Economic Solvency Ratio Report of Phoenix Insurance Company Ltd. as of December 31, 2024

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Building a better working world

To:

The Board of Directors of

Phoenix Insurance Company

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, 2024

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, 2024 (hereinafter - the "**Information**"), included in the Company's Economic Solvency Ratio Report attached hereby and carries our office's seal for identification purposes (hereinafter - the "**Report**").

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

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

We conducted our examination in accordance with International Standard on Assurance Engagements No. 3400 - The Examination of Prospective Financial Information, and in accordance with the Commissioner's Directives, as included in the Consolidated Circular in Chapter 7, Section 5, Part 1, Independent Auditor, 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, 2024 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 requirement 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 capital requirement, which affects both the calculation of the expected capital release and the release of the expected risk margin as detailed in the provisions on calculation of risk margin.

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Except for the abovementioned 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, which 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 Section D - 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,	Kost Forer Gabbay & Kasierer
May 28, 2025	Certified Public Accountants

A. 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 shall not exceed 50% of the SCR under the Provisions for the Transitional Period.

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, Provisions for the Transitional Period, 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 Amount will decrease gradually until 2032 (hereinafter: the "**Deduction during the Transitional Period**").

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, takeup of pension benefits, rate of release of the risk margin and underwriting income rate), future tax arrangements, assumptions regarding future management actions, risk-free interest rates, capital market returns, future revenue, and damage in catastrophe scenarios.

B. 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 which 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 for the shares risk to the changes in share prices, as detailed in Part C to the Provisions of the Economic Solvency Regime.
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 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 for existing life and health insurance contracts arises from future premiums.
Transitional Period	-	Under the Provisions for the Transitional Period for the application 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	-	The Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012 and their revision in September 2024 in the Amendment to the Consolidated Circular regarding Management of Investment Assets – Investment Rules Applicable to Institutional Entities.
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) which was set by the Commissioner.

C. Calculation Methodology

The Economic Solvency Ratio Report as of December 31, 2024 and December 31, 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 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 Provisions for the Transitional Period

The Company opted for the current alternative provided by the Provisions for the Transitional Period, 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 SCRs and risk margin of the current portfolio as of the calculation date.

The Company recently recalculated, as of the reporting date, the Deduction Amount as of December 31, 2024. For further details regarding the Deduction Amount, see Section 2A(2) below.

Further to the application of IFRS 17, on April 10, 2025, the Commissioner issued guidance regarding the calculation of the amount of Deduction Amount after the application of the standard (starting from the Solvency Ratio Report as of June 30, 2025). In accordance with the guidance, the ratio between the calculated amount of Deduction Amount as of December 31, 2024 and the amount of BE and RM components less the addition of the value of Hetz bonds (for a guaranteed return portfolio) should be calculated for each homogeneous risk group (hereinafter - "**Deduction Rates**").

After the application of IFRS 17, the Deduction Amount will be determined by multiplying the Deduction Rates calculated as of December 31, 2024 for each homogeneous risk group, by the amount of the BE and RM components less the addition of the value of Hetz bonds (for a guaranteed return portfolio) as of the calculation date. The maximum Deduction Amount for each reporting period will be equal to the amount of Deduction of all homogeneous risk groups, amortized, on a straight line basis, between December 31, 2019 and the end of 2032.

During May 2025, the Company received the Commissioner's approval regarding the Deduction Rates for the Transitional Period.

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 for operational risk and for management companies (where relevant).

The capital requirement for 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.

D. 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, 2024. Any information or studies obtained or completed after the reporting date of the Company's annual report as of December 31, 2024 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, which 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. to Part B and Section 4.1 in Part D of the Description of the Corporation's Business in the 2024 Periodic Report and Section 1.2 to the Report of the Board of Directors and in the Periodic Report for the period ended March 31, 2025.

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. In this regard, it is noted that the application of the various components of IFRS 17, which came into force in Israel on January 1, 2025 may affect the Company's solvency ratio. The Company believes that at this stage, no material effects are expected as a result of the application of the standard.

