of the Report as of December 31, 2022 and the publication date of the Report as of June 30, 2023, cash dividends totaling NIS 350 million were distributed, which reduced basic Tier 1 capital and are included in the section "deductions from Tier 1 capital" above.
- The decrease in Tier 2 capital is due to the redemption of NIS 411 million Series F bonds (immediate report of January 15, 2023, Ref. No. 2023-01-006268).
- 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' Shareholders' 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' Shareholders' Equity" to the Economic Solvency Regime Appendix.
- (d) Composition of shareholders' equity in respect of SCR

	As of June 30, 2023	As of December 31, 2022
	Unaudited	Audited
	NIS thousand	
Tier 1 capital		
Basic Tier 1 capital	9,739,730	10,081,019
Additional Tier 1 capital		
Additional Tier 1 capital instruments	1,165,514	1,146,514
Additional Tier 1 capital	1,165,514	1,146,514
Total Tier 1 capital	10,905,244	11,227,533
Tier 2 capital		
Tier 2 capital instruments	1,905,564	1,887,068
Hybrid Tier 2 capital instruments	1,185,413	1,607,989
Hybrid Tier 3 capital instruments	399,728	399,336
Less deduction due to deviation from quantitative limit	-	(410,262)
Total Tier 2 capital	3,490,707	3,484,131
Total shareholders' equity in respect of SCR	14,395,951	14,711,664

- For an explanation about key changes compared with December 31, 2022, see Section 3 above.
- For information about shareholders' 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 June 30, 2023	As of December 31, 2022
	Capital requirements	
	Unaudited	Audited
	NIS thousand	
Basic solvency capital requirement (BSCR)		
Capital required in respect of market risk component *	5,233,512	5,307,614
Capital required in respect of counterparty risk component	554,010	497,977
Capital required in respect of underwriting risk component in life insurance	3,009,172	2,967,172
Required capital in respect of underwriting risk component in health insurance (SLT+NSLT)	4,566,293	4,299,031
Capital required in respect of underwriting risk component in P&C insurance	1,351,009	1,300,622
Effect of diversification of risk-weighted components	(5,020,217)	(4,870,456)
Capital required in respect of the intangible assets risk component	70,323	79,755
Total basic solvency capital requirement (BSCR)	9,764,102	9,581,715
Capital required in respect of operational risk	400,529	387,978
Loss absorption adjustment due to deferred tax asset	(2,989,627)	(3,001,430)
Total solvency capital requirement (SCR)	7,175,004	6,968,263

* Stock scenario adjustment.

For information about shareholders' 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.

Key changes in solvency capital requirement compared to December 31, 2022:

- In the reporting period, there was no significant change in the Company's solvency capital requirement.

Section 5 - Minimum capital requirement (MCR)

(a) Minimum capital requirement (MCR)

	As of June 30, 2023	As of December 31, 2022
	Unaudited	Audited
	NIS thousand	
Minimum capital requirement according to MCR formula	1,926,915	1,843,583
Lower boundary (25% of solvency capital requirement in the Transitional Period)	1,793,751	1,742,066
Upper boundary (45% of solvency capital requirement in the Transitional Period)	3,228,752	3,135,718
Minimum capital requirement (MCR)	1,926,915	1,843,583

(b) Shareholders' equity for MCR

	As of June 30, 2023		
	Tier 1 capital	Tier 2 capital	Total
	Unaudited		
	NIS thousand		
Shareholders' equity in respect of SCR according to Section 3	10,905,245	3,490,707	14,395,952
Deviation from quantitative limitations due to minimum capital requirement*	-	(3,105,324)	(3,105,324)
Shareholders' equity for MCR	10,905,245	385,383	11,290,628

	As of December 31, 2022		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	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

(*) 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 June 30, 2023				
	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
Unaudited					
NIS thousand					
Total insurance liabilities, including risk margin (RM)	117,853,207	(2,753,936)	-	-	120,607,143
Basic Tier 1 capital	9,739,730	1,812,365	-	-	7,927,365
Shareholders' equity in respect of SCR	14,395,952	1,812,365	-	173,231	12,410,356
Solvency capital requirement (SCR)	7,175,004	(941,571)	(177,114)	-	8,293,689

	As of December 31, 2022				Total excluding applying the Transitional Provisions for the Transitional Period and adjusting the stock scenario
	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	
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
Shareholders' equity 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

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

Key changes compared with December 31, 2022 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, see Section 1 and Section 2a(2) above.
- As of June 30, 2023, the Company has Tier 2 capital, which is not recognized in accordance with the 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 173 million.
- For an explanation about other key changes compared with December 31, 2022, see Section 1a above.

Section 7 - 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, 2023, 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 111% rate a 115% rate as of June 30, 2023.

As of June 30, 2023, 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 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.

In the third quarter of 2023, The Phoenix Insurance distributed a dividend in the amount of NIS 350 million; for further information about the said dividend distribution, see the immediate report of August 24, 2023.

Subsequent to the dividend distributions, as set out above, the economic solvency ratio of The Phoenix Insurance and the economic solvency ratio excluding 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, according to the Commissioner's requirements 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 Transitional Period, and without adjusting the shares scenario:

	As of June 30, 2023	As of December 31, 2022
	Unaudited	Audited
	NIS thousand	
Shareholders' equity in respect of SCR - see Section 6	12,410,356	12,301,691
Solvency capital requirement (SCR) - see Section 6	8,293,689	8,254,667
Surplus	4,116,667	4,047,024
Economic solvency ratio (in %)	150%	149%

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*	300,000	-
Shareholders' equity in respect of SCR	12,710,356	12,301,691
Surplus	4,416,667	4,047,024
Economic solvency ratio (in %)	153%	149%

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

Minimum solvency ratio target without applying the Transitional Provisions	115%	111%
Capital surplus over target	3,172,613	3,139,011

* On October 25, 2023, the Board of Directors of The Phoenix Capital Raising (2009) Ltd. approved a private placement of additional Tier 1 subordinated notes (Series PHONIX B12 Bonds) for a total consideration of NIS 300 million.

Subsequent to the balance sheet date of December 31, 2022, 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.

November 28,
2023

Date

Benjamin Gabbay
Chairman of
the Board

Eyal Ben Simon
CEO

Eli Schwartz
Deputy CEO, Chief
Financial Officer

Amit Netanel
Executive VP,
Chief Risk Officer