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Economic Solvency Ratio Report of The Phoenix Insurance Company Ltd. as of December 31, 2023

Table of Contents

	<u>Page</u>
Special Internal Auditor's Report.....	3
Overview and Disclosure Requirements.....	4
Definitions.....	6
Calculation Methodology.....	8
Comments and clarifications.....	10
Section 1 - Economic Solvency Ratio and Minimum Capital Requirement.....	13
Section 2 - Economic Balance Sheet.....	16
Section 2 A - Information about Economic Balance Sheet.....	18
Section 2 B - Composition of liabilities in respect to insurance contracts and investment contracts.....	24
Section 3 - Shareholders' Equity in respect of SCR.....	25
Section 4 - Solvency Capital Requirement (SCR).....	27
Section 5 - Minimum Capital Requirement (MCR).....	28
Section 6 - Effect of the Application of the Provisions for the Transitional Period	29
Section 7 - Report of Movement in Capital Surplus	31
Section 8 - Sensitivity Tests	33
Section 9 - Restrictions on Dividend Distribution.....	34

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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, 2023

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, 2023 (hereinafter - the "**Information**"), included in the Company's Economic Solvency Ratio Report attached hereby (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, 2023 as presented in Section 2 to the Report, except for verifying that the Deduction does not exceed the expected discounted amount of the risk margin and the solvency 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.

We draw attention to what 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 28, 2024

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 "**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 Provisions of the Transitional Period 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 capital requirement 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 requirement 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 capital requirement 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 as detailed in Section b below. The Deduction 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 publishes 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 goes down to 120% or less, it will publish a Full Solvency Ratio Report on a quarterly basis in a semi-annual format, instead of an estimated ratio.

Forward-looking information

The data included in this Economic Solvency Ratio Report, including the eligible and the solvency capital requirement 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.
Long-term health insurance (SLT)	- Health insurance that is conducted similarly to life insurance.
Short-term health insurance (NSLT)	- 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 requirement of 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 requirement due to operational risk, loss absorption adjustment due to deferred tax and capital requirement due to management companies.
Solvency capital requirement (SCR)	- Total capital requirement of 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 report 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-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 risk diversification 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 requirement in respect of the shares risk to the changes in share prices, as detailed in Part C to 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")	- The amount deducted from insurance reserves during the Transitional Period, as detailed in Section 2a(2) above, and in accordance with the Provisions of the Economic Solvency Regime.
Minimum capital requirement (MCR)	- The minimum capital requirement of 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, 2023 and December 31, 2022 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 capital requirement 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"). 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 SCRs 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 as of December 31, 2023. For further details about the Deduction, 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 Provisions of 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 sub-components and the sub-risk weighted components, as stated above, net of the effect of the risk diversification in the Company in accordance with the correlations assigned to them under the Directives, and net of the loss absorption adjustment due to deferred tax, as detailed in the Provisions of the Economic Solvency Regime. Furthermore, the calculation of the solvency capital requirement includes components of the capital requirement 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 capital requirement 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 December 31, 2023. Any information or studies obtained or completed after the reporting date of the Company's annual report as of December 31, 2023 were not taken into account.

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 capital requirement 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 and 2.3. in Part B and Section 4.1 in Part D of the Description of the Corporation's Business in the Periodic Report for 2023 and in section 1.2 in the Board Report for the period ended March 31, 2024.

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 details regarding the exposure to contingent claims as of December 31, 2023, see Note 40 to the financial statements of 2023. For an update as to developments in this exposure after reporting date, see Note 7 to the financial statements as of March 31, 2024.

- 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 December 31, 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.

- d) In March 2024 an amendment was approved by the Knesset plenum to the Value Added Tax Ordinance (Tax Rate for Non-Profit Organizations and Financial Institutions), 2024 (hereinafter - the "Ordinance"), which prescribes that as from January 1, 2025 the rate of payroll tax applicable to financial institutions will stand at 18% of the wage paid for work, and the profit tax shall stand at 18% of the profit generated. In accordance with an assessment made by the Company, the effect of the above revision of the results of the solvency ratio is immaterial.