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, 2024, see Note 39 to the Financial Statements for 2024. For an update as to developments in this exposure after reporting date, see Note 8 to the financial statements as of March 31, 2025.

C) Calculation of the amount of Deduction Amount for the Transitional Period under the provisions of IFRS 17 – see Chapter C above.

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

A. Economic solvency ratio

	As of December 31	
	2024	2023
	Audited*	
	NIS thousand	
Shareholders' equity for SCR - see Section 3	15,155,717	14,823,584
Solvency capital requirement (SCR) - see Section 4	8,634,544	7,640,211
Surplus	6,521,173	7,183,373
Economic solvency ratio (in %)	**176%**	**194%**
<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**	636,752	-
Shareholders' equity for SCR	15,792,469	14,823,584
Surplus	7,157,925	7,183,373
Economic solvency ratio (in %)	**183%**	**194%**

* 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 report date, as of December 31, 2024, Bonds (Series P and Q) totaling approx. NIS 786 million were issued (immediate report of April 17, 2025, Ref. No.: 2025-01-027737). The abovementioned issuance was recognized as Tier 2 capital up to the level of the quantitative limit.

Subsequent to the balance sheet date as of 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 abovementioned redemption 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.

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

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

- In the reporting period, there was 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 offset against the increase in inflation rate in Israel.

- In accordance with the Commissioner's Directives, the Company recalculated the value of the Deduction Amount during the Transitional Period as of December 31, 2024. Following the said recalculation, there was a decrease of approx. NIS 929 million in the Deduction Amount compared to December 31, 2023 (from NIS 3,355 million to NIS 2,426 million, before linear amortization and approx. NIS 572 million after the linear amortization). As a result, the Company's Capital Surplus declined. For further details regarding the recalculation of the Deduction for the Transitional Period see Section 2A(2) below and Section C above.

- The solvency ratio results as of December 31, 2024 include the effect of the Amendment to the Consolidated Circular - Updating the Demographic Assumptions published on July 24, 2024. The effect of this circular is a decrease of approx. 3% in the solvency ratio including applying the Provisions for the Transitional Periodin the Transitional Period.

- During 2024, the Company implemented several actuarial studies, including: revision of assumptions regarding the cancellation rates, a study regarding morbidity in the personal accidents sub-subsegment, and the completion of a study regarding pension takeup rate (TUR). The effect of the study regarding the cancellation rates on executive insurance products in particular resulted in a decrease in the solvency ratio; this effect was largely offset by a reduction in capital requirements and risk margin (RM) due to the effect of the study on additional insurance products. Overall, the studies do not have a material effect on the Company's solvency ratio.

- During the reporting period, the Company's Capital Surplus increased as a result of positive returns in the investment portfolios, which were partly offset by an increase in capital requirements in respect of the market risk-weighted component, mainly due to an increase in exposure to the equity component compared to last year, and due to an increase in the symmetric adjustment component (SA).

- In the reporting period, there was a natural 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). Furthermore, the Capital Surplus and the solvency ratio were positively affected by sales in the P&C Insurance segment.

- The results of the economic solvency ratio as of December 31, 2024 were down due to a distribution of a cash dividend in the amount of NIS 250 million, which was paid in the third quarter of 2024. The results were also down to a distribution - as dividend in kind - of Phoenix Mortgages (Gold) Ltd.'s loans totaling approx. NIS 574 million, distribution of the Company's stake in Bizi Finance Ltd.'s shares totaling approx. NIS 19 million, distribution of the Company's stake in Leader Capital Markets & Investments Limited Partnership's participation units totaling approx. NIS 6 million and a NIS 170 million cash dividend, which was declared simultaneously with the publication of this report.

- For details regarding other equity transactions subsequent to the balance sheet date, see footnote in the above table.

Implications of the Iron Swords War

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 37 to the Financial Report as of December 31, 2024. 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, 2024 there has been an increase in the CPI-linked risk-free interest, and equity markets were up. For information about the sensitivity of results to changes in share indices and the index-linked risk-free interest, see Chapter 8 - Sensitivity Tests - in this report. For further details regarding the ramifications of the War, see Section 1.3.2 to the 2024 Annual Financial Statements and the Company's Financial Statements as of March 31, 2025.

B. Minimum capital requirement (MCR)

	As of December 31	
	2024	2023
	Audited	
	NIS thousand	
Minimum capital requirement (MCR) - see Section 5A	2,158,636	1,995,718
Shareholders' equity for MCR - see Section 5B	11,906,924	11,402,622

Section 2 - Economic Balance Sheet

	Information about economic balance sheet	As of December 31 2024 Balance sheet according to accounting standards (*)	2024 Economic balance sheet	2023 Balance sheet according to accounting standards	2023 Economic balance sheet
		Audited			
		NIS thousand			
Assets					
Intangible assets	3	869,044	77,535	868,287	129,266
Deferred acquisition costs	4	1,741,835	-	1,664,106	-
Property, plant & equipment		1,486,396	1,486,396	1,238,871	1,238,871
Investments in investees that are not insurance companies					
Other investees	5	1,606,539	1,194,611	1,581,275	1,177,039
Total investments in investees that are not insurance companies		1,606,539	1,194,611	1,581,275	1,177,039
Investment property for yield-dependent contracts		2,425,542	2,425,542	2,283,063	2,283,063
Investment property - other		1,366,566	1,366,566	1,283,408	1,283,408
Reinsurance assets – see Section 2B	1	3,917,402	3,535,817	4,028,261	3,426,365
Receivables and debit balances	10	1,815,861	1,776,325	2,003,123	1,952,245
Financial investments for yield-dependent contracts		93,777,952	93,777,952	82,817,937	82,817,937
Other financial investments					
Liquid debt assets		6,087,553	6,087,553	5,543,389	5,543,389
Illiquid debt assets, excluding designated bonds	6	6,425,730	6,459,102	7,272,587	7,256,853
Designated bonds	7	7,500,021	8,997,091	7,383,544	9,185,718
Shares		2,859,033	2,859,033	2,175,831	2,175,831
Other		6,376,188	6,376,188	6,029,562	6,029,562
Total other financial investments		29,248,525	30,778,967	28,404,913	30,191,353
Cash and cash equivalents for yield-dependent contracts		17,724,306	17,724,306	19,303,547	19,303,547
Other cash and cash equivalents		2,188,590	2,188,590	2,084,507	2,084,507
Total assets		**158,168,558**	**156,332,607**	**147,561,298**	**145,887,601**
Total assets for yield-dependent contracts		**114,264,373**	**114,690,904**	**104,769,512**	**104,909,651**

	Information about economic balance sheet	As of December 31			
		2024		2023	
		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		7,192,129	10,177,364	6,418,491	9,545,604
Total equity		**7,192,129**	**10,177,364**	**6,418,491**	**9,545,604**
Liabilities					
Liabilities for insurance contracts and non-yield-dependent investment contracts – see Section 2B	1, 8	25,167,781	17,037,646	24,605,125	18,122,795
Liabilities for insurance contracts and yield-dependent investment contracts - see Section 2B	1, 8	111,574,129	109,027,904	103,060,466	99,174,573
Risk margin (RM)	1	-	5,925,367	-	6,399,314
Deduction during the Transitional Period	2	-	(1,492,721)	-	(2,323,036)
Liabilities for deferred taxes, net	9	816,157	2,629,241	601,059	2,439,700
Payables and credit balances	4,10	3,536,064	3,388,800	3,126,474	2,993,582
Financial liabilities	11	9,308,547	9,065,255	9,749,683	9,535,069
Other liabilities		573,751	573,751	-	-
Total liabilities		**150,976,429**	**146,155,243**	**141,142,807**	**136,341,997**
Total equity and liabilities		**158,168,558**	**156,332,607**	**147,561,298**	**145,887,601**

(*) Prior to the application of the provisions of IFRS 17 and IFRS 9 included in the financial statements as of March 31, 2025 for 2024.