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

A. Economic solvency ratio

	As of December 31	
	2023	2022
	Audited*	
	NIS thousand	
Shareholders' equity in respect of SCR - see Section 3	14,823,584	14,711,664
Solvency capital requirement (SCR) - see Section 4	7,640,211	6,968,263
Surplus	7,183,373	7,773,401
Economic solvency ratio (in %)	194%	211%
<u>Effect of material equity transactions taken in the period between the calculation date and the publication date of the solvency ratio report:</u>		
Raising (redemption) of equity instruments**	-	(410)
Shareholders' equity in respect of SCR	14,823,584	14,711,254
Surplus	7,183,373	7,742,991
Economic solvency ratio (in %)	194%	211%

* 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, 2023), approx. NIS 400 million in Bonds (Series D) were redeemed (immediate report dated January 2, 2024, Ref. No.: 2024-01-000765). The redemption referred to above does not affect the solvency ratio as of December 31, 2023 in view of the surplus Tier 2 capital that the Company holds in excess of the quantitative limit.
Subsequent to the balance sheet date (December 31, 2022), approx. NIS 411 million in Bonds (Series F) 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:

- The Company recalculated the value of the Deduction during the Transitional Period as of June 30, 2023 and December 31, 2023 (in accordance with Section B above and due to material increases in the interest rate curve, in accordance with the Commissioner's Directives). Following the said recalculation, there was an approx. NIS 1,045 million decrease in the Deduction (from NIS 4,400 million to NIS 3,355 million, before linear amortization) and accordingly, a decrease in the capital surplus and solvency ratio of the Company. For further details about the recalculation of the Deduction in respect of the Transitional Period, see Section 2A(2) below.
- In the reporting period, there was an increase in the risk-free interest rate curve and an increase in the Consumer Price Index in Israel. The increase in the interest rate 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.
- During the reporting period, the Company revised its actuarial assumptions that had a cumulative negative impact on the solvency ratio. As part of those assumptions, the company updated its assumptions regarding expected cancellations and settlements. This revision affected mainly the savings policies portfolio and had a negative effect of approx. 5% on the solvency ratio under the Transitional Provisions in the Transitional Period.
- In the reporting period, there was an increase in capital requirements due to an increase in the market component due positive yield in the investment portfolio, the ending in the equity stress adjustment period and increase in exposure to this segment in comparison to previous year.
- In the reporting period, there was a natural 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).
- The results of the economic solvency ratio as of December 31, 2023 include a distribution of a dividend in kind of NIS 350 million, which was paid during the third quarter of 2023, and a distribution of approx. NIS 309 million in cash dividend that was paid in the fourth quarter of 2023.
- For details regarding other equity transactions subsequent to the balance sheet date, see footnote in the above table.

Implication of the Iron Swords War

On October 7, 2023, the Iron Swords War between the State of Israel and the Gaza-based "Hamas" terror organization broke out (hereinafter - the "**War**"), following a murderous attack by Hamas on localities in southern Israel. As a result of the War - based on published data, as of the report date - more than 1,500 Israeli citizens were murdered (including members of the defense forces), approx. 11,500 sustained various injuries, and 125 citizens and soldiers

are defined as hostages. In addition to the War in Gaza, Israel is involved in an armed conflict and military operational activity of varying intensities and in a number of fronts, the main of which is the conflict in the north of Israel, which has also driven tens of thousands of Israelis from their homes. The War and all of the activities in the various fronts have an adverse effect on the Israeli economy.

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.

The Company is exposed to declines on the financial markets and to slowdown, as well as to other risks arising from the War. For further details on sensitivity and exposure to risk factors, see also Note 38 to the Financial Report as of December 31, 2023.

At this stage, there is uncertainty regarding how the War will develop, its scope, and duration. As of the report publication date, since December 31, 2023 there has been an increase in the CPI-linked risk-free interest, and equity markets were up. For information about the effects of share indexes and the index-linked risk-free interest, see Chapter 8 - Sensitivity Tests - to this report.