Key changes compared with December 31, 2023

- For explanations about key changes in Tier 1 capital, see Section 3 above.
- For more information regarding 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) **<u>Liabilities for insurance contracts, risk margin (RM) and investment contracts and reinsurance assets</u>**

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 expected future 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) 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 for market risks.

<u>Limitations and qualifications with regard to calculation of the best estimate</u>

- 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 should 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 for 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.

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 to the Consolidated Circular on Measurement of Liabilities - Updating the Demographic Assumptions in Life Insurance and Updating the Mortality Improvements Model for Insurance Companies and Pension Funds of July 24, 2024.

- Active mortality - 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, PHI 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 various subsegments for policies earned is based on the provision in the Financial Statements as of December 31, 2024. The estimate includes Unallocated Loss Adjustment Expenses (ULAE) and does not include RM and other non-specific margins which were taken into account for reserve adequacy testing for the said balance sheet.

for 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) <u>**Deduction Value during the Transitional Period**</u>

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**”).

The Company recalculated the value of the Deduction Amount during the Transitional Period as of June 30, 31 and December 31, 2024 in accordance with the economic solvency ratio provisions. Following the said recalculation, there was a decrease of approx. NIS 929 million in the Deduction Amount compared to December 31, 2023 (from NIS 3,355 million to NIS 2,426 million, before linear amortization and approx. NIS 572 million after the linear amortization).

For more information regarding the calculation of the Deduction during the Transitional Period under IFRS 17, see Chapter C above.

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 for 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 for 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 abovementioned 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 for 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 for insurance contracts and investment contracts

	As of December 31, 2024		
	Best estimate (BE) of liabilities		
	Gross	Reinsurance	Retention
	Audited		
	NIS thousand		
Liabilities for insurance contracts and non-yield-dependent investment contracts			
SLT life insurance and long term health insurance contracts	10,125,515	686,313	9,439,202
NSLT property & casualty insurance and health insurance contracts	6,912,131	2,224,867	4,687,264
Total liabilities for insurance contracts and non-yield-dependent investment contracts	**17,037,646**	**2,911,180**	**14,126,466**
Liabilities for insurance contracts and yield-dependent investment contracts - SLT life insurance and long term health insurance contracts	109,027,904	624,637	108,403,267
Total liabilities for insurance contracts and investment contracts	**126,065,550**	**3,535,817**	**122,529,733**

	As of December 31, 2023		
	Best estimate (BE) of liabilities		
	Gross	Reinsurance	Retention
	Audited		
	NIS thousand		
Liabilities for 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 for 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 for insurance contracts and investment contracts	**117,297,368**	**3,426,365**	**113,871,003**

Key changes compared with December 31, 2023:

- Decrease in liabilities for SLT life insurance and long term health insurance contracts arises from the increase in risk-free interest rates and revision to pension takeup rates. This decrease was partially offset by an increase in the Consumer Price Index and a revision to demographic assumptions.

- The increase in liabilities for insurance contracts and yield-dependent investment contracts is mainly due to an increase in new sales of investment contracts and positive returns in portfolios. The increase also arises from a continued cancellation trend in executive insurance.

Section 3 - Shareholders' equity for SCR

	As of December 31, 2024			
	Tier 1 capital			
	Basic	Additional	Tier 2 capital	Total
	Audited			
	NIS thousand			
Shareholders' equity	10,177,364	1,522,956	3,680,520	15,380,840
Deductions from Tier 1 capital (a)	(225,123)	-	-	(225,123)
Deductions (b)	-	-	-	-
Deviation from quantitative limitations (c)	-	-	-	-
Shareholders' equity for SCR (d)	**9,952,241**	**1,522,956**	**3,680,520**	**15,155,717**
Of which - expected profits in future premiums (EPIFP) after tax	5,772,404			5,772,404

	As of December 31, 2023			
	Tier 1 capital			
	Basic	Additional	Tier 2 capital	Total
	Audited			
	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 for 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

Key changes compared with December 31, 2023:

- Basic Tier 1 capital was positively affected by the increase in the interest rate curve, improvement in operating activities in P&C Insurance and amortization of underwriting SCRs for an existing business (which reduces the RM component); this positive effect was partially offset by the recalculation of the Deduction Amount during the Transitional Period the Transitional Period as stated above.

- 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 Deduction Amounts 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.

The Section includes the distribution of the Company's stake in Bizi Finance Ltd.'s shares totaling approx. NIS 19 million, distribution of the Company's stake in Leader Capital Markets & Investments Limited Partnership's participation units totaling approx. NIS 6 million and a NIS 170 million cash dividend, which was declared simultaneously with the publication of this report.

(b) 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.

(c) Composition of shareholders' equity for SCR

	As of December 31, 2024	As of December 31, 2023
	Audited	
	NIS thousand	
Tier 1 capital		
Basic Tier 1 capital	**9,952,241**	**9,518,557**
Additional Tier 1 capital		
Additional Tier 1 capital instruments	1,522,956	1,484,921
Additional Tier 1 capital	**1,522,956**	**1,484,921**
Total Tier 1 capital	**11,475,197**	**11,003,478**
Tier 2 capital		
Tier 2 capital instruments	2,447,955	2,724,092
Hybrid Tier 2 capital instruments	1,232,565	1,204,306
Hybrid Tier 3 capital instruments	-	406,572
Less deduction due to deviation from quantitative limit	-	(514,864)
Total Tier 2 capital	**3,680,520**	**3,820,106**
Total shareholders' equity for SCR	**15,155,717**	**14,823,584**

- For an explanation about key changes compared with December 31, 2023, see above.
- For details regarding shareholders' equity for purposes of the solvency capital requirement without applying the Provisions for the Transitional Period, see Section 6 - "Effect of application of Provisions for the Transitional Period" below.
- The decrease in the hybrid instrument reflects the redemption of approx. NIS 400 million in Bonds (Series D) and redemption of approx. NIS 290 million in Bonds (Series J).

Section 4 - Solvency capital requirement (SCR)

	As of December 31, 2024	As of December 31, 2023
	Capital requirements	
	Audited	
	NIS thousand	
Basic solvency capital requirement (BSCR)		
Capital requirement for market risk-weighted component	7,466,905	5,977,457
Capital required for counterparty risk component	678,861	596,309
Capital required for underwriting risk component in life insurance	2,868,058	3,000,397
Capital requirement for underwriting risk component in health insurance (SLT+NSLT)	4,371,790	4,267,732
Capital required for underwriting risk component in P&C insurance	1,518,482	1,453,960
Effect of diversification of risk-weighted components	(5,465,108)	(5,161,649)
Capital required for the intangible assets risk component	38,768	64,633
Total basic solvency capital requirement (BSCR)	**11,477,756**	**10,198,839**
Capital required for operational risk	361,224	391,014
Loss absorption adjustment due to deferred tax asset	(3,204,436)	(2,949,642)
Total solvency capital requirement (SCR)	**8,634,544**	**7,640,211**

For details regarding shareholders' equity for purposes of the solvency capital requirement without applying the Provisions for the Transitional Period, see Section 6 - "Effect of application of Provisions for the Transitional Period" below.

Key changes in solvency capital requirement compared to December 31, 2023:

- During the reporting period, there was an increase in SCRs mainly due to an increase in the market risk component due to an increase in the equity component compared to the previous year and due to a significant increase in the symmetric adjustment component (SA).