For further details regarding the ramifications of the War, see Section 1.3.2 to the 2023 Annual Financial Statements as well as the Company's financial statements as of March 31, 2024.

B. Minimum capital requirement (MCR)

	As of December 31	
	2023	2022
	Audited	
	NIS thousand	
Minimum capital requirement (MCR) - see Section 5A	1,995,718	1,843,583
Shareholders' equity for MCR - see Section 5B	11,402,622	11,596,249

Section 2 - Economic Balance Sheet

Information about economic balance sheet		As of December 31			
		2023		2022	
		Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
		Audited			
		NIS thousand			
Assets					
Intangible assets	3	868,287	129,266	805,156	159,510
Deferred acquisition costs	4	1,664,106	-	1,657,544	-
Property, plant & equipment		1,238,871	1,238,871	913,636	913,636
Investments in investees that are not insurance companies					
Other investees	5	1,581,275	1,177,039	1,434,476	1,155,587
Total investments in investees that are not insurance companies		1,581,275	1,177,039	1,434,476	1,155,587
Investment property in respect of yield-dependent contracts		2,283,063	2,283,063	2,142,074	2,142,074
Investment property - other		1,283,408	1,283,408	1,193,932	1,193,932
Reinsurance assets - see Section 2B	1	4,028,261	3,426,365	3,172,249	2,889,895
Receivables and debit balances	10	2,003,123	1,952,245	1,807,914	1,745,624
Financial investments in respect of yield-dependent contracts		82,817,937	82,817,937	77,394,271	77,394,271
Other financial investments					
Liquid debt assets		5,543,389	5,543,389	5,526,350	5,526,350
Illiquid debt assets, excluding designated bonds	6	7,272,587	7,256,853	7,000,949	6,871,856
Designated bonds	7	7,383,544	9,185,718	7,695,966	9,880,196
Shares		2,175,831	2,175,831	1,869,608	1,869,608
Other		6,029,562	6,029,562	4,890,182	4,890,182
Total other financial investments		28,404,913	30,191,353	26,983,055	29,038,192
Cash and cash equivalents in respect of yield-dependent contracts		19,303,547	19,303,547	16,358,509	16,358,509
Other cash and cash equivalents		2,084,507	2,084,507	2,752,806	2,752,806
Total assets		147,561,298	145,887,601	136,615,622	135,744,036
Total assets in respect of yield-dependent contracts		104,769,512	104,909,651	96,055,588	96,261,754

		As of December 31			
		2023		2022	
Information about economic balance sheet		Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
		Audited			
		NIS thousand			
Equity					
Basic Tier 1 capital		6,418,491	9,545,604	6,627,651	10,317,309
Total equity		6,418,491	9,545,604	6,627,651	10,317,309
Liabilities					
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts - see Section 2B	1, 8	24,605,125	18,122,795	24,516,307	17,508,068
Liabilities in respect of insurance contracts and yield-dependent investment contracts - see Section 2B	1, 8	103,060,466	99,174,573	94,112,888	91,638,483
Risk margin (RM)	1	-	6,399,314	-	6,618,426
Deduction during the Transitional Period	2	-	(2,323,036)	-	(3,385,061)
Liabilities in respect of deferred taxes, net	9	601,059	2,439,700	460,160	2,522,344
Payables and credit balances	4,10	3,126,474	2,993,582	3,037,358	2,902,704
Financial liabilities	11	9,749,683	9,535,069	7,861,258	7,621,763
Total liabilities		141,142,807	136,341,997	129,987,971	125,426,727
Total equity and liabilities		147,561,298	145,887,601	136,615,622	135,774,036

Key changes compared with December 31, 2022

- For explanations about key changes in Tier 1 capital, see Section 3 above.
- For more 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 SLT life and health insurance liabilities 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 (hereinafter - "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 a 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 a 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, amount of premiums and assets under management, etc.).