Section 5 - Minimum Capital Requirement (MCR)

(a) Minimum capital requirement (MCR)

	As of December 31, 2024	As of December 31, 2023
	Audited	
	NIS thousand	
Minimum capital requirement according to MCR formula	2,077,356	1,995,718
Lower band (25% of solvency capital requirement in the Transitional Period)	2,158,636	1,910,053
Upper band (45% of solvency capital requirement in the Transitional Period)	3,885,545	3,438,095
Minimum capital requirement (MCR)	**2,158,636**	**1,995,718**

(b) Shareholders' equity for MCR

	As of December 31, 2024		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	NIS thousand		
Shareholders' equity for SCR according to Section 3	11,475,197	3,680,520	15,155,717
Deviation from quantitative limitations due to minimum capital requirement*	-	(3,248,792)	(3,248,792)
Shareholders' equity for MCR	**11,475,197**	**431,727**	**11,906,924**

	As of December 31, 2023		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	NIS thousand		
Shareholders' equity for 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**

(*) 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, 2024			
	Including applying the Provisions for the Transitional Period	Effect of including the Deduction during the Transitional Period	Effect of a 50% rate Tier 2 capital during the Transitional Period	Total excluding applying the Provisions for the Transitional Period
	Audited			
	NIS thousand			
Total insurance liabilities, including risk margin (RM)	130,498,197	(1,492,721)	-	131,990,918
Basic Tier 1 capital	9,952,241	974,000	-	8,978,241
Shareholders' equity for SCR	15,155,717	974,000	19,214	14,162,503
Solvency capital requirement (SCR)	8,634,544	(518,720)	-	9,153,264

	As of December 31, 2023			
	Including applying the Provisions for the Transitional Period	Effect of including the Deduction during the Transitional Period	Effect of a 50% rate Tier 2 capital during the Transitional Period	Total excluding applying the Provisions for the Transitional Period
	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 for SCR	14,823,584	1,131,667	843,446	12,848,471
Solvency capital requirement (SCR)	7,640,211	(794,246)	-	8,434,457

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

<u>Key changes compared with December 31, 2023 regarding the effect of the application of the Provisions for the Transitional Period:</u>

- A recalculation of the Deduction Amount 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.
- For an explanation about other key changes compared with December 31, 2023, 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 for SCR	Solvency capital requirement (SCR)	Capital surplus (deficit)
		Audited	
		NIS thousand	
As of January 1, 2024	**14,823,584**	**7,640,211**	**7,183,373**
adjusting the Provisions for the Transitional Period and adjusting the stock scenario	(1,975,113)	794,246	(2,769,359)
As of January 1, 2024, excluding applying the Provisions for the Transitional Period	**12,848,471**	**8,434,457**	**4,414,014**
The effect of operating activities (a)	(435,032)	(358,594)	(76,438)
Effect of economic activity (b)	2,630,881	1,400,432	1,230,449
New businesses (c)	276,170	143,036	134,134
Effect of the issuance of capital instruments (net of redemptions) and a declared dividend (d)	(1,710,658)	-	(1,710,658)
Effect of changes in deferred tax, Additional Tier 1 capital and Tier 2 capital	552,671	(465,067)	1,017,738
As of December 31, 2024, excluding applying the Provisions for the Transitional Period	**14,162,503**	**9,153,264**	**5,009,239**
Effect of the Provisions for the Transitional Period	993,214	(518,720)	1,511,934
As of December 31, 2024	**15,155,717**	**8,634,544**	**6,521,173**

(a) This section includes the effect of:

1. The projected cash flow implicit 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 for 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 alone) 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. It is emphasized that this section does not include the profitability of the operating activities in NSLT P&C and health insurance, which are included - as stated above - in section A.

(d) This item includes equity transactions, including dividends, issuance and redemption of Tier 1 capital and Tier 2 capital instruments which 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 mainly includes the effect of implementing actuarial studies, including revisions to assumptions regarding cancellation rates and expected settlements in executive insurance policies, the effect of mortality tables published by the Commissioner and completion of a study regarding pension takeup rates (TUR). These effects were partially offset against operating activities in P&C insurance.
- 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 Amount.

It is 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, 2024	As of December 31, 2023
	Audited	
	Effect on the economic solvency ratio (in percentage points)	
A 50-base-point decrease in risk-free interest (a)	(11%)	(13%)
A 25% decrease in the value of equity assets (b)	(18%)	(22%)
A 5% increase in morbidity rate (c)	(7%)	(9%)
A 5% decrease in mortality rates (c)	(7%)	(10%)

(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-weighted 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 Provisions for the Transitional Period, 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 December 30, 2024, the Company's Board of Directors increased the minimum solvency ratio target without taking into account the Provisions for the Transitional Period by further 3 percentage points from 118% to 121%, beginning on December 31, 2024 as part of the Company's preparations for increasing the minimum solvency ratio target by the end of the Transitional Period.

As of December 31, 2024, the date of the calculation, the Company has capital surplus in relation to the set targets, as described in the table 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 Provisions for the Transitional Period and subject to the solvency ratio target set by the Company's Board of Directors. In addition, the letter set out provisions for reporting to the Commissioner. On February 27, 2025, the Company received a letter regarding "setting a solvency ratio target") (hereinafter – the "**Capital Target Letter**"), which lists appropriate practices for determining a solvency ratio target. The Company believes that the capital targets were set in accordance with the requirements of the Capital Target Letter.

Dividend distribution

During the third quarter of 2024, The Phoenix Insurance distributed a dividend totaling NIS 250 million.

On December 30, 2024, the Company's Board of Directors decided to approve the distribution of a dividend in kind of approx. NIS 1.4 billion (approx. NIS 1.1 billion economic value) subject to the fulfillment of the conditions precedent. For further details, see the immediate report dated December 31, 2024. Through the report publication date, the following assets were distributed in practice out of the abovementioned economic value: Phoenix Mortgages (Gold) Ltd.'s loans totaling approx. NIS

574 million, Company's stake in Bizi Finance Ltd.'s shares totaling approx. NIS 19 million, Company's stake in Leader Capital Markets & Investments Limited Partnership's participation units totaling approx. NIS 6 million and Company's stake in El Al Frequent Flyer Ltd.'s shares, which are recorded at zero economic value in the economic balance sheet.

The Company's rights in the assets known as Block 6154, Parcels 931 and 932 in Givatayim (hereinafter - "**Beit Havered**") totaling approx. 611 million have not yet been distributed and the carrying amount of the distribution of the Company's stake in Phoenix Mortgages (Gold) Ltd.'s shares is immaterial.

Should the distributions be completed, they will result in a decrease of approx. 5% in the solvency ratio without applying the Provisions for the Transitional Period. Subsequent to the dividend distributions, as set out above, the economic solvency ratio of The Phoenix Insurance and the economic solvency ratio excluding the Provisions for the Transitional Period and without adjusting the share scenario, meet the minimum economic solvency ratio target without taking into account the Provisions for 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 Provisions for the Transitional Period 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, as required by the letter. As stated, the ratio is higher than the solvency ratio required by the letter.

Solvency ratio without applying the Provisions for the Transitional Period:

	As of December 31	
	2024	2023
	Audited	
	NIS thousand	
Shareholders' equity for SCR - see Section 6	14,162,503	12,848,471
Solvency capital requirement (SCR) - see Section 6	9,153,264	8,434,457
Surplus	5,009,239	4,414,014
Economic solvency ratio (in %)	**155%**	**152%**
Effect of material equity transactions taken in the period between the calculation date and the publication date of the solvency ratio report:		
Raising (redemption) of equity instruments*	-	-
Shareholders' equity for SCR	14,162,503	12,848,471
Surplus	5,009,239	4,414,014
Economic solvency ratio (in %)	**155%**	**152%**
Capital surplus after capital-related actions in relation to the Board of Directors' target:		
Minimum solvency ratio target without applying the Provisions for the Transitional Period	**121%**	**115%**
Capital surplus over target	**3,087,053**	**3,148,846**

* Subsequent to the report date, as of December 31, 2024, Bonds (Series P and Q) totaling approx. NIS 786 million

were issued (immediate report of April 17, 2025, Ref. No.: 2025-01-027737). The said issuance does not affect the solvency ratio net of the Provisions for the Transitional Period as of December 31, 2024 in view of the surplus Tier 2 capital that the Company holds in excess of the quantitative limit.

Subsequent to the balance sheet date as of 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 abovementioned redemption 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.

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

May 28, 2025				
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