Following are the key assumptions on which the Company relied in the calculations:

a) Economic assumptions

- Discount rate - risk-free interest rate 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). Due to the continued increases in the interest rate curve in the period between July 1, 2023 and December 31, 2023, the Company recalculated the Deduction during the Transitional Period as of December 31, 2023. Accordingly, the Deduction during the Transitional Period as of December 31, 2023, which was recalculated, amounts to NIS 2,323 million after the linear amortization as of this date.

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 relative 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) 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 meet the criteria included in the Economic Solvency Regime, in addition to the criteria included in the above-mentioned accounting standard.
- (10) **Payables and credit balances, 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 December 31, 2023		
	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	11,269,994	813,352	10,456,642
NSLT property & casualty insurance and health insurance contracts	6,852,801	2,264,885	4,587,916
Total liabilities for insurance contracts and non-yield-dependent investment contracts	18,122,795	3,078,237	15,044,558
Liabilities in respect of insurance contracts and yield-dependent investment contracts - SLT life insurance and long-term health insurance contracts	99,174,573	348,128	98,826,445
Total liabilities in respect of insurance contracts and investment contracts	117,297,368	3,426,365	113,871,003
	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 - SLT life insurance and long-term health insurance contracts	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.
- The increase in liabilities for NSLT property & casualty insurance and health insurance contracts is mainly due to an increase in property & casualty activity.

Section 3 - Shareholders' equity in respect of SCR

	As of December 31, 2023			
	Tier 1 capital		Tier 2 capital	Total
	Basic	Additional		
	NIS thousand			
Shareholders' equity	9,545,604	1,484,921	4,334,970	15,365,495
Deductions from Tier 1 capital (a)	(27,047)			(27,047)
Deductions (b)				
Deviation from quantitative limitations (c)			(514,864)	(514,865)
Shareholders' equity in respect of SCR (d)	9,518,557	1,484,921	3,820,106	14,823,584
Of which - expected profits in future premiums (EPIFP) after tax	6,441,641			6,441,641

	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).
 - In the period from the publication date of the report as of December 31, 2022 through the publication date of the report as of December 31, 2023 a cash dividend totaling NIS 350 million was distributed, and a dividend in kind of approx. NIS 309 million, which reduced Basic Tier 1 capital.
 - The increase in Tier 2 capital is due to raising of approx. NIS 800 million in Bonds (Series N and Series O) (immediate report of December 7, 2023, Ref. No. 2023-01-111655).
 - The increase in Additional Tier 1 capital is due to an approx. NIS 300 million expansion in Bonds (Series L) (immediate report of October 25, 2023, Ref. No. 2023-01-119001)
 - 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) Deviation from quantitative limitations - 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 December 31, 2023	As of December 31, 2022
	Audited	
	NIS thousand	
Tier 1 capital		
Basic Tier 1 capital	9,518,557	10,081,019
Additional Tier 1 capital		
Additional Tier 1 capital instruments	1,484,921	1,146,514
Additional Tier 1 capital	1,484,921	1,146,514
Total Tier 1 capital	11,003,478	11,227,533
Tier 2 capital		
Tier 2 capital instruments	2,724,092	1,887,068
Hybrid Tier 2 capital instruments	1,204,306	1,607,989
Hybrid Tier 3 capital instruments	406,572	399,336
Less deduction due to deviation from quantitative limit	(514,864)	(410,262)
Total Tier 2 capital	3,820,106	3,484,131
Total shareholders' equity in respect of SCR	14,823,584	14,711,664

- For an explanation about key changes compared with December 31, 2022, see Section 3 above.
- For details about shareholders' equity for purposes of solvency capital requirement without applying the Provisions for the Transitional Period and without applying a stock scenario adjustment, see Section 6 "Effect of application of Provisions for the Transitional Period", below.
- The decrease in hybrid tier 2 capital instruments is due to a redemption of approx. NIS 411 Million Bonds series F.

Section 4 - Solvency capital requirement (SCR)

	As of December 31, 2023	As of December 31, 2022
	Capital requirements	
	Audited	
	NIS thousand	
Basic solvency capital requirement (BSCR)		
Capital required in respect of market risk component *	5,977,457	5,307,614
Capital required in respect of counterparty risk component	596,309	497,977
Capital required in respect of underwriting risk component in life insurance	3,000,397	2,967,172
Capital requirement in respect of underwriting risk component in health insurance (SLT+NSLT)	4,267,732	4,299,031
Capital required in respect of underwriting risk component in P&C insurance	1,453,960	1,300,622
Effect of diversification of risk-weighted components	(5,161,649)	(4,870,456)
Capital required in respect of the intangible assets risk component	64,633	79,755
Total basic solvency capital requirement (BSCR)	10,198,839	9,581,715
Capital required in respect of operational risk	391,014	387,978
Loss absorption adjustment due to deferred tax asset	(2,949,642)	(3,001,430)
Total solvency capital requirement (SCR)	7,640,211	6,968,263

* With stock scenario adjustment (for December 31, 2022).

For details 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 Provisions for the Transitional Period", below.

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

- During the reporting period, the capital requirements increased, mainly due to an increase in the market risk component, due to the conclusion of the adjustment of the stock scenario and the increase in exposure to this component compared to last year.

Section 5 - Minimum capital requirement (MCR)

(a) Minimum capital requirement (MCR)

	As of December 31, 2023	As of December 31, 2022
	Audited	
	NIS thousand	
Minimum capital requirement according to MCR formula	1,995,718	1,843,583
Lower band (25% of solvency capital requirement in the Transitional Period)	1,910,053	1,742,066
Upper band (45% of solvency capital requirement in the Transitional Period)	3,438,095	3,135,718
Minimum capital requirement (MCR)	1,995,718	1,843,583

(b) Shareholders' equity for MCR

	As of December 31, 2023		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	NIS thousand		
Shareholders' equity in respect of SCR according to Section 3	11,003,478	3,820,106	14,823,584
Deviation from quantitative limitations due to minimum capital requirement*	-	(3,420,962)	(3,420,962)
Shareholders' equity for MCR	11,003,478	399,144	11,402,622

	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 Provisions for the Transitional Period

As of December 31, 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
	Audited				
	NIS thousand				
Total insurance liabilities, including risk margin (RM)	121,373,646	(2,323,036)	-	-	123,696,682
Basic Tier 1 capital	9,518,557	1,528,790	-	-	7,989,767
Shareholders' equity in respect of SCR	14,823,584	1,131,667	-	843,446	12,848,471
Solvency capital requirement (SCR)	7,640,211	(794,246)	-	-	8,434,457

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				
	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. For further details, see Section 1 and Section 2A(2) above.
- As of December 31, 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 961 million. Subsequent to the report date, approx. NIS 400 million in Bonds (Series D) were redeemed (immediate report dated January 2, 2024, Ref. No.: 2024-01-000765).
- For an explanation about other key changes compared with December 31, 2022, see Section 1a above.

Section 7 - Changes in Capital Surplus

Following is a table that describes the changes, during the reporting period, in the capital requirement for purpose of the solvency capital requirement, the capital requirement 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.

	Shareholders equity in respect of SCR	Solvency capital requirement (SCR)	Capital surplus (deficit)
	Audited		
	NIS thousand		
As at January 1, 2023	14,711,664	6,968,263	7,743,401
adjusting the Transitional Provisions for the Transitional Period and adjusting the stock scenario	(2,409,973)	1,286,404	(3,696,377)
As of January 1, 2023, excluding applying the transitional Provisions for the Transitional Period and adjusting the stock scenario	12,301,690	8,254,667	4,047,024
The effect of operating activities (a)	(2,813,997)	(91,919)	(2,722,078)
Effect of economic activity (b)	2,866,281	388,207	2,478,074
New businesses (c)	364,634	163,964	200,670
Effect of the issuance of capital instruments (net of redemptions) and a declared dividend (d)	298,084	-	298,084
Effect of changes in deferred tax, Additional Tier 1 capital and Tier 2 capital	(168,222)	(280,462)	112,240
As of December 31, 2023, total without applying the Transitional Provisions for the Transitional Period and adjusting the stock scenario	12,848,471	8,434,457	4,414,014
Effect of the Transitional Provisions for the Transitional Period and adjusting the stock scenario	1,975,113	(794,246)	2,769,359
As of December 31, 2023	14,823,584	7,640,211	7,183,373

(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.

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

1. Changes in the value of investment assets;

2. Changes in capital requirement 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 (SLT life and health insurance) signed in the reporting year, and insurance portfolios in those subsegments, purchased or sold in the reporting year, including their effect on market risks, counterparty risk and operational risk. This note does not include the profitability from property & casualty and NSLT Health activity, which included in note (a) above.
- (d) This item includes equity transactions, 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 caused a decrease in capital surplus during the reporting period, mainly due to the implementation of actuarial studies, including the revision of assumptions on expected cancellation and settlement rates in savings policies. Those effects were partially offset by property & casualty activity.
- 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 shareholders' equity in respect of SCR and decreased the solvency capital requirement (SCR) as well as from positive returns in investment portfolios. This effect was partially offset as a result of increases in the Consumer Price Index.
- For more information about significant effects on the economic solvency ratio's components, see Section 1a above.

Section 8 - Sensitivity Tests

Following 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 solvency capital requirement. 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.

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

	As of December 31, 2023	As of December 31, 2022
	Audited	
	Effect on the economic solvency ratio (in percentage points)	
A 50-base-point decrease in risk-free interest (a)	(13%)	(18%)
A 25% decrease in the value of equity assets (b)	(22%)	(18%)
A 5% increase in morbidity rate (c)	(9%)	(11%)
A 5% decrease in mortality rates (c)	(10%)	(13%)

- (a) The sensitivity to a 50-base-point decrease in interest was calculated by creating a risk-free interest rate 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, including recalculation of indirect effects on variable management fees.
- (b) Sensitivity to a 25% decrease in the value of equity assets applies to all shares accounted for in the shares 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, which 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 - Restrictions on Dividend Distribution

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 for 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 for the Transitional Period by 4 percentage points - from the 111% rate a 115% rate as of June 30, 2023.

As of December 31, 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 details about the said dividend distribution, see the immediate report of March 23, 2023. This dividend distribution was taken into account in the calculation of the solvency ratio as of December 31, 2022.

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

During the fourth quarter of 2023, The Phoenix Insurance distributed a dividend in kind totaling NIS 309 million.

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 for 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 December 31	
	2023	2022
	Audited	
	NIS thousand	
Shareholders' equity in respect of SCR - see Section 6	12,848,471	12,301,691
Solvency capital requirement (SCR) - see Section 6	8,434,457	8,254,667
Surplus	4,414,014	4,047,024
Economic solvency ratio (in %)	152%	149%

Effect of material equity transactions taken in the period between the calculation date and the publication date of the solvency ratio report:

Raising of capital instruments*	-	-
Shareholders' equity in respect of SCR	12,848,471	12,301,691
Surplus	4,414,014	4,047,024
Economic solvency ratio (in %)	152%	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	3,148,846	3,139,011

* Subsequent to the balance sheet date (December 31, 2023), approx. NIS 400 million in Bonds (Series D) were redeemed (immediate report dated January 2, 2024, Ref. No.: 2024-01-000765). The redemption referred to above does not affect the solvency ratio as of December 31, 2023 in view of the surplus Tier 2 capital that the Company holds in excess of the quantitative limit.

Subsequent to the balance sheet date (December 31, 2022), approx. NIS 411 million in Bonds (Series F) were redeemed (immediate report dated January 15, 2023, Ref. No.: 2023-01-006268). The redemption referred to above does not have an 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 an explanation about key changes compared with last year see Section 1A above.

May 28, 2024

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
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